



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**Assessment of the Ethiopian Investment Policy and Investment
Opportunities for Foreign Direct Investment.**

BY:

DAWIT GETACHEW

SGS\0148\2010A

MAY, 2020

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIRMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION

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Acronyms

EIA	Ethiopian Investment Agency
FDRE	Federal Democratic Republic of Ethiopia
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monitoring Fund
LDCS	Less Developed Countries
LICS	Low Income Countries
MNC	Multinational Corporations
MOFED	Ministry of Finance and Economic Development
OECD	Organization for Economic Cooperation and Development
PLC	Private Limited Company
SZO	Special Zone of Oromia
SPSS	Statistical Package for Social Studies
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
WB	World Bank
WIR	World Investment Report

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ABSTRACT

The objective of this study is to assess the Ethiopian investment policy and investment opportunities for FDI. This study employed mixed research method where both qualitative and quantitative data were used. To address the research objective 211 sampled respondents were selected. The researcher employed stratified sampling followed by random sampling technique for selection of FDI sample respondents. The samples used for analysis were selected from foreign direct investments which are currently under business operation, since there are similarities among investments in the same sector stratified random sampling was used to select samples from each sector. First the strata were formed based on sector of FDI then the sample were selected from each stratum. For the selection of sample employees and government officials purposive sampling technique was used to get persons from different sectors that can better provide information about FDI. For the purpose of this research, 50 foreign direct investors which are currently operating were considered to be the representative samples. The other samples for the research were employees and government officials. Accordingly, 30 government officials and 131 employees were selected purposely with the intention of obtaining the persons that can provide more information about FDI. 211 questioners were distributed; from which 180 sample respondents replied appropriately to the questionnaire. Data gathered were analyzed based on these 180 responses using SPSS 24 software package. Descriptive statistics research design was employed. All out puts were reported using percentage and mean results. The result of this study indicated that the admission, regulation. Tax, fiscal, Monetary and credit policies, and investment law stated by the Ethiopian investment policy as a policy they are good, but they are not properly implemented. In addition, the availability of adequate labor force, raw materials, rapid population growth, huge market demand, availability of resource, investment guarantees and incentives are considered as an opportunity to attract foreign investors and play positive role to realize Ethiopian investment goals. On the other hand, shortage of foreign currency, capital market, credit access from financial institution, lack of adequate power supply, shortage of infrastructures are some of the factors that hinder FDI investors to invest in Ethiopia. The study recommends that in order to sustain and improve the inflows of foreign direct investment and realize the Ethiopian investment goals, the Ethiopian government first should focus on to overcome factors that hinder foreign investors.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

In the world, there prevails difference in economic performance across different countries. Developed countries have excess capacity to invest, however, low level of investment due to lack of capital is the main obstacle for the economic growth of developing countries like Ethiopia.

Investment whether domestic or foreign, is an essential ingredient for sustainable growth; productive investment translates in to increased output. Especially where domestic resources are insufficient to steer a country towards its long run potential growth path, the role of foreign investment becomes indispensable (Asian development bank, 2015).

Foreign Direct Investment (FDI) is a direct investment in to production or business in a country by an individual or a company of another country, either by buying a company in the target country or by expanding operations of existing business in that country (Kunle,2014). Foreign direct investment is one of the most striking features of the global economy today. The rapid growth in FDI over the last few decades has encouraged a large body of empirical literature to examine the determinants and the growth enhancing effects of FDI. The effects of FDI can be wide ranging since FDI typically encompasses packages of capital as well as technical, managerial and organizational know-how. FDI is particularly important for developing countries since it provides access to resources that would otherwise be unavailable to these countries. Its contribution to economic development and therefore poverty reduction comes through its role as a conduit for transferring advanced technology and organizational forms to the host country, triggering technological and other spillovers to domestically owned enterprises, assisting human capital formation, contributing to international trade integration, and helping to create a more competitive business environment (UNCTAD, 2011).

As a result of these benefits of FDI, many developing countries are seriously in need of higher economic growth and development. The need to meet the objective of faster economic growth and low level of capital accumulation are conflicting in nature; there exists wider saving investment gap which means low level of saving and capital accumulations. To solve this problem, FDI served as

source of capital in most less developed countries. They are now actively seeking foreign investment by taking measures that include economic and political reforms designed to improve their investment environment.

In Ethiopia numerous macroeconomic reforms have been implemented with the objective of achieving macroeconomic stabilization and growth since 1991. The macroeconomic reforms include privatization of state-owned enterprises, liberalization of trade policy, reduction of import tariff rates, elimination of non-tariff barriers, devaluation and deregulation of price & exchange rate controls (UNCTAD, 2002). These reforms have also been implemented with the aim of attracting foreign direct investment to the ultimate goal of poverty reduction there by enhancing a better standard of life.

Following the reforms, the government has taken different measurements to enhance the investment environment in general, and FDI investment in particular. Accordingly, the Ethiopian government provided different Investment Incentives for foreign investors. Some of the incentives are tax holiday, exemption from import custom duty, exemption from the payment of income tax, free importation of goods and services, tariff free entry on machinery, equipment and spare parts etc., as clearly stated in the 2012 investment proclamation. However, although such efforts, the Ethiopian investment policy performance in the attracting and utilizing of foreign direct investment is still not satisfactory. Therefore, there are areas that need the attention of researchers to assess these limitations that hinder the efficient utilization of benefit from the existing foreign firms and attract more foreign investors to invest in Ethiopia. Therefore, the main objective of this study is to assess the Ethiopian investment policy and investment opportunities for FDI.

1.2. Statement of the Problem

Foreign Direct Investment (FDI) is a category of investment that reflects the direct or indirect ownership of enterprises resident in one economy by an investor resident in another economy. The effect of FDI can be wide ranging since FDI typically encompasses packages of capital as well as technical, managerial and organizational know how. FDI is expected to positively influence the growth of a country in terms of technological up gradation of a firm which results in the vertical specialization in the industry.

Foreign direct investment is particularly important for developing countries since it provides access to resource that would otherwise be unavailable to these countries. Its contribution to economic development and therefore poverty reduction comes through its role of transferring advanced

technology and organizational forms to the host country, to fulfill technological gap and other spillover to domestically owned enterprises.

In line with this Krifa-Schneider(2010), investigate foreign investors can contribute to growth of a country by providing a package of financial capital, transfer of technology, sharing risks in large projects, providing job opportunity, sharing information, providing goods and services that can make a country more competitive in the world market. In addition, Juma (2012), concludes, FDI has a positive effect on growth in Sub-Saharan Africa, and that African policy makers justified in seeking FDI as a way to accelerate growth in the future.

Since 1991, Ethiopia has started encouraging the inflow of FDI by improving the investment climate and by providing different incentive packages. Therefore, the current government has been adapting different incentives to enhance the FDI share of Ethiopian. For example, the government provides incentives such as provision of land for investment at lowest rental rate, duty free importation of capital goods, export tax exemption, tax holidays (ranging from one to five years based on the nature of the investment) and devaluation of currency to promote organizations investing in exports-oriented areas etc. As a result, its performance in attracting foreign investors shows improvement. However, still Ethiopia does not benefit from FDI investment as it deserves. Due to this, there are areas that need to be investigated to attract more FDI investors and realize the Ethiopian investment goal stated in the Ethiopian investment policy.

According to Woldemeskel (2012) using qualitative and quantitative methods studied the assessment of FDI in Ethiopia. According to him even if the current government provided different incentives for foreign investors to boost the inflow of FDI in to the country, still the share of Ethiopia compared to other countries of Arica is too low. It is evident that more research needs to be conducted regarding the Ethiopian investment policy and investment opportunities for FDI in Ethiopia. Through a review of the literature and a series of informal discussion with major actors of the sector, it has been found that, despite its importance, it has not been studied and not well documented to as great extent within the context of Ethiopian investment policy and investment opportunities for FDI. Therefore, this study was conducted with the intention to fill this gap and its findings provide various insightful learning for policy makers and government officials, researchers and students interested in similar research theme for further investigation and contribute to overcome these problems.

1.3. Research Questions

The study will answer the following research questions:

1. What investment policies has Ethiopia adopted to facilitate foreign direct investment?
2. What are the tax policy Ethiopia has adopted to facilitate foreign direct investment?
3. What are the credit policies that the government is using to encourage foreign direct investment?
4. What are the Investment Promotion and facilitation Policy of Ethiopia for foreign investors?
5. What are the contribution of the Ethiopian investment policy in terms of Market linkage creation?
6. What are the possible opportunities of FDI in Ethiopia?

1.4. Research Objectives

1.4.1. General Objective

The general objective of this study is to assess the Ethiopian investment policy and investment opportunities for FDI.

1.4.2. Specific Objectives

The study has the following specific objectives:

1. To demonstrate investment policies Ethiopia has adopted to facilitate foreign direct investment.
2. To assess the tax policy Ethiopia has adopted to facilitate foreign direct investment.
3. To assess the credit policy that the government is using to encourage foreign direct investment.
4. To analyze the Investment Promotion and facilitation Policy of Ethiopia for foreign investors.
5. To assess the foreign investment policy in terms of Market linkage creation.
6. To analyze the possible opportunities of FDI in Ethiopia.

1.5. Definition of key Terms

FDI flow: Conceptually FDI flow means the total of inflow and outflow of foreign investment. (UNCTAD, 2011).

Ethiopia's Growth and Transformation Plan: seeks to transform the economy from a predominantly agrarian to a modern and industrialized economy. The current plan (GTP 2010/11–2014/15) provides the medium-term strategic framework that guides the country 's efforts towards

accelerating GDP growth and employment creation. The GTP seeks to transform Ethiopia to an industrialized economy and increase the per capita income of its citizens to middle-income levels by 2025(EIA,2010)

Economic growth: real economic growth of a nation includes all products produced by the nationalists plus all products produced in the nation (Robinson, 2006)

Pre-implementation: refers to licensed investment projects that have not yet started production of goods or provision of services i.e. they have only investment license (Ethiopian Investment Commission, 2016).

Implementation: refers to investment projects in which practical undertaking such as construction of civil works provision of machinery and equipment, etc. are underway but not yet started production of goods or provision of services (Ethiopian investment Commission,2016)

Operation: refers to investment projects which either partially or fully begun production of goods or provision of service (Ethiopian Investment Commission, 2016).

1.6. The Significance of the Study

This study is significant because it may add to both theoretical and practical knowledge to the available literature on the investment policy in Ethiopia and investment opportunities for FDI. Theoretically this study may contribute to fill the research gap in the area of foreign direct investment. That is the findings of the study may serve as an inspiration and reference for further research in the area of investment. The study may have also practical contribution that is it may give relevant information concerning on foreign direct investment. The result may also provide information to the Ethiopian investment policy makers so that appropriate measures may be taken to enhance foreign direct investment policies and its role for the investment goals of Ethiopia.

1.7. Scope of the Study

The scope of the study is delimited in examining the Ethiopian investment policy and investment opportunities for FDI in agriculture, manufacturing and construction sectors.

1.8. Organization of the Paper

The study has organized in to five chapters:

Chapter one: Comprises the introduction which deals with background of the study, statement

of the problem, objective of the study, research questions, significance of the study, scope and limitation of the study and organization of the paper.

Chapter two: It explains the theoretical and conceptual literature review about the topic. It discusses on literature review of all variables. The chapter highlights previous researches and findings conducted by various researchers. This chapter is important to indicate that every variable is supported by previous study.

Chapter three: looks at the methodology which is basically the research purpose, design, data collection methods, population, sampling size, sampling techniques and data analysis.

Chapter four: This chapter states about summarizing, interpreting and presenting the findings.

Chapter five: This chapter states about summary of findings, conclusions and recommendations.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Introduction

Attracting foreign direct investment (FDI) has become an important policy element for developing countries to pursue growth. There has been less theoretical disagreement on FDI's potential positive impact on hosting country's economic development. FDI is often regarded as a consolidation of capital, technology, as well as managerial and marketing skills. In fact, it is suggested that spillovers or the external effects from FDI are the most significant channels for the dissemination of modern technology (Beatrice and Mansur, 2010). In case FDI is considered as a key ingredient for economic growth in developing countries.

Although the theoretical controversies are somehow little, empirical studies have not been able to generate consistent evidence for significant and positive spillover effects from FDI. While many researchers find that there exist significant positive spillovers from foreign direct investment, some others find no or statistically insignificant spillovers effects.

2.2. Theoretical Review

2.2.1. Over View of the Ethiopian Economy

The post-1991 period begun, with the coming to power of Ethiopian People Revolutionary Democratic Front (EPRDF) and the government removed the Derg regime that had ruled the country for seventeen years. In contrast to the previous policy regime of hard and command control, EPRDF initiated a wide range of reforms that covered the exchange rate, interest rates, liberalization of trade, domestic production and distribution, devaluation of currency, eliminating structural distortion, improving the country's human capital and infrastructure as well as poverty reduction. In 1991 the regime adopted Structure Adjustment Program (SAP) as per recommendation of the World Bank (WB) and International Monetary Fund (IMF).

The government promised to implement a series of policy reform measure in order to remove and change the command economic system with market-based economy, to open the economy into the world economy and to encourage the wider participation of the private sectors in the development

process of the national (ADBG (2000)). Under SAP the country become more attractive for FDI and made the domestic investors competitive. The main objectives of the government were increasing the role of the private sector in the economy and the privatization program was started in February in 1994. Since then, Ethiopian Privatization Agency (EPA) has become the lead agency in carrying out the process of privatization of public enterprises.

One of the objectives of the EPA is to promote the country's economy development through encouraging the expansion of the private sector and the transferring of the state-owned enterprises to the private ownership. According to Privatization and Public Enterprises Supervising Authority (PPESA) report, 14 enterprises were privatized in 2007 in sector such as tourism, mining industry and agro-industry by bringing the total number of public enterprises privatized to 247. The promotion of small and micro finance enterprises is also critical to private sector development. The government has been providing support to such enterprises in several areas such as training, business skill, development, micro credit and information and marketing, (AFDB/OECD (2008)).

Haile and Assefa (2006) described the specific measures taken to promote the export sector and participation of the private sector include: Deregulation of domestic prices, Devaluation of the national currency from 2,07 birr per dollar to 5 birr per dollar, Liberalization of trade and the foreign exchange rate. Eliminating of export taxes except coffee, Lowering of maximum import duties from 230% to 60%. Simplification of export regulation and procedure, Provision of adequate incentives, strengthening and enhancing institutional support for the export sector.

2.2.2. Investment opportunities in Ethiopia

Ethiopia, being a virgin land, offers many opportunities for investment. some of these opportunities are:

A) ECONOMIC POLICY: The Ethiopian economic policy adopts a liberal economic thought. Liberal economic thought is favorable for investment because it is possible to acquire private property. Further, privatization is implemented in Ethiopia. The Privatization program has enabled our Government to privatize state-owned enterprises since 1995, Ethiopian Business Development Services Network (EBDSN, 2004). This clearly indicates the commitment of the Ethiopian Government to transfer public ownership to private ownership, which is a fertile ground for investment.

B) Agriculture: It is clear that agriculture is the backbone of the Ethiopian economy. It

contributes about 45-50 per cent of the GDP, and 63 per cent of the total exports, Investment Guide for Ethiopia (2004).

- C) Manufacturing:** Manufacturing is at its infant stage of development in our country. According to the Ethiopian Investment Agency, the textile and garment, food and beverage, leather, building materials, electrical and electronic products, metallurgy are some of the important areas of manufacture offer potentials for prospective investors.
- D) Mining:** Ethiopia also offers an excellent opportunity to invest in mining. According to the Ministry of Mines and Energy, Ethiopia has a great potential in mining in general, and gold in particular.
- E) Tourism:** Ethiopia is known for its potential to invest on tourism
- F) Raw material:** Ethiopia is a country where domestic raw material is reliable for virtually every investment area.
- G) Labor force:** Work force is another area that offers a good opportunity for investment in Ethiopia. Workforce is abundant in Ethiopia. In addition, it is inexpensive.
- H) Market:** The Ethiopian population is increasing. What is more, the capacity to buy is presumed to increase. Therefore, there is a potential for growth of the domestic market with the growing number of consumer populations. In addition, Ethiopia has an advantageous geographical location providing a strategic market access to Africa, the Middle East, Asia and Europe. Thus, investor can sell their products those countries.

2.2.3. Definition of FDI and Conceptual Discussion

There is no straightforward and clear-cut definition of FDI, as different organizations use somewhat different definitions. The inevitable part of the definition is that the investment made must be by a resident entity of one country into a resident enterprise in another. For instance, the International Monetary Fund (IMF) defines foreign direct investment as an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management (IMF, 2013). In a similar token, UNCTAD (1999), define FDI as an investment involving a long term relationship and reflecting a lasting interest and control of a resident entity in one economy other than that of a foreign direct investor. Furthermore, the investment must result in a significant

degree of influence and control of the management of the enterprise. This is most often defined as obtaining a minimum of 10 percent of the voting share.

