



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF CURRENT STATUS, OPPORTUNITIES AND CHALLENGES OF FOREIGN DIRECT INVESTMENT ON SELECTED MANUFACTURING SECTORS IN ADDIS ABABA**

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

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**Addis Ababa Ethiopia**

**ST.MARY'S UNIVERSITY**  
**SCHOOL OF GRADUATES STUDIES**  
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## **DECLARATION**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of All sources of materials used for the thesis have been dually acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purposes of earning any degree.

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## **ENDORSEMENT**

This thesis, titled “FDI and its Opportunities and Challenges on selected manufacturing sector

Has been submitted to, St. Mary’s University, School of Graduate Studies for MBA program with my approval as a University Advisor.

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## **LIST OF ACRONYMS**

EIC	Ethiopian Investment Commission
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Products
GDS	Gross Domestic Saving
ICT	Information and Communication Technology
IMF	International Monetary Fund
LCD	Least Developed Country
MNCs	Multi National Corporation
OECD	Organization for Economic-Cooperation and Development
TNCs	Trans National Corporations
PESTL	Political Economic Social Technical and Legal
SPSS	Statistical Package for the Social Science
UNCTD	United Nation Conference on Trade and Development
USA	United States of America
USD	United States Dollar

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## ABSTRACT

*The main aim of this status is to assess foreign direct investment status, challenges and opportunities in Addis Ababa and at pre implementation, implementation and operation stages of the project life cycles. Political, economic, socio cultural, technological and legal variables are given much emphasis in the study. To this end primary data are collected from 150 foreign investors and 50 investment commission staff. Any questionnaire and interview methods to make the research more reliable Secondary data considered since 2018 onwards from Ethiopian Investment commission at pre implementation, implementation and operation stages respectively. Data gathered were processed using SPSS 25 software package. Descriptive statistics was employed. All out puts were reported using frequency, percentage, mean and standard deviation results. The study has found insufficient supply of foreign exchange, getting financial loan, getting investment land, water and electricity supply as the main challenges of foreign investors. On the other hand, political stability, huge market potentials, and availability of raw materials are among the prospects foreign investors can gather because of investing in Addis Ababa. Finally, the study recommended scale upping of industrial park expansion to potential areas, formulating harmonized national investment land giving procedure with some flexibility and increasing EIC's medium of communication that may enable to solve the observed problems and enhance the efficiency of foreign investors.*

**Key Terms:** Foreign Direct Investment, Implementation, Pre Implementation, Operation and PESTL

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of The study

In the globalized world in a single day a number of economic transactions conducted across in national borders. Capital inflows and outflows are among the primary elements that nations have been exchanging. Addis Ababa is embarking on a mission to join the middle income city group by 2025. The industry sector and specifically manufacturing is entrusted to play a significant role in the envisaged economic structural transformation. Addis Ababa has set a target for 2025 to increase the share of the industry sector to GDP from the current 13% to 27% and the manufacturing sector from current 5.5% to 17%. Massive expansion of investment in manufacturing both from domestic and abroad is expected to achieve these targets and drive the industrial development as a result. Such huge investment cannot, however, be mobilized from the domestic economy alone. Similar to many other developing countries, Ethiopia faces two types of capital shortages arising from the investment-saving and export-imports gaps. It also suffers from the deficiency of knowledge/technology which is critically needed to transform and make the industry internationally competitive.. Foreign direct investment (FDI) is defined as an ownership stake in a foreign company or project made by an investor, company, or government from another country. Generally, the term is used to describe a business decision to acquire a substantial stake in a foreign business or to buy it outright to expand operations to a new region. The term is usually not used to describe a stock investment in a foreign company alone. FDI is a key element in international economic integration because it creates stable and long-lasting links between economies.

Researchers identified economic contribution of foreign direct investment for both hosting countries and the