Additionally, FDI can be categorized as Greenfield Project (GP), Merger, and Acquisition (M&A). A GP refers to the establishment of new production facilities or expansion of existing production facilities. This involves a direct substantial capital investment, hence, adding directly to capital stock/formation, employment, and productive capacity in the recipient country. M&A, on the other hand, entails the taking over of an existing enterprise or the merging of capital, asset, and liabilities of an already existing business. M&A is merely a matter of ownership transfer, i.e. it will not add or reduce the physical capital of the enterprise at hand at the time of the transaction. M&A can also take place between companies in unrelated activities seeking to diversify risk and to deepen economies of scope. GP is more likely to contribute to economic development due to its direct impact on capital formation (Mwilima, 2003).

Furthermore. The literature also normally distinguishes between two types of FDI, vertical FDI and horizontal FDI (the mixture of both exist and often is the case) when explaining why MNCs engage in FDI. In the case of vertical FDI, a firm “slices” their production chain by allocating different parts of production to countries where production costs are lower. Horizontal FDI is occurred when accompany “duplicates” its production chain in order to place its production closer to foreign markets. The decision to invest in foreign market may result from a tradeoff between fixed cost, a cost of establishing a new plant, and variable costs such as transportation costs, tariff which are associated with exporting to that country (Hansen et al. 2011).

Similarly, Dunning (1993) identified three possible motives for FDI to take place. First, Market seeking FDI that refers to the purpose of serving local and regional markets, host countries characteristics that can attract this kind of FDI are the size of per capita income, GDP growth and the growth potential of the market. Second, resource/asset seeking FDI refers to FDI for acquiring resources that are not available in the home country. Resources might for instance be like natural resources, raw material, and availability of skilled and unskilled labor. Finally, efficiency seeking FDI, this type of FDI occurs when a firm can gain from the common governance of geographically dispersed activities, especially in the presence of economics of scale and scope, and diversification of risk.

2.2.4. Types of FDI

Greenfield Investment: direct investment in new facilities or the expansion of existing facilities. Greenfield investments are the primary target of a host nations promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace. However, it often does this by crowding out local industry; multinationals are able to produce goods more cheaply (because of advanced technology and efficient processes) and uses up resources (labor, intermediate goods, etc.). Another downside of green field investment is that profits from production do not feed back into the local economy but insured to the multinationals home economy. This is in contrast to local industries whose profits flow back in to domestic economy to promote growth (Harry Johnson,1977).

Mergers and Acquisitions; occur when a transfer of existing assets from local firms to foreign firms takes place, this is the primary type of FDI. Cross border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity. Cross border acquisition occurs when the control of assets and operations is transferred from a local to foreign company, with the local company becoming an affiliate of the foreign company. Unlike Greenfield Investment, acquisition provide no long-term benefit to the local economy even in most deals the owners of the local firm are paid in stock from the acquiring firm, meaning that the money from the sale could never reach the local economy(ibid). Nevertheless, mergers and acquisition are a significant form of FDI and until around 1997, accounted for nearly 90% of the FDI flow into the United States.

Horizontal Foreign Direct Investment: is investment in the same industry abroad as a firm operates in at home.

Vertical Foreign Direct Investment: Takes two forms:

- 1) **Backward vertical FDI:** where an industry abroad provides inputs for a firm's domestic production process.
- 2) **Forward vertical FDI:** in which an industry abroad sells the outputs of a firm's domestic production.

Types of FDI based on the motives of the investing firm

FDI can also be categorized based on the motive behind the investment from the perspective of the investing firm:

Resource seeking: investments, which seek to acquire factors of production that are more efficient than those obtainable in the home economy of the firm. In some cases, these resources may not be available in the home economy at all (e.g. cheap labor and natural resources). This typifies FDI into developing countries, for example seeking natural resource in the Middle East and Africa, or cheap labor in South East Asia and Eastern Europe.

Market seeking: investments, which aim at either penetrating new markets or maintaining existing ones. FDI of this kind may also be employed as defensive strategy; it is argued that

businesses are more likely to be pushed towards this type of investment out fear of losing a market rather than discovering a new one. The foreign mergers and acquisitions in the 1980's can characterize this type of FDI by accounting, advertising and law firms.

Efficiency seeking: investments, which firms hope, will increase their efficiency by exploiting the benefits of economics of scale and scope, and also those of common ownership. It is suggested that this type of FDI comes after either resource or market seeking investment have been realized, with the expectation that it future increases the profitability of the firm. Typically, this type of FDI is mostly widely practiced between developed economies; especially those within closely integrated markets (e.g. the EU).

2.2.5. Theoretical Arguments on the Pros and cons of FDI

Studies of the linkage between foreign direct investment and development have produced confusing and sometimes contradictory results. Some have shown that foreign direct investment spurs economic growth in the host countries; other show no such effect. Some find spillover benefits to the host country that benefits not appropriate by investors or in the form of superior wages -while other do not get these benefits.

For years, it has been unclear whether developing countries benefit from devoting substantial resources to attracting FDI. A government authority in a developing country might, for example, grant a subsidy to a foreign invested project if it believed that the project would produce positive externalities. These could include managerial and worker training, technological learning that is transferred outside the firm, an increase in

supply efficiency, and demonstration effects through which the success of one investor persuades others to invest in the host country. Yet it has proved extremely difficult to measure such effects.

While recent researches tend to point to evidence that spillover benefits, the effects are not universal. The study concludes that the diverse results are due to differences in the host country; varying levels of indigenous human resources, private sector sophistication, competition, and host country policies toward trade and investment.

2.2.5.1. Pro FDI View

The pro-FDI groups of scholars argue that FDI play important role in the economic growth process of a nation. The growth of a nation's economy is dependent on the level of investment which is intern dependent on the level of gross domestic saving. Currently we can observe the strong interest of developing countries in bringing sustainable economic growth for their nations. However, the level of gross domestic saving in those countries is too small to cover the required levels of investment. Therefore, FDI is among the alternatives available which help in filling the gap between total saving and required level of investment. In addition to financial capital LDC's can be benefited through the inflow of FDI in terms of managerial techniques, entrepreneurial and technology skill that lack MNCs imported and transferred to the hosting economy (Todaro1992).

World Bank (2014) argued that FDI can also be used in the reduction effort of a nation in its balance of payment deficits. For decades, developing countries exhibit significant amount of deficit in their balance of payment. Where the total amount of foreign exchange obtained from export and net public foreign aid is small compared to the required foreign exchange. Multinational companies engaged in the manufacturing of exportable products able to generate net positive export earnings to the host countries (TODARO 1992). In addition to this FDI plays important role by creating employment opportunities and by integrating the host country economy into the world economy (OECD, 2002)

Foreign direct investment (FDI) can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong forward motion to economic development.

2.2.5.2. Anti FDI View

There are also scholars that disagree with the pro FDI views. Their arguments explained as follows:

The first counter argument says that Multinational Corporations (MNCs) increase income for low income groups, which have low propensity to save. If individuals do not save enough, the gap

between savings and investments cannot be closed. Besides, foreign firms may also fail to reinvest the profit they generate in the host country; hamper the growth of domestic enterprises and domestic investment by importing the input and intermediate product from their subsidiaries in other countries. FDI might also inhibit the development of indigenous skills as the result of multinational companies' dominance over local enterprises (Todaro, 1992). FDI like official development aid cannot be the main source for solving LDC development problems. Countries incapable of raising funds for investment locally are unlikely beneficiaries of FDI. In addition to this substantial import of intermediate and capital goods, repatriating profit, interest, royalties and management faces affect the foreign exchange position of the host countries (OECD, 2002).

2.2.6. Macroeconomic Foundation of FDI

For a macroeconomic point of view, FDI is a particular form of capital flows from countries of origin to host countries and these capital flows are found in the balance of payments. Lipsey (2001) said that the macroeconomic theories try to explain the motivations of the investors for investment in foreign countries. The macro-level determinants that affects the host country's FDI flows are market size, economic growth rate, GDP, infrastructure, natural resources, political situation etc. (Woldemeskel, 2008). The macro-level theories are discussed below.

2.2.6.1. Political Environment

2.2.6.1.1. International production theory

It suggests that the propensity of a firm to initiate foreign production will depend on the specific attractions of its home country compared with resource implications and advantages of locating in another country. This theory makes it explicit that not only do resource differentials and the advantages of the firm play a part in determining overseas investment activities, but foreign government actions may significantly influence the piece-meal attractiveness and entry conditions for firms (Morgan and Katsikeas, 1997).

2.2.6.2. Economic Environment

2.2.6.2.1. The monopolistic/ market Imperfection theory

Stephen H. Hymer found that FDI takes place because powerful MNEs choose industries or markets in which they have greater competitive advantages, such as technological knowledge not available to other firms operating in a given country. According to this theory, superior knowledge and economics

of scale are the two main sources of monopolistic advantage for foreign investors (Cywiński and Harasym,2012).

2.2.6.2.2. Capital market theory

It is one of the oldest theories of FDI. According to this theory, FDI is determined by interest rates. Capital market theory is a part of portfolio investment. It talked about three positions that attract FDI to the less developed countries (LDCs). First is the undervalued exchange rate, which allows lower production costs in the host countries. Second position said that since there are no organized securities exists, therefore long-term investments in LDCs will often be FDI rather than purchase of securities. And the third position is that since there is limited knowledge about host countries“ securities that is why it favors FDI which allows control of host country assets (Das, 2012).

2.2.6.2.3. Currency area theories

The level of currency exchange and customs or tariffs in the host country are the two primary factors to determine foreign investment Location of operations. every enterprise has its own defined assets and holds them in various currencies, some stronger and some weaker. Investors, before considering investment decisions, analyze those differences, taking into account (existing in all countries) levels of investment risk of FDI initiation Theory of relative changes in labor costs and capital.

According to this theory, FDI's could be distinguished by two stages: first, when monopolistic and oligopolistic advantages of MNEs are traceable in the micro scale and a second stage when investments are a result of the shifting position of a country in terms of comparative advantages gained on two productivity factors: labor and capital According to Kojima, shifts in production abroad are subjected to the difference in costs of labor and capital. Labor costs are primarily high in developed countries, which create an incentive to shift production to developing countries with low costs of labor and a relative ease of exploring new financial possibilities. Empirical studies of Kojima's theory proved that it explains the behavior of all kinds of FDI segments, except relations between countries with significant differences in the level of economic development (Cywinski and Harasym,2012).

2.2.6.2.4. Factor endowment-based theory

It states that FDI goes mostly to countries with more abundant natural resources and lower wages (Magalasi, 2009).

2.2.6.2.5. The New Trade Theory

It suggests that agglomeration effects often play a crucial role and that economies of scale are a driving force of FDI. It allows us to conclude that foreign investors may be attracted to countries with existing concentrations of other foreign investors. Being less knowledgeable of local environments of the country, investors may consider the investment decisions by others as a good signal of favorable conditions and emulate the decision to reduce uncertainty (Magalasi, 2009).

2.2.6.3. Technological Environment

Basically, the evidence suggests that ICT encourages FDI either by reducing search time and related costs or through increases in efficiency and productivity. This works through the Internet helping to lower prices by reducing search costs for B2B, B2C, B2G and generally contributing to the efficient functioning of both domestic and export markets (OECD,2008).

2.2.6.4. Legal System

According to the dominant theory, the foreign investor's wish list can be boiled down to two essential items: efficiency and certainty. It is argued that the ideal legal system for attracting FDI is efficient. An inefficient legal system increases transaction costs by failing to provide cheap mechanisms for enforcing legal rights and obligations. Low transaction costs are ensured where a host state's laws are of good quality-that is, modern-and its courts and bureaucracies are provided with adequate infrastructure, and trained and properly compensated staff. Although their implementation is likely to be constrained by financial considerations, these recommendations are not particularly contentious.

There also exists a broad international consensus that deficiencies in "the lawmaking process, the public administration and enforcement of laws, and the judicial interpretation of laws in developing and transition countries can result in uncertainty.' Legal systems that fail to provide credible information regarding the status of legal rights and obligations must be reformed in order to create greater certainty for foreign investors. According to the dominant theory, a legal system is most likely to be predictable where the laws are stable," accessible, and clear;" the discretionary powers of the state (including its bureaucrats) are limited;' corruption is low;" and powers are separated among branches of government particularly through the creation of an independent judiciary.' This type of legal system can be described as the Ideal Paradigm (Perry, 2000).

2.2.7. Micro-Level Theory of FDI

The micro-level theories of determinants of FDI try to provide answer the questions why multinational companies prefer opening subsidiaries in foreign countries rather than exporting or licensing their products, how MNCs choose their investment locations and why they invest where they do (Woldemeskel, 2008). Some of the basic theories are briefly discussed below.

2.2.7.1. The Electric Paradigm Theory

John Dunning developed an eclectic theory of FDI, which is called OLI paradigm. O, L and I refer ownership advantage, location advantage and internalization conditions, respectively.

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. Therefore, foreign firms should have some advantages that can offset these costs. Ownership advantage is a firm’s specific advantage that gives power to firms over their competitors. This includes advantage in technology, in management techniques, easy access to finance, economics of scale and capacity to coordinate activities.

Unlike ownership advantages, location advantages are country specific advantages. Transnational Companies (TNCs) should consider the location advantage of the host country in order to fully reap the benefit of firm specific advantages. This includes accessibility and low cost of natural resource, adequate infrastructure, political and macroeconomic stability. Consequently, the location advantage of the host country is one essential factor that determines the investment decision of TNCs. Internalization 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. Accordingly, all the three conditions must be met before transnational companies open subsidiaries in a foreign country (Denisia, 2010).

2.2.7.2. Internalization Theory

Internalization theory believes that external market fails to provide efficient environment in which firm can profit by using its production resource and technology. As a result, firms achieve their objective, which is profit, by creating the needed market through investing in multiple countries. Then internalize its globally dispersed foreign operation through a united governance structure and common ownership. Internalization can take place either because there is no market for intermediate products needed or the external market for such products is insufficient. Besides, cost of transaction

incurred in the external market may be higher than transaction within interior generational market (ibid).

2.2.7.3. Product Life Cycle Theory

It is a theory developed by Raymond Vernon to explain certain types of FDI made by US companies in western Europe after world war the second. Vernon identifies four stages of production cycle: innovation, growth, Maturity and decline. In the first stage of product cycle (innovation) the manufacturer gains a monopolistic export advantage from product innovation developed for domestic market. Even though production cost in some other countries may be low at the innovation stage, production concentrated are in the domestic economy. However, when the product transferred to the next production cycle stage the domestic manufactures get an incentive to invest abroad to exploit low production cost and to prevent the loss of the export market to local producers.

In the maturity product cycle stage cost competition among all producers including imitating foreign firms intensifies. At this stage the domestic manufacturers may also shift production from the country of initial FDI to low cost country sustaining the old subsidiary with new product. Therefore, according to the product life cycle theory FDI come into existence when the product reaches in growth and maturity stages. Vernon product life cycle theory is more relevant to manufacturers' initial entries into foreign market than to MNCs that had FDI already in place. This is because many MNCs engaged successfully in the FDI without following the product life cycle stages, (Ibid).

2.2.8. Policies Adopted to Facilitate FDI in Ethiopia

Like most least developed countries (LDCs), Ethiopia has been making efforts to improve its investment environment over the years by, for instance, reducing taxes, establishing an Ethiopian investment commission (EIC) to better assist foreign investors and by abolishing FDI-related restrictions. Essentially, the country has established a "one-stop" shop for dealing with investor requests. Furthermore, increased attention has been paid to policy initiatives at the bilateral, regional, and multilateral levels in order to enhance international cooperation and/or integration in matters relating to FDI. The state has adopted new measures and revised old foreign investment legislation, making it progressively more liberal and development-oriented. As a result, the investment environment for FDI and MNCs in Ethiopia has gradually improved over the decades (UNCTAD, 2002; EIA, 2013).

Implementing market-oriented development strategies encourages the role of the private sector involvement in the development process (UNCTAD, 2011). The process of liberalization has picked up sharply the past few years. As one indication, the service delivery by the EIC (a government office mandated in promoting investment in Ethiopia) is incredibly efficient and effective. In the past, the issuing of investment licenses took well over three months, now it takes a little over three hours. This is about as clear as a signal as possible that foreign investors are welcome in Ethiopia (UNCTAD, 2004). In Ethiopia, the policy intervention and performance to benefit from FDI received different degrees of attention and recognition by the different regimes. Ethiopian economic performance is directly associated to the political and natural shocks the country has faced. The Ethiopian economy's performance can be classified and analyzed through three periods of political regimes in the country, the imperial regimes from 1960-1973, the Dreg regime from 1974-1991 and the Ethiopian People Revolutionary Democratic Front (EPRDF) from 1991-present. But in this paper the study focuses on the Ethiopian People Revolutionary Democratic Front (EPRDF).

The government of Ethiopia has established the Ethiopian Investment Authority (EIA) in the year 1992 among other things to promote, coordinate and facilitate foreign direct investment in the country. Functions of EIA, among others, include; providing all the necessary information required by foreign direct investors, check and approving foreign investment applications, issuing investment permits, services related to registration, approving expatriate posts in approved investments and issuing work permits to foreign employees. Issuing trade and operating licenses for foreign investments, monitoring the implantation of licensed investment projects of FDI, approving and registering technology transfer agreements between local companies and foreign technology suppliers, and facilitating the acquisition of land by foreign investors in accordance with the relevant federal and regional government laws and regulations (Getinet and Hirut ,2006; Solomon, 2008; and Henok, 2014).

2.2.9. Regulatory and institutional framework of FDI in Ethiopia

To improve the investment climate of the country and attract FDI inflow to Ethiopia, the current government has made commendable effort through legislative and procedural reforms. According to the Ethiopian Investment Agency (EIA) report, the investment proclamation code has been revised more than three times to ensure the participation of more foreign investment in various sectors of the

economy since 1992. Major positive changes regarding foreign investments have been introduced through Investment Proclamation No.280/2002 and Regulations No.84/2003. As a result of the implementation of the above-mentioned policies and strategies, agricultural and industrial production, and export are growing steadily from year to year both in terms of variety and volume.

Due to the investment-friendly environment created in the country, the inflow of FDI has been increasing over the last eighteen years. China, India, Sudan, Germany, Italy, Turkey, Saudi Arabia, Yemen, the United Kingdom Israel, Canada and the United States are the major sources of FDI. Currently well-known Swedish clothing retailer H&M wants to set up shop in Ethiopia. Nowadays Ethiopia has become attractive investment destination. According to the Ethiopian Investment Agency, the major reasons are:

- Political and social stability;
- Macro-economic stability and growing economy;
- Adequate guarantees and protections;
- Transparent laws and streamlined procedures;
- Ample investment opportunities;
- Abundant and trainable labor force;
- Wide domestic, regional and international market opportunity;
- Competitive investment incentive packages;
- Welcoming attitude of the people to FDI;
- Pleasant climate and fertile soils; and
- Low production cost

2.2.10. The FDI regulatory framework

The current Ethiopian government investment Proclamation No. 691/2010 and Article 39 of the Investment Proclamation No.769/2012 allowed foreign investors to invest in all economic sectors, except those currently reserved for domestic private investors, state investment or joint investment with government. (Table 2 in the appendix) According to Federal Negarit Gazeta _ No. 4 November 29th (2012), the foreign investors are encouraged to invest in some sectors privately in addition to joint investment with government except, those

currently reserved for domestic private and state investment. The investment areas which are allowed for foreign investors include:

- ✓ Manufacturing
- ✓ Agriculture
- ✓ Hotel (must be star designated hotel)
- ✓ Real estate development
- ✓ Education and training
- ✓ Health service
- ✓ Architectural and engineering works including the consultancy service

Since the first proclamation issued in 1996, there are always a revised investment policy on: economic sector open to FDI; the financial limits and requirement for FDI; the financial incentives and investment guarantee that are available in the country. Financial requirement: - According to the Ethiopian investment Proclamation No.280/2002 (amended in 2008), a foreign investor, who invests on his own, except in consultancy services and publishing, is required to invest not less than US\$ 100,000 in cash and/or in kind for a single project. However, if he invests in partnership with domestic investor(s), the minimum capital required of him is US\$ 60,000. The minimum capital required of a wholly foreign investor investing in consultancy services or publishing is US\$ 50,000, which may be in cash and/or in kind. But this capital amount is lowered to US\$ 25,000 if he invests in partnership with domestic investor(s). A foreign investor reinvesting his profit or dividends, or exporting at least 75% of his outputs, however, is not required to allocate a minimum capital. The financial incentives for FDI: both domestic and foreign investors engaged on investment areas are eligible for investment incentives. To encourage private investment and increase inflow of foreign capital and technology to Ethiopia the government revised proclamation policy. These are;

A. Exemption from import customs duty: -

One hundred percent exemption from the payment of import customs duties and other taxes levied on imports is granted to an investor to import all investment capital goods, such as plant, machinery and equipment, construction materials, as well as spare parts worth up to 15% of the value of the imported investment capital goods.

B. Exemption from the payment of income tax: Any income derived from an approved investment in new manufacturing, agro-industry and information and communication technology (ICT) development or agriculture is exempted from the payment of income tax, depending upon the volume of export and the location in which the investment is made. Supplies at least 75 percent of his product

or service to an exporter, as a production or service input will be grant from 5 to 7 years income tax exemption.

C. Carry forward of losses; Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period following the expiry of the exemption period.

The investment guarantee and protection; the investment report from EIA on February 11, 2013 stated that the investment guarantee and protection that the current investment proclamation gave for foreign investors who would like to invest in the country. These are;

- A. Guarantee against expropriation;** Ethiopia is a member of the World Bank-affiliated Multilateral Investment Guarantee Agency which issues guarantees against noncommercial risks to enterprises that invest in signatory countries. The Investment Proclamation 2002 provides investment guarantee against measures of expropriation and nationalization that may only occur for public interest and in compliance with the requirement of the law. Where such expropriations are made, the Government provides adequate compensation corresponding to the prevailing market value of property and such payment is affected in advance.
- B. Remittance of funds;** Foreign investors are granted to make principal and interest payment of external loans, payments related to technology transfer agreement, profits and dividend acquiring investment and proceeds from the sale or liquidation of an enterprise out of Ethiopia in convertible foreign currency at the prevailing exchange rate on the time of remittance.

2.2.11. The FDI Institutional framework

Since 1992, EIA is the responsible agency that observes most aspects of FDI in Ethiopia. All inward investments are monitored, managed, coordinated and promoted by EIA. EIA reports to the Board of Investment (BOI) chaired by the prime minister. According to the Ethiopian investment agency report the major EIA responsibilities include:

- Promoting the country's investment opportunities and conditions to foreign and domestic investors;
- Issuing investment permits, work permits, trade registration certificates and business licenses;
- Registering technology transfer agreements and export-oriented non-equity-based foreign

enterprise collaborations with domestic investors;

- Negotiating and, upon government approval, signing bilateral investment promotion and protection treaties with other countries;
- Advising the government on policy measures needed to create an attractive investment climate for investors; and
- Assisting investors in the acquisition of land, utilities, etc., and providing other pre- and post-approval services to investors

A number of other government agencies and private sector organizations are involved in delivering and contributing to Ethiopian's investment promotion effort alongside EIA. Based on the proclamation 87/1994 the Ethiopian government established the EPA for privatization of state-owned enterprises. The main objectives of EPA are undertaking and implementing programs of privatization. Other government agencies and authorities that are involved in the attraction of FDI in to the country include; the Ministry of Trade and Industry, and agencies associated with specific sectors such as mining and tourism, The Ministry of Foreign Affairs, The development Bank of Ethiopia. The Regional Investment Promotion Agencies, known as investment bureaus, also have important role in identifying, defining and promoting specific investment project opportunities and in encouraging FDI inflow into their region (UNCTAD (2002)). The implementation of EPA, EIA and other investment promotion and support institutions are a step forward in the right direction. These help the system become more efficient and effective.

2.3. Empirical Findings

Globally many empirical studies were conducted to identify the factors that influence the inflow of FDI. However, scholars undertake research come up with different list of determinants of FDI inflows. This is mainly because of some have gained or lost importance over time, (UNCTAD, 1998). On this review the focuses on the empirical studies conducted on the assessment of foreign direct investment in developing countries and especially in Ethiopia.

Woldemeskel (2012) using qualitative and quantitative methods studied the assessment of FDI in Ethiopia. According to him even if the current government provided different incentives for foreign investors to boost the inflow of FDI in to the country, still the share of Ethiopia compared to other countries of Africa is too low. According to his research, low level of demand due to the limited purchasing power of the people, absence of some important natural resource like petroleum, low level of infrastructure development, excessive bureaucracy, inefficient and ineffective legal system,

unstable political environment, lack of skilled force, lack of liberalization and slow process of privatization program are the main factors that hinder FDI inflow in Ethiopia.

Henok, et al (2013) studied the prospect in selected major sectors of the economy such as manufacturing, agriculture, mining, oil and gas, economic infrastructure, manufacturing, and selected services, including health and tourism. The researchers examined the statistical record and drawn on interviews with companies with experience doing business in Ethiopia to compile a critical investment prospects picture. Based on their analysis the researcher presented their conclusion in the macroeconomic and sectorial form. Strong growth based on an increasingly diversified economy, stable non-food price inflation, increasing exports to a diversified range of markets, an improved trade balance, and generally stable economic policies and a solid investor protection framework are the positive features the researchers identified in the macroeconomic environment of Ethiopia. High and volatile headline inflation rate and negative real interest rates are the challenges to sustain economic performance.

Henok(2013) drew five general conclusions after a depth study of each major economic sectors of the country. First, the assessment of the sectoral drivers of growth supports the optimistic sense of economic prospects for Ethiopia based on the macroeconomic scan. Importantly, Ethiopia's global economic connectivity is poised to improve, creating new opportunities across the entire spectrum of economic activity.

Second, the supply chain opportunities surrounding the core sectoral activities – agricultural processing, mining, infrastructure, tourism, and health – also drive developments in manufacturing and an increasingly diverse business services sector. Third, the simultaneous development of new opportunities in these areas also creates synergies for business attracted by opportunities in any of these sectors. Fourth, the scale of change could involve production and exports of particular products leaping by orders of magnitude, as the experience of other countries attests, and as companies' specific plans signal. Fifth, the pace of change is accelerating.

CHAPTER THREE

3. RESEARCH METHODOLOGY

This chapter outlines the methodology which is used as follows: The research design is mentioned followed by sample and sampling techniques. Source of data and procedure of data collection are also explained. In addition, method of data analysis is clearly explained at the end of this chapter.

3.1. Research Design

According to Cooper, Schindler & Sharma (2012) research design is the plan and structure of investigation so conceived as to obtain answers to research questions. “A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.” (Khotari, 2004). He also groups research designs in to the following categories: (1) research design in case of exploratory research studies (2) research design in case of descriptive (concerned with describing the characteristics of a particular individual and diagnostic research studies, and (3) research design in case of hypothesis-testing research studies.

Descriptive research design has used in this study since the researcher intends to describe the phenomena pertaining to assess the Ethiopian investment policy and investment opportunities for FDI as per data obtained from reported by subjects-foreign investors, employees, and government officials. Thus, this study has used descriptive research design.

3.2. population and sampling techniques

A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample (Kothari, 2004). The target populations of this study were foreign investors, employees, and government officials.

Therefore, the researcher employed stratified sampling followed by random sampling technique for selection of FDI samples. The samples used for analysis were selected from foreign direct investments which are currently under business operation, since there are similarities among investments in the same sector stratified random sampling was used to select samples from each sector. First the strata were formed based on sector of FDI then the sample were selected from each stratum. For the selection of sample employees and government officials purposive sampling technique was used to get persons from different sectors that can better provide information on FDI.

For the purpose of this research 50 foreign direct investments which are currently operating were considered to be the representative samples. The other samples for the research were employees and government officials. Accordingly, 30 government officials and 131 employees were selected purposely with the intention of obtaining the person that can provide more information about FDI.

The sample size of the study is determined using a sample size formula developed by Yamane Taro (1967). This formula is used to calculate the sample size taking to account 95% confidence level, 5% sampling error and total population size. Therefore, the sample size was computed using the

Formula:

$$n = \frac{N}{1 + Ne^2}$$

Where, n= estimated sample size

N= total number of populations

e= sampling error

Based on this we can calculate the sample size as follows:

Total number of population (N) =438

Sampling error (e) =5%

Hence, $n = \frac{438}{1 + 438(0.05)^2}$

Thus, n= **211**

The researcher has used both stratified and simple random sampling techniques to identify the sectors and the sample size from each category.

3.3. Instruments of Data collection

According to Kothari (2004) there are two types of data viz., primary and secondary. The *primary data* are those which are collected afresh and for the first time, and thus happen to be

original in character. The *secondary data*, on the other hand, are those which have already been collected by someone else and which have already been passed through the statistical process. Therefore in this research both primary and secondary types of data were used.

Primary Data Sources: To obtain primary data the researcher mainly used foreign investors, employees, and government officials. The decision to use those persons as a source of data is based on the expectation that they have a better exposure and information about the stated issues.

The data were collected through questionnaires. The content of the questionnaire was divided in to different parts. The first part contained questions related to some demographic aspects of the respondents, such as age, sex, experience and educational level. These enable the researcher to get a better understanding of the type of respondents and relate it to how they understand the Ethiopian investment policy and investment opportunities for FDI. The five-point Likert Scale range from 1 (strongly disagree) to 5 (strongly agree) was selected to interpret respondents' response. A self-administered questionnaire was used for this purpose.

Secondary data Source: It can be either published or unpublished data, like review of documents, Ethiopian Investment Agency, United Nations Conference on Trade and Investment, World Bank and International Monetary. The data obtained from these sources believed to strengthen the data obtained through questionnaires.

3.4 Procedure of Data Collection

The collections of data were started from a simple observation. Then the researcher was created awareness about the overall purpose of the study to the respondents in order to avoid misunderstanding and confusion. And then, Questionnaires were distributed to the target population. The target population were foreign investors, employees, and government officials.

3.5 Method of Data Analysis

The data was analyzed and interpreted mainly by using quantitative approach. The quantitative approach emphasis on measuring on attributes of things. The collected data were analyzed through SPSS package using different statistical methods to assess the Ethiopian investment policy

and investment opportunities for FDI. The researcher used descriptive data analysis which involves in collecting, summarizing and interpreting data through tables, frequency, mean and percentage.

3.6 Validity and Reliability

According to Yalaw (2004) Validity can be defined as the accuracy and meaningfulness of the inferences which are based on the data results. He adds that the validity depends on the quality of the measurements. Questionnaires was tested on potential respondents to make the data collecting instruments objective, relevant, suitable to the problem and reliable as recommended by the advisor. Issues raised by respondents were corrected and questionnaires were refined in the pilot test. Besides, proper detection by an advisor was also taken to ensure validity of the instruments. Finally, the improved version of the questionnaires was printed, duplicated and dispatched.

The reliability of instruments measures the consistency of instruments (Yalaw, 2004). The reliability of a scale indicates how free it is from random error (Pallant, 2010). The most commonly used statistic for internal consistency is Cronbach's coefficient alpha This statistic provides an indication of the average correlation among all of the items that make up the scale. The result was calculated by using SPSS version 24.

3.7 Ethical Consideration

The study used the information collected from both primary and secondary sources as it is collected. It also cited different literatures as originally cited by the authors as put for justifying and supporting the finding of this research.

CHAPTER FOUR

4 RESULTS AND DISCUSSIONS

This chapter consists of the presentation, analysis and interpretation of data gathered through primary data, i.e., self-administered questionnaire distributed to investors, and employees and government officials and secondary data, i.e., written documents. Under this chapter general and demographic information, mean score of investors, employees' and government officials' data are briefly explained.

This research has been conducted to assess the Ethiopian investment policy and Investment Opportunities for FDI. To achieve the research objectives and address the research questions, the researcher collected primary and secondary data. To gather the primary data the researcher distributed questionnaires to sampled foreign investors, employees, and government officials. Of the 211 questionnaires distributed to respondents, 180 were collected yielding a response rate of 85.3%.

4.4 Response Rate

In this study the researcher selected 211 respondents for questionnaires out of which 50 respondents were foreign investors selected from different sectors. From these fifty respondents 92% of them answered the questionnaire properly. Thirty (30) respondents were government officials selected from Ethiopian Investment Commission different departments and from these respondents 76.6% of them answered the questionnaire properly and the rest 131 respondents were employees working in foreign companies which incorporates 84.7%.

4.5 Demographic Characteristics of the Respondents

The socio demographic data presented in Table 1, below refers to foreign investors, government officials and employees.

Table 1: Socio-Demographic Characteristics of the Respondents

Respondents' Background	Socio-demographic characteristics	Number of respondents	Percentage
Age	20-25	20	11.1
	26-30	67	37.2
	31-35	76	42.2
	36-40	10	5.6
	Above 40	7	3.9
Sex	Male	104	57.8
	Female	76	42.2
Marital status	Single	87	48.3
	Married	91	50.6
	Divorced	2	1.1
	Widowed	--	
	Separated	--	
Educational level	Certificate and below	8	4.4
	Diploma	31	17.3
	Degree	90	50
	Masters and above	51	28.3
Work Experience	0-5	33	18.4
	6-10	97	53.8
	11-15	32	17.8
	16 and above	18	10

Source: Own Survey, May, 2020

The socio-demographic characteristics of the respondents have distinction among the respondents. As depicted in Table 1, 57.8% of the respondents are males while the remaining 42.2% are Females. The age category between 20-25 is 11.1 %. The majority of the respondents 'age falls in the category of

26-30 and 31-35 years which corresponds to 37.2% and 42.2% respectively. The age category 36-40 is 5.6% and age of the respondents greater than 40 are only 3.9%.

As revealed in Table 1 the marital status of the respondents 48.4% of them are singles, and 50.5% of respondents are married and the rest 1.1% are divorced.

As indicated in the table, the educational background of the respondents, 4.4% of the respondents are certificate and below, 17.3% of the respondents are Diploma holders, 50% are Degree holders and 28.3 % of the respondents are masters and above. In addition, the work experience of the respondents is presented in Table1, As shown in Table 1, 18.4% of the respondents have 0-5 years of work experience, 53.8% of the respondents have 6-10 years of experience,17.8% of the respondents have 11-15 years of experience and 10% of the respondents have 16 and above years of experience. The respondents are qualified and experienced and hence the information provided by them is reliable.

4.6 Measuring the Success of the Investment Policy in Ethiopia

Measuring the success of a certain course of action enables one to take a brief view of how things have been going on and take corrective measures in cases where actual performance fails to match planned outcomes. Accordingly, it is important to view the success of the Ethiopian investment policy to make some corrective measures in case of failure at different stages of policy implementation process.

One of the measures of assessing the success of the Ethiopia investment policy is the implementation rate of licensed investment projects. To this effect this study makes a comparison between both domestic and foreign licensed investment projects and those that have become operational. Comparison is made between the number of licensed projects and those that become operational both from domestic and foreign investment projects.

4.6.1 Domestic Investment

4.6.1.1 Licensed Vs Operational domestic investment projects

Sector	Total	Pre-Implementation	Implementation	Operation			
	No of Projects	No of Projects	No of Projects	No of Projects	Capital in '000' Birr	Perm Empl.	Temp Empl.
Agriculture, hunting and forestry	6411	4656	463	1292	28003297	46242	448941
Mining and quarrying	150	107	18	25	373153	1217	1005
Fishing	13	9	1	3	5558	515	10
Manufacturing	10088	7392	932	1764	19048631	82698	67499
Electricity (Generation, Transmission and Distribution)	31	29	2				
Education	1462	998	111	353	2990202	19271	6053
Health and social work	715	471	140	104	1634984	4880	2058
Real estate, renting and business activities	15599	14234	279	1086	9005478	15796	12436
Hotels (Including Resort Hotels, Motels and Lodges) and Restaurants	3756	3064	359	333	3906597	13946	9067
Construction Contracting Including Water Well Drilling	4265	3893	148	224	4203018	18363	29246
Tour Operation, Transport and Communication	1034	574	120	340	2100255	8773	2294
Wholesale, retail trade & repair service	979	834	61	84	844606	2246	4510
Other community, social and personal service activities	569	522	25	22	94900	803	505
Grand Total	45072	36783	2659	5630	72210680	214750	583624

Table 2. licensed Vs operational domestic investment projects by sector and status

Source: - Ethiopian Investment Agency, May, 2020

As we understand from table 2, there is a remarkable gap between the number of licensed investment projects and those, they started operation. It is very important to compare the proportion of domestic licensed projects against those that are operational. It can help us have a look in to how the Ethiopia government is doing to utilize from domestic investment projects. Thus, table 2, above presents the number of domestic investment projects which have been licensed and the number of domestic investment projects that are operational. There is a significant gap between the number of domestic projects licensed and those became operational. as shown above in table 2, out of the total 45,072 licensed domestic investment projects, 39,442 investment projects are canceled due to the implementation problem. Until December 2020, only 5,630 projects became operational that means only 12.5% of domestic projects are operational.

Table 3. operational investment ventures out of total licensed domestic investment projects

Sector	No of projects	No of operational projects	% of operational domestic investment projects
Agriculture, hunting and forestry	6411	1292	20.2
Mining and quarrying	150	25	16.7
Fishing	13	3	23.1
Manufacturing	10088	1764	17.5
Electricity (Generation, Transmission and Distribution)	31		
Education	1462	353	24.1
Health and social work	715	104	14.5
Real estate, renting and business activities	15599	1086	7
Hotels (Including Resort Hotels, Motels and Lodges) and Restaurants)	3756	333	8.9

Construction Contracting Including Water Well Drilling	4265	224	5.3
Tour Operation, Transport and Communication	1034	240	23.2
Wholesale, retail trade and repair service	979	84	8.6
Other community, social and personal service activities	569	22	3.9
Grand Total	45072	5630	12.5

Source: Own Survey, May, 2020

It is very important to compare the proportion of domestic licensed projects against those that are operational. It helps us to understand the overall implementation performance of domestic investors and the commitment of the government to enable licensed projects practical. Thus, table 3, above presents the number of domestic investment projects which have been licensed and the number of domestic investment projects that are operational. There is a significant gap between the number of domestic projects licensed and those became operational. As shown in the above table 3, out of the total 45072 licensed domestic investment projects, only 5630 investment projects are operational. It indicates that from the total approved domestic investment projects, only 12.5% of domestic projects have started their operation.

4.6.2 Foreign Direct Investment

4.6.2.1 Licensed Vs Operational FDI projects

The first and most important variable to be considered in assessing the Ethiopian investment policy and FDI opportunities, the system that supports it when it comes to FDI is, measuring the proportion of investment projects that become operational out of the total FDI projects licensed just like the analysis done to measure the success of the domestic investment policy.

Table 4: Licensed Vs Operational FDI projects by sector and status (Since January 01, 1992 - 23-Dec-2020)

Sector	Total	Pre-Implementation	Implementation	Operation			
	No of Projects	No of Projects	No of Projects	No of Projects	Capital in '000' Birr	Perm Empl.	Temp Empl.
Agriculture and forestry	630	166	131	333	12,431,048	52,524	104,400
Manufacturing	2,873	760	505	1,608	101,256,150	178,184	119,804
Mining and quarrying	22	3	5	14	451,443	591	192
Electricity (Generation, Transmission and Distribution)	2	1		1	1,000	10	5
Education	112	19	30	63	393,148	2,121	1,872
Health	108	14	36	58	747,030	1,983	415
Hotels (Including Resort Hotels, Motels and Lodges) and Restaurants	236	52	36	148	1,960,430	5,440	2,451
Tour Operation, Transport and Communication	128	28	25	75	277,208	972	487
Real estate, Machinery and Equipment Rental and Consultancy Service	1,028	239	137	652	5,219,896	93,963	32,580
Construction Contracting Including Water Well Drilling	437	124	97	216	12,903,703	22,503	47,656
Others*	108	20	21	67	813,734	1,742	5,719
Grand Total	5,684	1,426	1,023	3,235	136,454,790	360,033	315,581

Source: - Ethiopian Investment Agency, May, 2020

As can be seen from the above table there is a significant gap between the number of FDI projects the agency licensed and those that became operational. It is very important to compare the proportion of foreign licensed projects against those that are operational. It can help us have a look in to how the Ethiopia government is doing to utilize from foreign investment projects. Thus, table 4, above presents the number of foreign investment projects which have been licensed and the number of foreign investment projects that are operational. There is a significant gap between the number of foreign projects licensed and those became operational. as shown above in table 4, out of the total 5,684 licensed foreign investment projects, 2,449 investment projects are canceled due to the implementation problem. Until December 2020, only 3,235 projects became operational that means only 56.9% of foreign projects are operational.

Table 5. Number of Licensed vs operational FDI projects (Since August 22, 1992 - April 09, 2020 G.C)

Sector	No of licensed projects	No of operational projects	% of operational projects
Agriculture and Forestry	630	333	52.9
Manufacturing	2873	1608	56
Mining and quarrying	22	14	63.6
Electricity (Generation, Transmission and Distribution)	2	1	50
Education	112	63	53.3
Health	108	58	53.7
Hotels (Including Resort Hotels, Motels and Lodges) and Restaurants	236	148	62.7
Tour Operation, Transport and Communication	128	75	58.6

Real estate, Machinery and Equipment Rental and Consultancy Service	1028	652	63.4
Construction Contracting Including Water Well Drilling	437	216	49.3
Other community, social and personal service activities	108	67	62
Grand Total	5684	3,235	56.9

Source: Own Survey, May, 2020

It is very important to compare the proportion of foreign licensed projects against those that are operational. It can help us have a look into how the Ethiopian government is doing to benefit from foreign investment projects. Thus, table 5, above presents the number of foreign investment projects which have been licensed and the number of foreign investment projects that are operational. There is a significant gap between the number of FDI projects licensed and those became operational. As shown in the above table 5, out of the total 5684 licensed foreign investment projects, only 3,235 investment projects are operational. It shows that from the total approved foreign investment projects, only 56.9% of foreign projects have started their operation.

This low level of implementation emanates from different factors such as shortage of power, lack of coordination between the public utilities, lack of responsibilities and decision-making process that hinder foreign investors from operating in the country and the bureaucratic procedures that the investors have to go through. On the other hand, it indicates the presence of weakness on the side of foreign investors themselves. For instance, they might be granted the investment license while in reality they do not have the necessary capacity to actively undertake their investment activities.

Generally, as we understand from the above consecutive tables, all licensed domestic and foreign projects, are not converted to operation. The main reasons for the low conversion rate of investment projects, as we understand from different reports, are: a) failure of service rendering institutions to pay special attention to provide the necessary support for investors; b) inability to timely allocate land for the different types of investments; c) absence of a good system of investment promotion Agency at Federal level that enables them to provide effective one stop shop Service for investors; d) lack of

full information on Ethiopian foreign investment policy and law within and outside the country; e) lack of required skilled man power in some investment areas; f) lack of competence and capacity of the EIA to support, supervise, monitor and control the investment projects; g) prevalence of complex customs procedures are some of the reasons that hinder the full implementation process of licensed projects.

4.6.3 Regional Distribution of FDI

The FDI flows to Ethiopia are fairly diversified into three main sectors. These are: The Primary, the secondary and the tertiary sectors. The primary sector includes all types of agricultural activities and mining and quarrying. The secondary sector encompasses all kinds of industrial activities. The tertiary sector includes real estate development, trade, hotel and tourism, transport service, education, electricity generation, construction, and health service.

Table 6: Regional Distribution of FDI inflows to Ethiopia, (Since August 22, 1992 - April 09, 2020 G.C)

**Summary of Licensed Foreign Direct Investment (FDI) Projects
by region and investment status
Since August 22, 1992 - March 12, 2020 G.C**

Region of Investment	Total	Pre-Implementation	Implementation	Operation			
	No of Projects	No of Projects	No of Projects	No of Projects	Capital in '000' Birr	Perm Empl.	Temp Empl.
Addis Ababa	2,923	681	418	1,824	48,158,150	84,698	98,990
Afar	29	8	7	14	403,744	1,161	2,475
Amhara	320	124	83	113	13,132,229	26,664	18,478
B.Gumze	27	12	6	9	202,096	264	1,939
Dire Dawa	55	13	19	23	2,069,696	83,792	20,645
Gambella	20	7	3	10	1,114,678	439	3,120

Harari	6	4	1	1	2,500	5	5
Multiregional	220	24	45	151	4,067,789	10,770	14,864
Oromia	1,757	446	372	939	57,672,584	125,685	88,751
SNNPR	188	52	35	101	6,588,638	8,756	53,176
Somali	24	10	10	4	241,999	2,081	2,048
Tigray	106	36	24	46	2,800,685	15,718	11,090
Grand Total	5,675	1,417	1,023	3,235	136,454,790	360,033	315,581

Source: - Ethiopian Investment Agency, May, 2020

From table 6, Addis Ababa (the capital city), Oromia (the most populous region) and Amhara regions take the largest share of FDI flows to Ethiopia. For the period from August 22, 1992 - March 12, 2020_in terms of number of projects, Addis Ababa, Oromia and Amhara regions have attracted 62.4%, 53.4% and 35% of FDI inflows to Ethiopia respectively. This is because of the regions' better infrastructure, stable political environment and better supply of trained man power. Oromia Region has attracted sizable amount of FDI with respect to the amount of capital invested. That is, of the total FDI project operating in Ethiopia during 1992-2020, 53.4% of the capital was invested in Oromia. This may be due to the region's proximity to Addis Ababa, availability of natural resource (arable land and favorable climate) and large market size as it is the most populous region in the country.

Conversely, Harari, Somalia, Afar and Benishangul-Gumze performance in attracting FDI is very poor. Although there is an incentive system encourages foreign investors to invest in the least developed regions (Gambella, Afar, Somali and Benishangul-Gumuz) of the country by providing especial benefits including provision of land free of any charge, their performance in attracting FDI is very poor This makes the flow of FDI to Ethiopia has been unevenly distributed among the various regions.

4.7 Descriptive data analysis

Respondents were asked different questions regarding the assessment of Ethiopian investment policy and investment opportunities for FDI. Their responses were organized in the following manner. While making interpretation of the results of mean and frequency the Scales were reassigned as

follows to make the interpretation easy and clear (Al-Sayaad, Rabea, & Samrah, 2006). As cited by (Bassam, 2013).

Table7: Five Scale Likert Criterion

No.	Mean range	Response option
1	1 to 1.80	Strongly disagree
2	1.8 to 2.6	Disagree
3	2.6 to 3.4	Moderate
4	3.4 to 4.20	Agree
5	4.2 to 5.00	Strongly Agree

Source: Al-Sayaad et al. (2006, as cited by Bassam, 2013).

4.7.1 The Mean difference of investors' Response

Table 8: The Mean scores of investors response on Admission policy and Regulation.

No.	Admission policy and Regulation	5	4	3	2	1	Total	Mean
1	FDI investors have clear and adequate knowledge about Ethiopian investment law.	5	26	15	0	0	46	3.8
2	In the Ethiopian Investment proclamation license getting procedures are efficient For FDI investors.	4	15	20	6	1	46	3.3
3	There is less bureaucratic and motivating ownership registration process.	2	8	22	12	3	46	2.9
4	The level of protection encourages innovation and investment for foreign firms.	1	18	22	5	0	46	3.3
5	The government enforces laws and regulations for the protection of intellectual property rights	0	16	23	7	0	46	3.2
6	The Laws and regulations stated by Ethiopian foreign investment policy is welcoming for foreign investors.	6	20	13	6	1	46	3.5

7	The government ensure that the laws and regulations dealing with investments and investors are implemented.	1	15	19	11	0	46	3.1
8	The competition laws and their application are clear, transparent, and non-discriminatory	0	14	26	5	1	46	3.2

Source: Own Survey, May, 2020

As indicated in the above table8, for the question, FDI investors have clear and adequate knowledge about Ethiopian investment law, out of the total 46 respondents 5 of them responds strongly agree, 26 of them agree, 15 were moderately agree, none of them responds disagree and strongly disagree. The mean score is 3.8. Investment law regulates the entry of foreign investment in a host country. Each state may wish to restrict investment in certain sectors of the economy to the state or to domestic inventors. Investment law puts requirements to establish enterprises to undertake investment activities, and the forms of enterprises. It also includes ownership restrictions and related issues. Thus, the researcher asked respondents to rate their experience about the clarity and knowledge of Ethiopian investment law. Accordingly, most of the respondents have clear and adequate knowledge about the investment law.

As showed in the above table8, for the question, In the Ethiopian Investment proclamation license getting procedures are efficient For FDI investors, out of the total 46 respondents 4 of them responds strongly agree, 15 of them responds agree, 20 of them responds moderately agree, 6 of them responds disagree and 1 of them responds strongly disagree. The mean score is 3.3. In the Ethiopian investment policy, there are procedures that foreign investors need to follow to get investment license. In the 2012 investment proclamation, the mandate of issuing investment license is given to Ethiopian Investment Commission. Hence, all licenses issuing service is given by Ethiopian investment commission. Thus, the researcher asked respondents to rate their experience in getting investment licensee from the commission. Accordingly, most of the respondents have a moderate experience in getting investment license. But still the service given by the commission is not as required by foreign investors. Hence, the Ethiopian investment commission workers at license and registration directorate have to work efficiently.

As shown in the above table8, for the question, there is less bureaucratic and motivating ownership registration process, out of 46 respondents 2 of them responds strongly agree, 8 of them responds agree, 20 of them responds moderately agree, 12 of them responds disagree and 3 of them responds

strongly disagree. The mean score 2.9. According to proclamation No.769/2012 foreign investors or a foreign national treated as a domestic investor shall have the right to own a dwelling house and other immovable properties requisite for his investment. Accordingly, most of the respondents, have a moderate experience regarding ownership registration process. It implies that still there is a problem regarding motivating ownership registration process and the government should reduce the bureaucratic process to create suitable condition for foreign investors.

According to the above table8, for the question, the level of protection encourages innovation and investment for foreign firms., out of 46 respondents, 1 of them responds strongly agree, 18 of them responds agree, 22 of the responds moderately agree, 5 of them responds disagree, and none of them responds strongly disagree. The mean score of the respondents' response is 3.3. As stated in the above table, regarding the level of protection encourages innovation and investment for foreign firms, most of the respondents answered moderately agree. It implies that the protection of foreign firms encourages foreign investors.

As shown in the above table8, for the question, the government enforces laws and regulations for the protection of intellectual property rights., out of 46 respondents, none of them responds strongly agree, 16 of them responds agree, 23 of the responds moderately agree, 7 of them responds disagree, and none of them responds strongly disagree. The mean score of the respondents' response is 3.2. The Ethiopia government becomes a member of world intellectual property organization and Multilateral Investment Guarantee Agency to guarantee foreign investors property. However, the finding of this paper indicates that most of the respondents were moderately agree. This implies that significant numbers of respondents are not getting adequate protection of their intellectual property. Hence, the county lacks behind important pre-requisite to come and invest in Ethiopia.

As indicated in the above table8, for the question, the Laws and regulations stated by Ethiopian foreign investment policy is welcoming for foreign investors, out of 46 respondents, 6 of them responds strongly agree, 20 of them responds agree, 19 of the responds moderately agree, 6 of them responds disagree, and 1 of them responds strongly disagree. The mean score of the respondents' response is 3.5. As we understand from the result most of the respondents were agreed with the attractiveness of laws and regulations stated in the Ethiopian investment policy. It is one and the most important prerequisite to attract foreign investors.

According to the above table8, for the question, the government ensure that the laws and regulations dealing with investments and investors are implemented, out of 46 respondents, 1 of them responds strongly agree, 15 of them responds agree, 19 of the responds moderately agree, 11 of them responds disagree, and none of them responds strongly disagree. The mean score of the respondents' response is 3.1. Regarding the implementation of laws and regulations, most of the respondents were moderate. This clearly implies that although the laws and regulations stated by Ethiopian investment policy are attractive for foreign investors, practically they are not properly implemented.

As shown in the above table8, for the question, the competition laws and their application are clear, transparent, and non-discriminatory, out of 46 respondents, none of them responds strongly agree, 14 of them responds agree, 26 of the responds moderately agree, 5 of them responds disagree, and 1 of them responds strongly disagree. The mean score of the respondents' response is 3.2. the result indicates that most of the respondents were moderately agree. Hence, the competition law has its own limitations in terms of creating clear, transparent and non-discriminatory competitive investment environment.

Table 9: The Mean scores of investors response on Tax policy.

No.	Tax Policy	5	4	3	2	1	Total	Mean
1	The government fix the level of tax consistent with the need for investment	2	13	25	6	0	46	3.2
2	The policy has tax exemption during the start-up periods of foreign investors.	11	21	13	1	0	46	3.9
3	The government fix the level of tax that would be consistent with its investment	8	18	17	2	1	46	3.7
4	The tax burden on investors is appropriate with reference to the policy goals.	2	13	20	10	1	46	3.1
5	The government evaluated the limitations of using tax policy alone to influence favorably investment decisions	9	16	18	2	1	46	3.1
6	Tax burden on business income differs by firm size, age of the business entity.	13	27	5	1	0	46	4.1

7	Tax burden on business income differs by ownership structure, industrial sector or location.	7	24	11	4	0	46	3.8
8	The tax system is neutral in its treatment of foreign and domestic investors.	6	22	15	3	0	46	3.4
9	The main tax provisions generally consistent with international norms.	0	11	27	6	2	46	3.0
10	The tariff Policies of Ethiopia is based on the investment type.	4	9	16	11	6	46	2.9

Source: Own Survey, May, 2020

As indicated in the above table 9, for the question, the government fix the level of tax consistent with the need for investment development, out of the total 46 respondents 1 of them responds strongly agree, 13 of them responds agree, 25 of them responds moderately agree, 6 of them responds disagree and none of them responds strongly disagree. The mean score of respondents' responses is 3.2. Taxation is one of the instruments of collecting revenue to support government expenditures. If there is no proper tax administration, it discourages business activities. The government of Ethiopia identified areas of investment eligible for exemption of customs duty and exemption of income tax to encourage the flow and operation of FDI. The majority of respondents of FDI investors have moderate feeling. It implies that they are not satisfied as they expected.

As showed in the above table 9, for the question, the policy has tax exemption during the start-up periods of foreign investors, out of the total 46 respondents, 11 of them responds strongly agree, 21 of them responds agree, 13 of them responds moderately agree, 1 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.9. Under its fiscal incentive packages Ethiopian government provided income tax exemption from 1 up to 10 years on the bases of sectors and location of the investment. Hence, as indicated in the above table 9, most of the respondents regarding tax exemption feel that the tax incentives for foreign investors are attractive. This indicates that tax incentive package as a package and its practicability is also one of the prospects that foreign investors are enjoying.

According to the above table 9, for the question, the government fix the level of tax that would be consistent with its investment attraction strategy, out of 46 respondents 8 of them responds strongly agree, 18 of them responds agree, 17 of them responds moderately agree, 2 of them responds disagree

and 1 of them responds strongly disagree. The mean score respondents' response is 3.7. As stated in the above table, most of the respondents agreed that the level of tax is consistent with the government's investment attraction strategy.

As indicated in the above table 9, for the question, the tax burden on investors is appropriate with reference to the policy goals, out of the total 46 respondents, 2 of them responds strongly agree, 13 of them responds agree, 20 of them responds moderately agree, 10 of them responds disagree and 1 of them responds strongly disagree. The mean score respondents' response is 3.1. The result indicates that majority of the respondents have a moderate feeling about the given question. But still a significant number of respondents are dissatisfied regarding the appropriateness of tax burden on investors.

As showed in the above table9, for the question, the government evaluated the limitations of using tax policy alone to influence favorably investment decisions, out of the total 46 respondents, 9 of them responds strongly agree, 16 of them responds agree, 18 of them responds moderately agree, 2 of them responds disagree and 1 of them responds strongly disagree. The mean score respondents' response is 3.1. The result implies that the majority of respondents have moderate believe for this question.

As shown in the above table9, for the question, tax burden on business income differs by firm size, age of the business entity, out of 46 respondents, 13 of them responds strongly agree, 27 of them responds agree, 5 of them responds moderately agree, 1 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 4.1. The result implies that majority of the respondents were agreed on the stated question. It is obvious that the tax burden of business firm differs by size, income and age of business. But the intention of the researcher is to understand the practical implementation and the feeling of investors.

As indicated in the above table9, for the question, tax burden on business income differs by ownership structure, industrial sector or location, out of the total 46 respondents 7 of them responds strongly agree, 24 of them responds agree, 11 of them responds moderately agree, 4 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.8. As stated in the above table, the result implies that, most of the respondents were agreed with business income differs by ownership structure and industrial sector.

As showed in the above table 9, for the question, the tax system is neutral in its treatment of foreign and domestic investors, out of the total 46 respondents, 6 of them responds strongly agree, 22 of them

responds agree, 15 of them responds moderately agree, 3 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.4. The result indicates that majority of respondents were agreed that the tax system is neutral in treating foreign and domestic investors. The Ethiopian investment proclamation states that the tax system treats both domestic and foreign investors equally. However, it is discriminatory in the sense that it provides wide ranging incentives and exemptions to foreign investors which are not provided for to nationals and their companies.

According to the above table9, for the question, the main tax provisions generally consistent with international norms, out of 46 respondents none of them responds strongly agree, 11 of them responds agree, 27 of them responds moderately agree,6 of them responds disagree and 2 of them responds strongly disagree. The mean score respondents' response is 3.0. As stated in the above table, most of the sampled respondents have moderate stand regarding the stated question.

As indicated in the above table9, for the question, the tariff Policies of Ethiopia is based on the investment type, out of the total 46 respondents, 4 of them responds strongly agree, 9 of them responds agree, 16 of them responds moderately agree, 11 of them responds disagree and 6 of them responds strongly disagree. The mean score respondents' response is 2.9. The majority of respondents were moderate. This implies that foreign investors are not fully satisfied with the tariff policies of Ethiopia.

Table 10: The Mean scores of investors response on Credit policy Incentives by the government.

No.	Credit policy Incentives by the government	5	4	3	2	1	Total	Mean
1	The Ethiopian foreign investment policy enables foreign investors to get the loan amount as per their request.	1	2	24	14	5	46	2.6
2	Credit policy of the government enable foreign investors to reduce financial burden during start up time.	0	11	20	12	3	46	2.8
3	Credit policy of the government enable foreign investors to access a fair interest rate.	2	16	24	3	1	46	3.3
4	Credit policy of the government allow foreign investors to have adequate time for	0	12	16	17	1	46	2.8

	settling loan.							
5	Foreign investment policy of the government facilitates business premise for foreign investors	9	30	6	1	0	46	4.0
6	Generally, the foreign policy incentivizes encourage foreign investors.	7	24	13	2	0	46	3.8

Source: Own Survey, May, 2020

As indicated in the above table 10, for the question, the Ethiopian foreign investment policy enables foreign investors to get the loan amount as per their request., out of the total 46 respondents, 1 of them responds strongly agree, 2 of them responds agree, 24 of them responds moderately agree, 14 of them responds disagree and 5 of them responds strongly disagree. The mean score respondents' response is 2.6. Regarding the accessibility of loan most of the respondents feel that the availability of loan is at least moderate. But considerable numbers of respondents still do not feel comfortable with the availability of loan. The result indicates that financial resource is not available to foreign investors at the required amount. The situation become worsens due to the absence of alternative source of finance like capital market.

As showed in the above table10, for the question, Credit policy of the government enable foreign investors to reduce financial burden during start up time, out of the total 46 respondents, none of them responds strongly agree, 13 of them responds agree, 20 of them responds moderately agree, 12 of them responds disagree and 1 of them responds strongly disagree. The mean score respondents' response is 2.8. The result implies that most of the respondents were moderate.

According to the above table10, for the question, Credit policy of the government enable foreign investors to access a fair interest rate., out of 46 respondents 2 of them responds strongly agree, 16 of them responds agree, 24 of them responds moderately agree,3 of them responds disagree and 1 of them responds strongly disagree. The mean score respondents' response is 3.3. The result implies that most of the respondents were moderate.

As indicated in the above table10, for the question, Credit policy of the government allow foreign investors to have adequate time for settling loan., out of the total 46 respondents, none of them responds strongly agree, 12 of them responds agree, 16 of them responds moderately agree, 17 of them responds disagree and 1 of them responds strongly disagree. The mean score respondents' response is 2.8. As stated in the above table, most of the respondents were moderate.

As showed in the above table, for the question, Foreign investment policy of the government facilitates business premise for foreign investors, out of the total 46 respondents, 9 of them responds strongly agree, 30 of them responds agree, 6 of them responds moderately agree, of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 4.0. The result implies that the majority of respondents were satisfied.

As shown in the above table10, for the question, Generally, the foreign policy incentivizes encourage foreign investors, out of 46 respondents, 7 of them responds strongly agree, 24 of them responds agree, 13 of them responds moderately agree,2 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.8. It indicates that most of the respondents were satisfied.

Table 11: The Mean scores of investors response on Investment Promotion and facilitation Policy.

No.	Investment Promotion and facilitation Policy	5	4	3	2	1	Total	Mean
1	The Laws and regulations stated by Ethiopian foreign investment policy is promoting foreign investors	11	32	3	0	0	46	4.2
2	Ethiopian government made use of international and regional initiatives aimed at building investment promotion.	2	15	23	6	0	46	3.3
3	The availability adequate information for promoting investment	1	14	27	3	1	46	3.2
4	Investment Promotion Agency promote and maintain dialogue mechanisms with investors.	0	9	28	5	4	46	2.9

Source: Own Survey, May, 2020

As indicated in the above table11, for the question, the Laws and regulations stated by Ethiopian foreign investment policy is promoting foreign investors, out of the total 46 respondents, 11 of them responds strongly agree, 32 of them responds agree, 3 of them responds moderately agree, and none

of them responds disagree and strongly disagree. The mean score respondents' response is 4.2. As stated in the above table, the sampled respondents are satisfied in the given question.

As showed in the above table11, for the question, Ethiopian government made use of international and regional initiatives aimed at building investment promotion, out of the total 46 respondents, 2 of them responds strongly agree, 15 of them responds agree, 23 of them responds moderately agree, 6 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.3. It implies that most of respondents are moderate.

According to the above table11, for the question, the availability adequate information for promoting investment, out of 46 respondents 1 of them responds strongly agree, 14 of them responds agree, 27 of them responds moderately agree, 3 of them responds disagree and 1 of them responds strongly disagree. The mean score respondents' response is 3.2. As stated in the above table 11, Regarding the availability of adequate information at the required moment and having necessary detail most of the respondents, were moderately agree. This clearly indicated that they are not getting necessary information at the moment they need with the required detail. Hence, the result indicates that information handling and communicating mechanisms are not in a position to provided up-to-date and detail information on the spot. This will hinder investors to make informed decision at the right time

As indicated in the above table11, for the question, Investment Promotion Agency promote and maintain dialogue mechanisms with investors, out of the total 46 respondents, none of them responds strongly agree, 9 of them responds agree, 30 of them responds moderately agree, 4 of them responds disagree and 3 of them responds strongly disagree. The mean score respondents' response is 3.2. The result implies that most of the respondents have a moderate feeling about the stated question. It indicates that the process of promotion and dialogue mechanism with investors are not as expected.

Table 12: The Mean scores of investors response on Market Linkage Policy.

No.	Market Linkage Policy	5	4	3	2	1	Total	Mean
1	The government promotes investment linkages between businesses, especially between foreign affiliates and local	3	11	29	3	0	46	3.3
2	The government creates market links that motivates foreign investors.	2	13	24	6	1	46	3.2

3	The investment policy provides an opportunity through international market-	4	17	23	2	0	46	3.5
4	The government foreign policy allows MSE's to work with foreign investors	0	13	31	2	0	46	3.2
5	The government policy motivates foreign investors by linking with local distributors	0	18	21	7	0	46	3.2
6	The government strives to promote investment linkages between foreign and	3	23	20	0	0	46	3.3
7	The Ethiopian foreign policy enables foreign investors to have equal treatment with local firms.	0	4	15	22	5	46	2.4

Source: Own Survey, May, 2020

As indicated in the above table12, for the question, the government promotes investment linkages between businesses, especially between foreign affiliates and local enterprises, out of the total 46 respondents 3 of them responds strongly agree, 11 of them responds agree, 29 of them responds moderately agree, 3 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.3. According to Hobday (1995), which finds several cases of backward linkage effects to local suppliers driven by multinationals. FDI created demand for local suppliers and enhanced quality, productivity and variety. In turn, the development of intermediate-goods supply and productivity led to forward linkages to final-good producers, increasing the number of both multinationals and domestic producers. Thus, the researcher asked sample respondents to point their perception on the linkage between local and foreign enterprises. The sampled respondents rated as moderate. From this one can infer that the linkage between local and foreign enterprises is not satisfactory as expected by foreign investors. This may significantly hinder the Ethiopian investment objective.

As showed in the above table12, for the question, The government creates market links that motivates foreign investors, out of the total 46 respondents, 2 of them responds strongly agree, 13 of them responds agree, 24 of them responds moderately agree, 6 of them responds disagree and 1 of them responds strongly disagree. The mean score respondents' response is 3.2. It implies that the majority of sampled respondents were moderate.

According to the above table12, for the question, the investment policy provides an opportunity through international market-expansion, out of 46 respondents 4 of them responds strongly agree, 17

of them responds agree, 23 of them responds moderately agree, 2 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.5. As stated in the above table 12, most of the respondents have moderate feeling regarding the Ethiopian investment policy and its role in international market expansion.

As indicated in the above table12, for the question, the government foreign policy allows MSE's to work with foreign investors, out of the total 46 respondents, none of them responds strongly agree, 13 of them responds agree, 31 of them responds moderately agree, 2 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.2. The result indicates that the majority of the respondents have moderate feeling for the stated question.

As showed in the above table12, for the question, the government policy motivates foreign investors by linking with local distributors, out of the total 46 respondents, none of them responds strongly agree, 18 of them responds agree, 21 of them responds moderately agree, 7 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.2. as stated in the table most of the respondents were moderate.

As shown in the above table12, for the question, the government strives to promote investment linkages between foreign and local businesses, out of 46 respondents, 3 of them responds strongly agree, 23 of them responds agree, 20 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 3.2. As explained in many literatures foreign direct investment is highly demanded not merely to capital inflow but also for its linkage and spillover effects that bring comprehensive development. Foreign direct investments create 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 finished products to local firms as market chain. Moreover, when there is relationship between domestic and foreign investors, there will be spillover effects and technology transfer that enhance local productivity and domestic trade. As shown in the Table 12, the linkage between foreign direct investment and the domestic firms, the majority of the respondents have moderate feeling. Therefore, it can be analyzed that the linkage between domestic and foreign firms are not satisfied as expected by foreign investors.

As indicated in the above table12, for the question, the Ethiopian foreign policy enables foreign investors to have equal treatment with local firms., out of the total 46 respondents none of them responds strongly agree, 4 of them responds agree, 15 of them responds moderately agree, 22 of them

responds disagree and 5 of them responds strongly disagree. The mean score respondents' response is 2.4. As clearly shown in the above table 12, most of the respondents answered disagree regarding the equal treatment of foreign and local investors. The intention of the researcher in this question was to understand the feeling of foreign investors regarding the stated issue. A host country is required by international investment law to treat foreign investors in the same manner as national/domestic investors. However, the host country may not treat foreign investors equally with domestic investors.

Table 13: The Mean scores of investors response on Investment Opportunities.

No.	Investment Opportunities	5	4	3	2	1	Total	Mean
1	New emerging international markets are attractive for foreign investors	8	23	11	4	0	46	3.8
2	Ethiopian's growing population is an advantage for your Investment to get adequate labor force	11	32	3	0	0	46	4.0
3	There is adequate raw material relevant to your business.	0	9	11	22	4	46	2.5
4	Domestic and foreign market opportunities for your products.	6	16	20	2	0	46	3.4
5	The government has a strategy for developing a sound, broad-based business	9	17	18	2	0	46	3.7
6	The overall service delivery process of the governmental investment offices.	2	13	30	1	0	46	3.3
7	The overall investment environment in Ethiopia is attractive.	7	15	20	4	0	46	3.5

Source: Own Survey, May, 2020

As indicated in the above table13, for the question, new emerging international markets are attractive for foreign investors, out of the total 46 respondents 8 of them responds strongly agree, 23 of them responds agree, 11 of them responds moderately agree, 4 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.8. As it can be seen in the above table 13, most of the respondents agree on the attractiveness of the emerging international markets. The result indicates that one of the attracting factors for foreign investors is the emerging of new international markets.

As showed in the above table13, for the question, Ethiopian's growing population is an advantage for your Investment to get adequate labor force, out of the total 46 respondents, 11 of them responds strongly agree, 32 of them responds agree, 3 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 4.0 According to Ethiopian industry policy (2002) one of the Ethiopian comparative advantage area for foreign investment is the availability of adequate cheap labor force. Hence, the motive of this question was to collect the perception of foreign investors on the adequacy of labor force availability. Accordingly, most of the respondents, agree the availability of adequate labor force. Hence, the finding confirms that labor force is one of the opportunities for FDI investment especially for labor intensive industries.

According to the above table13, for the question, there is adequate raw material relevant to your business, out of 46 respondents none of them responds strongly agree, 9 of them responds agree, 11 of them responds moderately agree,22 of them responds disagree and 4 of them responds strongly disagree. The mean score respondents' response is 2.5 In the Eclectic Paradigm theory of Dunning, quantitative and qualitative factor of production is one of economic benefit drive foreign investors to invest abroad. In this paper the researcher aims to identify whether raw materials are adequately available for foreign owned projects or not. Accordingly, most of the respondents, consider the current supply of raw material at least moderately available. The result indicates that majority of the respondents satisfied with the current supply level of raw materials. But considerable numbers of respondents still do not feel comfortable with the availability raw materials.

As indicated in the above table13, for the question, Domestic and foreign market opportunities for your products, out of the total 46 respondents, 6 of them responds strongly agree, 16 of them responds agree, 20 of them responds moderately agree, 2 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.4. Market accessibility governs the destination of finished and semi- finished products of FDI. Hence it 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 tried to assess Domestic and foreign market opportunities for foreign investors. As shown in the Table 13, the majority of respondents are satisfied for domestic and foreign market opportunities.

As showed in the above table13, for the question, the government has a strategy for developing a sound, broad-based business environment, out of the total 46 respondents, 9 of them responds

strongly agree, 17 of them responds agree, 18 of them responds moderately agree, 2 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.7. It implies that the majority of respondents were moderate regarding the given question.

As shown in the above table13, for the question, the overall service delivery process of the governmental investment offices, out of 46 respondents, 2 of them responds strongly agree, 13 of them responds agree, 30 of them responds moderately agree, 1 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.3. Foreign investors require different services from different sectoral offices. However, the services rendered by Investment Office is more important than the services provided by other sectors. The table 13, presents the responses of FDI investors regarding the services provided to them by investment office. The majority of the sample respondents replied that the services provided by Investment Office is moderate. From this it can be inferred that the services provided by Investment Office either retard or enhance the investment meaning the faster the services provided, while other factors kept constant, the shorter the duration in which the projects start operation.

As indicated in the above table13, for the question, the overall investment environment in Ethiopia is attractive, out of the total 46 respondents 7 of them responds strongly agree, 15 of them responds agree, 20 of them responds moderately agree, 4 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.5. The result indicates that the majority of respondents have moderate feeling.

4.7.2 The Mean difference of Employees' Response

Table 14: The Mean scores of Employees' Response on Admission policy and Regulation

No.	Admission policy and Regulation	5	4	3	2	1	Total	Mean
1	FDI investors have clear and adequate knowledge about Ethiopian investment policy.	21	70	20	0	0	111	4.0
2	Ethiopian Investment proclamation has articles that hinder the smooth running of FDI.	0	2	21	80	7	111	2.1
3	FDI investors have trust on guarantee and incentive policies stated by the Ethiopian investment policy.	24	60	20	7	0	111	3.9
4	The Ethiopian Investment Law is clear and understandable.	25	66	19	1	0	111	4.0

5	The Ethiopian investment policy is suitable for sole proprietorship and partnership FDI investors.	12	63	21	11	4	111	3.6
6	The investment guarantees and investment incentive measures are suitable for potential foreign investors.	27	59	21	4	0	111	4.0
7	The capital requirements stated by Ethiopian foreign investment policy is welcoming for foreign investors.	34	60	14	3	0	111	4.1

Source: Own Survey, May, 2020

As indicated in the above table 14, for the question, FDI investors have clear and adequate knowledge about Ethiopian investment policy, out of the total 111 respondents, 21 of them responds strongly agree, 70 of them responds agree, 20 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 4.0. The Investment law regulates the entry of foreign investment in a host country. It puts requirements to establish enterprises to undertake investment activities, and the forms of enterprises. It also includes ownership restrictions and related issues. To realize these, the investment law should be clear and understandable by investors. To ensure this the researcher asked the sampled respondents about the Ethiopian investment policy. Accordingly, most of the respondents agreed that the Ethiopian investment policy is clear and understandable.

As showed in the above table 14, for the question, Ethiopian Investment proclamation has articles that hinder the smooth running of FDI, out of the total 111 respondents, none of them responds strongly agree, 2 of them responds agree, 21 of them responds moderately agree, 80 of them responds disagree and 7 of them responds strongly disagree. The mean score respondents' response is 2.1. As stated in the table 14, the respondents asked whether articles in the proclamation that hinder the smooth running of FDI. Accordingly, most of the respondents believe that the investment proclamation does not incorporate articles that hinder the smooth running of FDI. Therefore, articles in the proclamation at least do not disturb the investment environment for foreign investors. This implies that majority of the respondents consider articles in the investment proclamation contributing to stable investment climate for foreign investors.

According to the above table14, for the question, FDI investors have trust on guarantee and incentive policies stated by the Ethiopia investment policy., out of 111 respondents 24 of them responds strongly agree, 60 of them responds agree, 20 of them responds moderately agree,7 of them responds disagree and 1 of them responds strongly disagree. The mean score respondents' response is 3.9. Foreign direct investment (FDI) is desired by host states, and to attract FDI, incentives have been used. Despite the fact that incentives are available, investors may not decide to invest unless guarantees are available for their investment. If the host states offer guarantees that are acceptable by foreign investors, they may be used as incentives to invest. Guarantees offered to foreign investors may be found in constitutions and codes as well as in special laws. They are known as investment law and are usually assurances of fair treatment, non-discrimination, and the like. The main significance lies in the fact that they are the expression of an attitude favorable to foreign investment. Thus, the researcher asked sample respondents to point their perception on the given question. Accordingly, the majority of respondents have good attitude regarding the guarantee and incentive policy of Ethiopia. But considerable number of respondents feel uncomfortable.

As indicated in the above table14, for the question, The Ethiopian Investment Law is clear and understandable, out of the total 111 respondents, 25 of them responds strongly agree, 66 of them responds agree, 19 of them responds moderately agree, 1 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 4.0. As stated in the above paragraph Investment law regulates the entry of foreign investment in a host country. Each state may wish to restrict investment in certain sectors of the economy to the state or to domestic inventors. Investment law puts requirements to establish enterprises to undertake investment activities, and the forms of enterprises. It also includes ownership restrictions and related issues. Thus, the researcher asked sample respondents to point their perception on the knowledge and clarity of the Ethiopian investment law. Accordingly, most of the respondents perceive that they have clear and adequate knowledge about the investment law.

As showed in the above table14, for the question, The Ethiopian investment policy is suitable for sole proprietorship and partnership FDI investors, out of the total 111 respondents, 12 of them responds strongly agree, 63 of them responds agree, 21 of them responds moderately agree, 11 of them responds disagree and 4 of them responds strongly disagree. The mean score of respondents' responses is 3.6. Sole proprietorship is business in which only one individual owns all the assets, and operates in his/her personal capacity(Bryan Garner, Black's Law Dictionary, 2004), and A

partnership agreement is a contract whereby two or more persons who intend to join together and to cooperate undertake to bring together contributions for the purpose of carrying out activities of an economic nature and of participating in the profits and losses arising out thereof, if any,(Tesfaye, 2006). Thus, the researcher asked sampled respondents to understand their perception whether The Ethiopian investment policy is suitable for sole proprietorship and partnership FDI investors or not. Accordingly, most of the respondents agreed with the given question. But still a significant number of respondents feel not comfortable.

As shown in the above table14, for the question, the investment guarantees and investment incentive measures are suitable for potential foreign investors, out of 111 respondents, 27 of them responds strongly agree, 59 of them responds agree, 21 of them responds moderately agree,4 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 4.0.

Since 1991, Ethiopia has introduced a combination of investment guarantees and investment incentive measures designed to provide a supportive and reassuring business environment for potential foreign investors. According to the Ethiopian investment proclamation 2012, incentive is any measurable economic advantage afforded to investors in order to encourage them to behave in a certain manner, i.e. for development. Incentives to investors may be fiscal incentive, financial incentive or market preference. Thus, the researcher asked sample respondents to point their perception on the investment guarantees and investment incentive measures in Ethiopia. Accordingly, most of the respondents perceive that the investment guarantees and incentive measures are attractive.

As indicated in the above table14, for the question, the capital requirements stated by Ethiopian foreign investment policy is welcoming for foreign investors, out of the total 111 respondents 34 of them responds strongly agree, 60 of them responds agree, 14 of them responds moderately agree, 3 of them responds disagree and none of them responds strongly disagree. The mean score of respondents' responses is 4.1. The Investment Proclamation 769/2012 revised the capital required of foreign investors. The minimum capital required of foreign investors is \$200 thousand per project. However, if foreign investor invests in partnership with domestic investor; the minimum capital required of foreign investors is \$ 150 thousand per project. Thus, the researcher asked sample respondents to point their perception on the capital requirements stated by Ethiopian investment policy. Accordingly, most of the respondents perceive that the given capital requirements are attractive foreign investors.

Table 15: The Mean scores of Employees' Response on Tax Policy.

No.	Tax Policy	5	4	3	2	1	Total	Mean
1	The Fiscal policies of Ethiopia are attractive for foreign investors.	21	29	41	30	0	111	3.6
2	The Monetary policies of Ethiopia are attractive for foreign investors.	16	20	42	25	8	111	3.1
3	Ethiopia's Foreign Investment Policy is attractive.	20	51	35	5	0	111	3.8
4	The tax burden on investors is appropriate with reference to the policy goals.	2	30	60	17	2	111	3.1

Source: Own Survey, May, 2020

As indicated in the above table15, for the question, the Fiscal policies of Ethiopia are attractive for foreign investors, out of the total 111 respondents, 21 of them responds strongly agree, 29 of them responds agree, 41 of them responds moderately agree, 30 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.6. Fiscal policy is a macroeconomic policy that the government has used to stabilize macroeconomic of the country. According to wondifraw et al (2015) the main aim of Ethiopian fiscal policy is maintaining of prudent fiscal stance while pursuing strong investment in the infrastructure and basic service. Thus, the researcher asked sample respondents to point their perception on the attractiveness of Ethiopian current fiscal policy. Accordingly, most of the respondents perceive that the current fiscal policy of Ethiopia at least moderately attractive. But considerable numbers of respondents still do not feel comfortable with the attractiveness the fiscal policy of Ethiopia.

As showed in the above table15, for the question, the Monetary policies of Ethiopia are attractive for foreign investors, out of the total 111 respondents, 16 of them responds strongly agree, 20 of them responds agree, 42 of them responds moderately agree, 25 of them responds disagree and 8 of them responds strongly disagree. The mean score respondents' response is 3.1 The purpose of the Ethiopian monetary policy is maintaining single digit inflation by limiting the amount of money growth in the economy. Hence, respondents are asked to rate how far monetary policy of Ethiopia attractive for foreign investors. Accordingly, most of the respondents answered that they are at least moderately agreed on the attractiveness of Ethiopian monetary policy. Hence, the finding indicates that foreign investors perceived the monetary policy of the country bringing stability through maintaining inflation rate small. This in turn brings macroeconomic stability

According to the above table15, for the question, Ethiopia’s Foreign Investment Policy is attractive, out of 111 respondents 20 of them responds strongly agree, 51 of them responds agree, 35 of them responds moderately agree,5 of them responds disagree and none of them responds strongly disagree. The mean score respondents’ response is 3.8. Regarding foreign investment policy of Ethiopia most of the respondents, were agreed about the encouragement of Ethiopian investment policy for foreign investors. Hence, the policy as a policy does not have issues that will hinder foreign investment practice in the county. Therefore, it is also an opportunity for Ethiopia to promote its foreign direct investment policy as foreign investors appreciate it.

As indicated in the above table15, for the question, the tax burden on investors is appropriate with reference to the policy goals, out of the total 111 respondents, 2 of them responds strongly agree, 30 of them responds agree, 60 of them responds moderately agree, 17 of them responds disagree and 2 of them responds strongly disagree. The mean score respondents’ response is 3.1. Taxation is one of the instruments of collecting revenue to support government expenditures. If there is no proper tax administration, it discourages business activities. The government of Ethiopia identified areas of investment eligible for exemption of customs duty and exemption of income tax to encourage the flow and operation of FDI. The majority of respondents of FDI employees indicate that the taxation process of the Ethiopian government is not satisfied as expected by investors.

Table 16: The Mean scores of Employees’ Response on Investment Promotion and facilitation Policy.

No.	Investment Promotion and facilitation Policy	5	4	3	2	1	Total	Mean
1	Investment incentives like, custom duties exemption, duty free importation of goods and services, tax holiday (exemption from income tax) encourages foreign investors.	40	46	20	5	0	111	4.1
2	There is adequate credit access from financial institutions and this helps to attract FDI investors.	0	3	40	61	7	111	2.4
3	Ethiopian Investment proclamation is attractive for FDI investors.	30	41	40	0	0	111	3.9

4	Tariff free entry on machinery, equipment and spare parts play an important role to attract FDI investors.	36	45	30	0	0	111	4.1
5	FDI investors have strong trust on the political stability of Ethiopia.	0	11	35	60	5	111	2.5

Source: Own Survey, May, 2020

As indicated in the above table16, for the question, Investment incentives like, custom duties exemption, duty free importation of goods and services, tax holiday (exemption from income tax) encourages foreign investors, out of the total 111 respondents, 40 of them responds strongly agree, 46 of them responds agree, 20 of them responds moderately agree, 5 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 4.1. The Ethiopian tax law allows for a duty-free importation of raw materials and machinery, equipment for manufacturers and other investment incentives to encourage foreign investors to invest in Ethiopia. As clearly explained in the above table 16, Most of the sampled respondents were agreed on these investment measures given by the government.

As showed in the above table16, for the question, there is adequate credit access from financial institutions and this helps to attract FDI investors, out of the total 111 respondents, none of them responds strongly agree, 3 of them responds agree, 4 of them responds moderately agree, 61 of them responds disagree and 7 of them responds strongly disagree. The mean score respondents' response is 2.4. As indicated in the above table, the majority of respondents were dissatisfied regarding the availability of adequate credit access from financial institutions. This will hinder the realization of Ethiopian investment goals to attract foreign investors.

According to the above table16, for the question, Ethiopian Investment proclamation is attractive for FDI investors, out of 111 respondents, 30 of them responds strongly agree, 41 of them responds agree, 40 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 3.9. As it can be seen in the table 16, the researcher asked to express their degree of consent on the attractiveness of foreign direct investment proclamation. Accordingly, most of the respondents agree that the Ethiopian investment proclamation encouraging foreign investors. Hence, the finding indicates that the proclamation answered many of the issues that foreign investors need to be answered having a legal ground. Therefore, the country has a proclamation that creates fertile ground for foreign investors to come and invest.

As indicated in the above table16, for the question, Tariff free entry on machinery, equipment and spare parts play an important role to attract FDI investors, out of the total 111 respondents, 36 of them responds strongly agree, 45 of them responds agree, 30 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 4.1. it implies that respondents are satisfied regarding the role of tariff free entry of goods to attract FDI investors.

As showed in the above table16, for the question, FDI investors have strong trust on the political stability of Ethiopia, out of the total 111 respondents, none of them responds strongly agree, 11 of them responds agree, 35 of them responds moderately agree, 60 of them responds disagree and 5 of them responds strongly disagree. The mean score respondents' response is 2.5. As it can be seen in the above table 16, most of the respondents feel that the political situation of Ethiopia is at least moderately stable because of these foreign investors have reservation on the political situation of Ethiopia. Therefore, Ethiopia has not fully satisfied one of the pre-requisites for foreign investors investment location decision. However, being stable politically is one of the opportunities to attract foreign investors.

Table 17: The Mean scores of Employees' Response on Market Linkage Policy.

No.	Market Linkage Policy	5	4	3	2	1	Total	Mean
1	FDI investment is productive in Ethiopia.	3	28	60	16	4	111	3.1
2	The government creates market links that motivates foreign investors.	9	43	50	8	1	111	3.5
3	The investment undertaken by foreigners contribute to the economic development of Ethiopia.	33	64	14	0	0	111	4.2
4	The technology transfer from FDI to domestic investment take place to improve the productivity of local firms.	23	74	12	2	0	111	4.1

Source: Own Survey, May, 2020

As indicated in the above table17, for the question, FDI investment is productive in Ethiopia, out of the total 111 respondents, 3 of them responds strongly agree, 28 of them responds agree, 60 of them

responds moderately agree, 16 of them responds disagree and 4 of them responds strongly disagree. The mean score respondents' response is 3.1. The researcher attempted to assess the extent of development contributed by Foreign direct investments. The majority of respondents from employees responded that the contribution of FDI to the development of Ethiopia is moderate.

As showed in the above table17, for the question, the government creates market links that motivates foreign investors, out of the total 111 respondents, 9 of them responds strongly agree, 43 of them responds agree, 50 of them responds moderately agree, 8 of them responds disagree and 1 of them responds strongly disagree. The mean score respondents' response is 3.5. The result indicates that the majority of respondents have moderate feeling regarding the given question.

According to the above table17, for the question, the investment undertaken by foreigners contribute to the economic development of Ethiopia., out of 111 respondents 33 of them responds strongly agree, 64 of them responds agree, 14 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 4.2. The researcher attempted to assess the extent of development contributed to the economic development of Ethiopia by Foreign direct investments. Accordingly, as shown in the above table17, the majority of respondents agreed about the contribution of FDI for the economic development of Ethiopia.

As indicated in the above table17, for the question, the technology transfer from FDI to domestic investment take place to improve the productivity of local firms, out of the total 111 respondents, 23 of them responds strongly agree, 74 of them responds agree, 12 of them responds moderately agree, 2 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 4.1. Technology transfer is one of the primary objectives of enhancing economic growth, capital accumulation, production and even changes in the organization of social relations. Based on the survey result the technology transfer from FDI to local firms occurs in Ethiopia which was confirmed by the majority of the respondents.

Table 18: The Mean scores of Employees' Response on Investment Opportunities

No.	Investment Opportunities	5	4	3	2	1	Total	Mean
1	The availability of qualified workforce attracts FDI investment in Ethiopia.	33	50	25	3	0	111	4.0

2	There is adequate infrastructure to attract FDI investor in Ethiopia.	0	11	24	46	30	111	2.1
3	Raw materials are abundantly available in Ethiopia.	1	20	56	24	11	111	2.8
4	There are sufficient Domestic and foreign market opportunities for the products of FDI investors	15	76	14	6	0	111	3.9
5	There is adequate power supply to attract FDI investors in Ethiopia.	0	13	40	50	8	111	2.5

Source: Own Survey, May, 2020

As indicated in the above table18, for the question, The availability of qualified workforce attracts FDI investment in Ethiopia, out of the total 111 respondents, none of them responds strongly agree, 11 of them responds agree, 24 of them responds moderately agree, 46 of them responds disagree and 30 of them responds strongly disagree. The mean score respondents' response is 4.0. The first variable in the Investment Opportunities is the availability of qualified work force. Hence, as shown in the above table18, most of the respondents agree with the availability of qualified workforce. Hence, the finding tells us that qualified workforce is also another potential factor that Ethiopia can use to attract foreign investors.

As showed in the above table18, for the question, there is adequate infrastructure to attract FDI investor in Ethiopia, out of the total 111 respondents, none of them responds strongly agree, 11 of them responds agree, 24 of them responds moderately agree, 46 of them responds disagree and 30 of them responds strongly disagree. The mean score respondents' response is 2.1. The second variable in the Investment Opportunities is the availability of adequate infrastructure. Hence, as shown in the above table18, most of the respondents were dissatisfied. Hence, the finding tells us that there is shortage of infrastructure availability in Ethiopia. This will be a problem to attract foreign investors.

According to the above table18, for the question, Raw materials are abundantly available in Ethiopia, out of 111 respondents, 1 of them responds strongly agree, 20 of them responds agree, 56 of them responds moderately agree, 24 of them responds disagree and 11 of them responds strongly disagree. The mean score respondents' response is 2.8. The result indicates that most of the respondents are moderate. But still a significant number of respondents are dissatisfied.

As indicated in the above table18, for the question, there are sufficient Domestic and foreign market opportunities for the products of FDI investors, out of the total 111 respondents, 15 of them responds strongly agree, 76 of them responds agree, 14 of them responds moderately agree, 6 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.9. It implies that the majority of respondents are agreed about the availability of adequate domestic and foreign market.

As showed in the above table18, for the question, there are sufficient Domestic and foreign market opportunities for the products of FDI investors, out of the total 111 respondents, none of them responds strongly agree, 13 of them responds agree, 40 of them responds moderately agree, 50 of them responds disagree and 8 of them responds strongly disagree. The mean score respondents' response is 2.5. The majority of respondents were dissatisfied about the availability of adequate domestic and foreign market opportunities. This will be an obstacle for the realization of Ethiopia investment goals.

4.7.3 The Mean difference of Government officials' Response.

Table 19: The Mean scores of Government officials' Response on Admission policy and Regulation.

No.	Admission policy and Regulation	5	4	3	2	1	Total	Mean
1	Ethiopia has environmental protection and regulation policy and it is properly implemented to protect the environment.	6	9	5	3	0	23	3.8
2	All licensed FDI projects are operational.	0	0	0	2	21	23	1.1
3	Foreign investors carry out their business in environmentally friendly ways.	15	6	2	0	0	23	4.6
4	There is less bureaucratic and high motivating ownership registration process.	16	4	3	0	0	23	4.6

Source: Own Survey, May, 2020

As indicated in the above table19, for the question, Ethiopia has environmental protection and regulation policy and it is properly implemented to protect the environment, out of the total 23 respondents, 6 of them responds strongly agree, 9 of them responds agree, 5 of them responds moderately agree, 3 of them responds disagree and none of them responds strongly disagree. The mean score of respondents' responses is 3.8. It is stated in the literature that some developing countries may relax their environmental regulations as a means to attract FDI. Foreign Direct investors especially those with significant financial, political and negotiating power, can cause damage to the host 's environment. Indeed, FDI in manufacturing and chemicals might cause damage to the environment through waste, emissions and smoke from their operations. Regarding the environmental friendliness of FDI, the majority of the respondents declared that FDI operations are environmentally friendly ways.

As showed in the above table19, for the question, all licensed FDI projects are operational, out of the total 23 respondents, none of them responds strongly agree, agree, and moderately agree, 2 of them responds disagree and 21 of them responds strongly disagree. The mean score of respondents' responses is 1.1. It implies that all licensed projects are not operational.

According to the above table19, for the question, Foreign investors carry out their business in environmentally friendly ways, out of 23 respondents 15 of them responds strongly agree, 6 of them responds agree, 2 of them responds moderately agree, and none of them responds disagree and strongly disagree. The mean score respondents' response is 4.6. Regarding the environmental friendliness of FDI, the majority of the respondents agreed that FDI operations are environmentally friendly.

As indicated in the above table19, for the question, there is less bureaucratic and high motivating ownership registration process, out of the total 23 respondents, 16 of them responds strongly agree, 4 of them responds agree, 3 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 4.6. The fact that FDI has many contact institutions to start the investment, 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. Contrary to the fact that less bureaucratic institutions are demanded by FDI investors. It is confirmed by all respondents although their level of satisfaction is not uniform.

No.	Market Linkage Policy	5	4	3	2	1	Total	Mean
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1	There is a forward and backward linkage between FDI and domestic investments.	6	15	2	0	0	23	4.2
2	The government creates market links that motivates foreign investors.	8	12	3	0	0	23	4.2
3	The investment policy provides an opportunity through international market-expansion.	7	14	2	0	0	23	4.2
4	The government properly regulates the relationship between domestic and foreign investors.	5	16	2	0	0	23	4.1
5	The government take the opinion of foreign investors regarding what should be done to improve the investment environment in the Ethiopia.	10	12	1	0	0	23	4.4

Table 20: The Mean scores of Government officials' Response on Market Linkage Policy.

Source: Own Survey, May, 2020

As indicated in the above table20, for the question, there is a forward and backward linkage between FDI and domestic investments, out of the total 23 respondents, 6 of them responds strongly agree, 15 of them responds agree, 2 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 4.2. As stated in the above table the majority of respondents agreed for there is a forward and backward linkage between FDI and domestic investors.

As showed in the above table20, for the question, the government creates market links that motivates foreign investors, out of the total 23 respondents, 8 of them responds strongly agree, 12 of them responds agree, 3 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 4.2. As stated in the table, respondents believe that the government creates market links foreign investors.

According to the above table20, for the question, the investment policy provides an opportunity through international market-expansion, out of 23 respondents, 7 of them responds strongly agree, 14 of them responds agree, 2 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 4.2. As indicated in the above table, the majority of respondents believe that the Ethiopian investment policy provides opportunity for international market expansion.

As indicated in the above table20, for the question, the government properly regulates the relationship between domestic and foreign investors, out of the total 23 respondents, 5 of them responds strongly agree, 16 of them responds agree, 2 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 4.1. The result implies that most of the sampled respondents were agreed.

As showed in the above table20, for the question, the government take the opinion of foreign investors regarding what should be done to improve the investment environment in the Ethiopia, out of the total 23 respondents, 10 of them responds strongly agree, 12 of them responds agree, 1 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 4.4. The majority of respondents were satisfied.

Table 21: The Mean scores of Government officials' Response on Investment Promotion and facilitation Policy.

No.	Investment Promotion and facilitation Policy	5	4	3	2	1	Total	Mean
1	The transport and logistics infrastructures and facilities play important role to attract foreign investors.	10	10	2	1	0	23	4.3
2	There is adequate credit access from financial institutions and this helps to attract FDI investors.	0	5	12	6	0	23	3.0
3	Ethiopia has adequate foreign currency to attract FDI projects.	0	3	18	2	0	23	3.0
4	FDI investors have strong trust on the insurance companies of Ethiopia.	2	13	5	3	0	23	3.6
5	The government use the foreign investors already in Ethiopia as a channel of promotion to attract FDI investors.	8	10	5	0	0	23	4.1
6	Ethiopia has adequate incentives to attract FDI investors.	4	10	8	1	0	23	3.7
7	The government office properly and immediately solves the problems of foreign investors which are related to attracting, licensing and implementation issues.	10	11	1	1	0	23	4.3

Source: Own Survey, May, 2020

As indicated in the above table²¹, for the question, the transport and logistics infrastructures and facilities play important role to attract foreign investors, out of the total 23 respondents, 10 of them responds strongly agree, 10 of them responds agree, 2 of them responds moderately agree, 1 of them responds disagree and none of them responds strongly disagree. The mean score of respondents' responses is 4.3. The result shows that most of the respondents believed that transport and logistics infrastructures play important role for attracting foreign investors.

As showed in the above table21, for the question, there is adequate credit access from financial institutions and this helps to attract FDI investors, out of the total 23 respondents, none of them responds strongly agree, 5 of them responds agree, 12 of them responds moderately agree, 6 of them responds disagree and none of them responds strongly disagree. The mean score of respondents' responses is 3.2. The result indicates that the majority of respondents are moderate regarding the availability of adequate credit access from financial institutions. The shortage of credit access hinders the overall investment development of Ethiopia.

According to the above table21, for the question, Ethiopia has adequate foreign currency to attract FDI projects, out of 23 respondents. none of them responds strongly agree, 3 of them responds agree, 18 of them responds moderately agree, 2 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.0. The researcher asked the availability of foreign currency for foreign investors. According to 2012, investment proclamation the minimum capital required from foreign investors is 200,000 USD and 150,000USD for each sole proprietor and joint venture with Ethiopian respectively. Therefore, the intention of the researcher in this question was to know the feeling of foreign investors on the adequacy of foreign exchange supply. Accordingly, most of the respondents feel that the supply of foreign currency is moderate. The finding implies that foreign investors demand for foreign currency is barely satisfied. This in turn will negatively affect the progress of foreign projects and genuine foreign investors become dissatisfied.

As indicated in the above table21, for the question, FDI investors have strong trust on the insurance companies of Ethiopia, out of the total 23 respondents, 2 of them responds strongly agree, 13 of them responds agree, 5 of them responds moderately agree, 3 of them responds disagree and none of them responds strongly disagree. The mean score of respondents' responses is 3.6. As stated in the above table, the result indicates that most of the respondents believe that FDI investors have trust on the insurance companies of Ethiopia.

As showed in the above table21, for the question, the government use the foreign investors already in Ethiopia as a channel of promotion to attract FDI investors, out of the total 23 respondents, 8 of them responds strongly agree, 10 of them responds agree, 5 of them responds moderately agree, none of them responds disagree and strongly disagree. The mean score respondents' response is 4.1. The result implies that the majority of respondents agreed that the government use foreign investors in Ethiopia as a channel of promotion to attract FDI investors. Investment promotion is one strategy of Ethiopia investment policy to attract the potential foreign FDI investors.

As indicated in the above table²¹, for the question, Ethiopia has adequate incentives to attract FDI investors, out of the total 23 respondents, 4 of them responds strongly agree, 10 of them responds agree, 8 of them responds moderately agree, 1 of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 3.7. The result implies that the majority of respondents believe that Ethiopia has adequate incentives to attract foreign investors. The Ethiopian investment policy emphasizes the importance of providing incentives to attract foreign investors and the respondents confirmed this idea.

As showed in the above table²¹, for the question, the government office properly and immediately solves the problems of foreign investors which are related to attracting, licensing and implementation issues, out of the total 23 respondents, 10 of them responds strongly agree, 11 of them responds agree, 1 of them responds moderately agree, of them responds disagree and none of them responds strongly disagree. The mean score respondents' response is 4.3. As stated in the above table, most of the respondents were agreed about the stated question. It implies that government officials solve problems of foreign investors properly and immediately. It is important to attract foreign investors.

CHAPTER FIVE

5 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

In this chapter, the researcher provides answers to the research questions by summarizing the findings from the analysis and discussion chapter. This chapter also covers the conclusions and recommendations of the study.

5.4 Summary of Findings

This study attempts to assess the Ethiopian investment policy and investment opportunities for FDI. It is mainly focused on the admission and regulation policy, tax policy, Credit policy Incentives by the government, market linkage policy, investment promotion and facilitation policy, and investment opportunities. The researcher used structured questionnaires to collect data. The data were collected from foreign investors, employees in foreign companies and government officials. The findings of this study can be summarized as follows:

In the admission and regulation policy, the study emphasized on Ethiopian investment law, investment proclamation, laws and regulations, forms of investment, capital requirement, ownership registration process and the competition law stated by Ethiopian investment policy. The finding of the study revealed that the maximum number of respondents have moderate feeling regarding the stated issues. Although the government strives to attract more FDI investors to invest in Ethiopia, it is not entirely satisfied the demands of foreign investors according to the finding.

In the tax and credit policy incentives by the government, the study is mainly focused on tariff, tax, fiscal, and monetary policies of the government stated by the Ethiopian investment policy. Based on the findings, shortage of foreign currency, absence of capital market, inadequate access to loan, credit access from financial institutions, absence of trust on domestic insurance are factors that hinder attracting FDI investors and negatively affect the realization of Ethiopian investment goals. On the other hand, tax holiday allowance, tariff free entry of machinery, equipment and spare parts, easy import and export procedure, custom duties exemption, duty free importation of goods and services are opportunities which attracts FDI investors.

Based on the findings, regarding investment opportunities, availability of raw materials, Ethiopian population growth, availability of adequate labor force, market demand for project output, availability of resources, tax exemption, tax holiday are opportunities to attract foreign investors. on the other

hand, the current political situation, availability of adequate power supply, absence of adequate infrastructure, lack of adequate capital market, access to loan are factors that hinder the attraction process of FDI investors and negatively affect the realization of Ethiopian investment goals.

The study also attempted to investigate the backward and forward linkages between domestic and foreign investors. In addition, it is also assessed market opportunities. Based on the findings, the Ethiopian investment policy promote investment linkage between local and foreign enterprises. The investment policy also provides an opportunity through domestic and international market expansion. However, although the Ethiopian investment policy create conducive investment environment to link different domestic and foreign enterprises and market opportunities, the practical implementation is not as demanded by foreign investors.

5.5 Conclusion

Many developing countries are competing to attract foreign direct investment with a belief that it can be a tool for development. The Ethiopian government has opened several economic sectors to foreign investors and issued several investment incentives for foreign investors. Since the market oriented economic reform took place in 1992, emphasis has been given to attracting FDI.

Foreign investment the role it plays in the development process in Ethiopia, the incentives and guarantees granted to encourage and attract foreign investment and investment opportunities for FDI are central themes of this study. Some of the main reasons why many developing countries encourage FDI may vary from country to country, as far as Ethiopia is concerned, FDI is encouraged to promote the flow of foreign capital, generate employment, transfer of technology and to utilize the country's resources in ways to eliminate or substantially reduce poverty. To realize these objectives, Ethiopia takes different measurements to attract foreign investors. Some of the main measurements taken by the government to attract FDI to Ethiopia include fiscal incentives such as tax holidays, exemption from many direct and indirect taxes as well as non-fiscal incentives. Among the other factors that attract FDI are political and legal stability, investor friendly macro-economic policies, availability of physical and communication infrastructure, access to finance, markets and public utilities such as land, water, electricity and absence of corruption and prevalence of bureaucratic tapes etc. On the bases of the finding the researcher provides the following conclusion:

The result indicates that all licensed domestic and FDI projects are not implemented. The low rate of implementation of licensed projects that has resulted in are: failure of service rendering institutions to pay special attention to provide the necessary support for investors; inability to timely allocate resources for the different types of investments; absence of a good system of investment promotion Agency at Federal level that enables them to provide effective one stop shop Service for investors; lack of full information about the Ethiopian foreign investment policy; lack of required skilled man power in some investment areas; lack of competence and capacity of the EIA to support, supervise, monitor and control the investment projects; prevalence of complex customs procedures are some of the reasons that hinder the full implementation process of licensed projects.

The establishment of one Stop shop Service under the 2012 Investment law reflects the Government's commitment to attract FDI. However, each service rendering governmental organization and institution are not very effective. According to the result, although they have a responsibility to serve foreign investors by promoting the country's investment opportunities and conditions to foreign

investors; Issuing investment permits, trade registration certificates and business licenses; registering technology transfer agreements and export oriented non-equity-based foreign enterprise; Advising the Government on policy measures needed to create an attractive investment climate for investors, they are not effectively discharge their responsibility. These will negatively affect the realization of the Ethiopian investment goals.

The majority of the admission and regulation policy elements used in this paper perceived by foreign investors as a policy they are good and they play important role in attracting foreign investors, but they are not properly implemented. Hence, we can conclude that investment law, investment proclamation, guarantees and incentives and protection of intellectual property rights stated under the Ethiopian investment policy are good investment opportunities to attract foreign investors if they are properly implemented.

The Ethiopian investment law has guarantees to protect foreign investors from expropriation. According to Ethiopian investment guide (2013), Ethiopia is a signatory to the main international investment related institutions, for example, it is a member of the Multilateral Investment Guarantee Agency (MIGA). Ethiopia is also a signatory of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. Ethiopia has also concluded investment promotion and protection agreements. In addition, the country has signed double taxation avoidance treaties. According to the findings, these all are considered as investment opportunities to attract foreign investors and realize the Ethiopian investment goals.

According to the results of the study, Customs Import Duty - 100% exemption on all import of investment capital goods (plant machinery, construction materials, laboratory and work shop equipment etc.) including spare parts worth up to 15% of the imported investment capital goods; plus, exemption for import of raw materials needed for the production of export goods. Export Customs Duty - Products and services developed in Ethiopia are exempt from export tax. Almost all respondents confirmed that all these are significant tax incentives to attract foreign investors. In addition, the incentive measurements taken by the government regarding Corporate income tax (tax on profit), Excise tax, turnover tax, Customs duty, and Withholding tax are investment opportunities that help to attract foreign investors.

The fiscal and monetary policies of the government enable to create stable macroeconomic environment which is one of the critical pre-conditions that foreign investors need to see before

deciding their investment location. However, according to the result of this study, foreign investors have not fully satisfied on their implementation. These will be another obstacle to realize the Ethiopian investment goal.

According to the results, there is backward and forward market linkages between domestic and foreign investors. The backward linkage created demand for local suppliers and enhanced quality, productivity and variety. In turn, the development of intermediate-goods supply and productivity led to forward linkages to final-good producers, increasing the number of both multinationals and domestic producers. However, the linkage between local and foreign enterprises is not satisfactory as expected by foreign investors. Foreign investors expect more work from the government in these regards. In addition, according to the finding, the Ethiopian government needs to work more regarding the investment promotion and facilitation policies in order to realize its investment goals. As we understand from the findings, although there are efforts to attract more foreign investors, it is not sufficient.

As far as investment opportunities are concerned, in areas like tax incentives, the supply of adequate labor force, Availability of land, Investment guaranty and protection, availability of abundant raw materials, availability of natural resource, presence of huge market demand and proxy to international market are investment opportunities that influence their location decisions. However, in areas like providing sufficient foreign exchange, establishing capital market and access to financial loans, shortage of power supply, lack of good infrastructure road, are factors that hinder foreign investors.

5.6 Limitation of the Study

Limitation, in the context of a study, refers to the possible problems and obstacles that might hinder some procedures and activities of the study during the data collection and analysis phases. Availability of data from different sources were a challenge. But since all FDI are registered with the EIA and their status is updated yearly, it is used as an alternative source of FDI data.

Another limitation is that it was difficult to get some data from investors due to the lack of willingness and absenteeism of the appropriate persons such as project managers as well as reluctance of governmental officials to disclose accurate information.

5.7 Recommendation

Based on the conclusions drawn, the following recommendations have been forwarded:

The realization of the Ethiopian investment policy emphasizes on the crucial role of stimulating investment by foreign as well as domestic investors. Ethiopia has had a respectable growth performance since 1992. This growth performance indicates a country's economic prospects and encourages foreign investors. Keeping up the growth momentum and ascertaining its sustainability is a key to attracting more FDI investors. In this regard, advancing the growth performance of the economy through the creation of favorable macroeconomic environment, developing vital infrastructure, ensuring the quality of institutions as well as improving the quality of human capital are some of the important measures essential to attract FDI.

There should be enforcements by investment office and investment commission including cancellation of investment licenses against those domestic and FDI projects which do not start and implement the business as per the scheduled time and proposals. In addition, there is a need for a much more clear, coherent, integrated and comprehensive policy document related to investment and their implementation.

The government has to deepen its current effort in developing infrastructural facilities such as road, information and communication technologies and electricity and improving them services which are regarded as necessary conditions to draw sizable FDI. Efforts to establish industrial zones might partly address the problem in this respect. However, there needs to assess as to how much this

endeavor has been effectively addressing the problem in general, and attracting the required volume and type of FDI in particular before additional resources are expanded.

The government should review its admission, regulation policy, fiscal, tax, foreign investment regimes and other policies and laws in relation to other countries in Africa, where attracting foreign investors is currently underway. The objective of this review process should be to compare notes with other countries and implement policies and laws that are competitive and conducive to foreign investment. The foreign investment must perceive Ethiopia to be the right place to business in Africa.

The study also recommends that in order to sustain and improve the inflows of foreign direct investment (FDI) the Ethiopian government first should focus on factors that hinder domestic investments. Because foreign investors will be encouraged to invest in a country if the domestic investors are doing successfully. In addition, there should be a much stronger relationship, cooperation and consultation process between the Government, investors and the communities. Provision of basic infrastructures by government and other stakeholders has to be done with great emphasis.

Foreign direct investment implementations should result in save environment by the establishment of industry zone and treatment plants. The Government should conduct regular environmental auditing and urge FDI owners to environmental mainstreaming in their project activities. Technology transfer and other positive spillover effects to be achieved through linkage should be done with great concern. The government has to work more and more to attract more FDIs with better potential to implement in industry sectors and to ensure the transformation of the country.

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Appendices
ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
GENERAL MBA PROGRAM

Part One: Questionnaire filled by Foreign Investors

Dear respondents,

The objective of the questionnaires is to gather information or data for the purpose of assessing Ethiopian investment policy and Investment Opportunities for FDI. Thus, it helps to collect data for partial fulfillment of the requirement of masters of General Business Administration (MBA) in the MBA programs.

Dear respondents, you are expected to provide genuine, and reliable information with respect to the topic. Your genuine information is highly decisive to the success of this study. Therefore, the researcher assures you that the information and the data you will provide is very confidential and only serves for academic purpose.

I thank you very much in advance for participating in this survey and providing your thoughtful feedback.

Contact: Dawit Getachew

Tel: +251900574745

A. General Information

1. Age: 20-25 26-30 31-35 36-40 above 40
2. Sex: Male Female
3. Marital status: Single Married Divorced
Widowed Separated
4. Educational Background: Certificate Diploma Degree
Master's Degree PhD
5. Work Experience: 0-5 years 6-10 years
11-15 years Above 16years
6. Home country of the Company: _____
7. Year of Establishment in Ethiopia: _____
8. Sectors of the Company;
Agriculture Manufacturing construction others; please specify---

B. Questions for Investors

1. How to you rate your satisfaction with regard to the Ethiopian investment policy in terms of the following:

Hint: Strongly Agree (5), Agree (4), Neutral (3), Disagree (2), Strongly Disagree (1)

1	Admission policy and Regulation	5	4	3	2	1
1.1	Ethiopian investment policy is Clear and understandable					
1.2	Ethiopian Investment proclamation furnishes smooth running of FDI					
1.3	There is less bureaucratic and motivating ownership registration process					

1.4	The level of protection encourages innovation and investment foreign firms.					
1.5	The government enforces laws and regulations for the protection of intellectual property rights					
1.6	The Laws and regulations stated by Ethiopian foreign investment policy is welcoming for foreign investors					
1.7	The government ensure that the laws and regulations dealing with investments and investors are implemented					
1.8	The competition laws and their application are clear, transparent, and non-discriminatory					
2	Tax Policy	5	4	3	2	1
2.1	The government fix the level of tax consistent with the need for investment development.					
2.2	The policy has tax exemption during the start-up periods of foreign investors.					
2.3	The government fix the level of tax that would be consistent with its investment attraction strategy					
2.4	The tax burden on investors is appropriate with reference to the policy goals.					
2.5	The government evaluated the limitations of using tax policy alone to influence favorably investment decisions					
2.6	Tax burden on business income differs by firm size, age of the business entity.					
2.7	Tax burden on business income differs by ownership structure, industrial sector or location,					
2.8	The tax system is neutral in its treatment of foreign and domestic investors					
2.9	The main tax provisions generally consistent with international norms					
2.10	The tariff Policies of Ethiopia is based on the investment type.					

3	Credit policy Incentives by the government					
3.1	The Ethiopian foreign investment policy enables foreign investors to get the loan amount as per their request.					
3.2	Credit policy of the government enable foreign investors to reduce financial burden during start up time					
3.3	Credit policy of the government enable foreign investors to access a fair interest rate.					
3.4	Credit policy of the government allow foreign investors to have adequate time for settling loan.					
3.5	Foreign investment policy of the government facilitates business premise for foreign investors					
3.6	Generally, the foreign policy incentivizes foreign investors.					
4	Investment Promotion and facilitation Policy	5	4	3	2	1
4.1	The Laws and regulations stated by Ethiopian foreign investment policy is promoting foreign investors					
4.2	Ethiopian government made use of international and regional initiatives aimed at building investment promotion.					
4.3	Ethiopian government taken advantage of information exchange networks for promoting investment					
4.4	Investment Promotion Agency promote and maintain dialogue mechanisms with investors.					
5	Market Linkage Policy	5	4	3	2	1
5.1	The government promotes investment linkages between businesses, especially between foreign affiliates and local enterprises					
5.2	The government creates market links that motivates foreign investors					
5.3	The investment policy provides an opportunity through international market-expansion					
5.4	The government foreign policy allows MSE's to work with foreign investors					

5.5	The government policy motivates foreign investors by linking with local distributors					
5.6	The government strives to promote investment linkages between foreign and local businesses.					
5.7	The Ethiopian foreign policy enables foreign investors to have equal treatment with local firms.					
6	Investment Opportunities	5	4	3	2	1
6.1	New emerging international markets are attractive for foreign investors					
6.2	Ethiopian's growing population is an advantage for your Investment business					
6.3	There is adequate infrastructure relevant to your sector					
6.4	Domestic and foreign market opportunities for your products					
6.5	The government has a strategy for developing a sound, broad-based business environment					
6.6	The overall service delivery process of the governmental investment offices					
6.7	The overall investment environment in Ethiopia is attractive.					

ST. MARY'S UNIVERSITY
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GENERAL MBA PROGRAM

Part Two: Questionnaires filled by employees from Ethiopian Foreign Investment organizations.

Dear respondents,

The objective of the questionnaires is to gather information or data for the purpose of assessing the Ethiopian investment policy and Investment Opportunities for FDI. Thus, it helps to collect data for partial fulfillment of the requirement of masters of General Business Administration (MBA) in the MBA programs.

Dear respondents, you are expected to provide genuine, and reliable information with respect to the topic. Your genuine information is highly decisive to the success of this study. Therefore, the researcher assures you that the information and the data you will provide is very confidential and only serves for academic purpose.

I thank you very much in advance for participating in this survey and providing your thoughtful feedback.

Contact: Dawit Getachew

Tel: +251900574745

A. General Information

1. Age: 20-25 26-30 31-35 36-40 above 40
2. Sex: Male Female
3. Marital status: Single Married Divorced
 Widowed Separated
4. Educational Background: Certificate Diploma Degree
 Master's Degree PhD and above
5. Work Experience: 0-5 years 6-10 years 11-15 years Above 16 years
6. What is the operation of the foreign firm you work in?
- Agriculture Manufacturing Construction

B. Question for Employees

1. How to you rate your satisfaction with regard to the Ethiopian investment policy in terms of the following:

Hint: Strongly Agree (5), Agree (4), Neutral (3), Disagree (2), Strongly Disagree (1)

1.	Admission policy and Regulation	5	4	3	2	1
1.2	Ethiopian investment policy is clear and understandable.					
1.3	Ethiopian Investment proclamation furnishes smooth running of FDI					
1.4	Ethiopian investment policy guaranteed and protected foreign investors property properly.					
1.5	The Investment Law as it stands now enable the Ethiopian Investment Commission to study impact assessment of a given investment project.					
1.6	The Ethiopian investment policy is suitable for sole proprietorship and partnership FDI investors.					
1.7	The investment guarantees and investment incentive measures are suitable for potential foreign investors.					
1.8	The capital requirements stated by Ethiopian foreign investment policy is welcoming for foreign investors.					

2	Tax Policy	5	4	3	2	1
2.1	Fiscal policies of the government are encouraging					
2.2	Monetary policies of the government are encouraging					
2.3	Ethiopia's Foreign Investment Policy is attractive					
2.4	The tax burden on investors is appropriate with reference to the policy goals.					
2.5	The government evaluated the limitations of using tax policy alone to influence favorably investment decisions					

3	Investment Promotion and facilitation Policy					
2. 1	Investment incentives like, custom duties exemption, duty free importation of goods and services, tax holiday (exemption from income tax) encourages foreign investors					
3.2	There is adequate credit access from financial institutions and this helps to attract FDI investors.					

3.3	Ethiopian Investment proclamation incorporate articles that enhance the smooth running of FDI.					
3.4	Tariff free entry on machinery, equipment and spare parts play an important role to attract FDI investors.					
3.5	FDI investors have strong trust on the political and economic stability of Ethiopia.					

4.	Market Linkage Policy					
4.1	FDI investment is productive in Ethiopia					
4.2	The government creates market links that motivates foreign investors					
4.3	The investment undertaken by foreigners contributes to the economic of development Ethiopia.					
4.4	The technology transfer from FDI to domestic investment take place to improve the productivity of local firms					

5	Investment Opportunities					
5.1	The availability of qualified workforce attracts FDI investment in Ethiopia.					
5.2	The availability of infrastructure provision attracts FDI investor in Ethiopia.					
5.3	Raw materials are abundantly available					
5.4	There are sufficient Domestic and foreign market opportunities for the products of FDI investors					
5.5	There is adequate power supply to attract FDI investors in Ethiopia.					

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Part Three: Questionnaire filled by Government Officials

Dear respondents,

The objective of the questionnaires is to gather information or data for the purpose of assessing the Ethiopian investment policy and Investment Opportunities for FDI. Thus, it helps to collect data for partial fulfillment of the requirement of masters of General Business Administration (MBA) in the MBA programs.

Dear respondents, you are expected to provide genuine, and reliable information with respect to the topic. Your genuine information is highly decisive to the success of this study. Therefore, the researcher assures you that the information and the data you will provide is very confidential and only serves for academic purpose.

I thank you very much in advance for participating in this survey and providing your thoughtful feedback.

Contact: Dawit Getachew

Tel: +251900574745

A. General Information

1. Age: 20-25 26-30 31-35 36-40 above 40
2. Sex: Male Female
3. Marital status: Single Married Divorced
 Widowed Separated
4. Educational Background: Certificate Diploma Degree
 Master's Degree PhD and above
5. Work Experience: 0-5 years 6-10 years 11-15 years Above 16 years

B. Questions for government officials

How to you rate your satisfaction with regard to the Ethiopian investment policy in terms of the following:

Hint: Strongly Agree (5), Agree (4), Neutral (3), Disagree (2), Strongly Disagree (1)

1.	Admission policy and Regulation	5	4	3	2	1
1.2	Ethiopia has moderate environmental protection and regulation policy to protect the environment.					
1.3	All FDI projects are operational.					
1.4	Foreign investors carry out their business in environmentally friendly ways.					
1.5	There is less bureaucratic and motivating ownership registration process					

2	Market Linkage Policy					
2.1	There is a forward and backward linkage between FDI and domestic investments.					
2.2	The government creates market links that motivates foreign investors.					
2.3	The investment policy provides an opportunity through international market-expansion.					
2.4	The government properly regulates the relationship between domestic and foreign investors.					
2.5	The government take the opinion of foreign investors regarding what should be done to improve the investment environment in the Ethiopia.					

3	Investment Promotion and facilitation Policy					
3.1	The transport and logistics infrastructures and facilities play important role to attract foreign investors.					
3.2	There is adequate credit access from financial institutions and this helps to attract FDI investors.					
3.3	Ethiopia has adequate foreign currency to attract FDI projects.					
3.4	FDI investors have strong trust on the insurance companies of Ethiopia.					
3.5	The government uses the foreign investors already in Ethiopia as a channel of promotion to attract FDI investors.					
3.6	Ethiopia has adequate incentives to attract FDI investors.					
3.7	The government office properly and immediately solves the problems of foreign investors which are related to attracting, licensing and implementation issues.					

DECLARATION

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

Name

St. Mary's University, Addis Ababa

signature

May, 2020

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

St. Mary's University, Addis Ababa

Signature

MAY, 2020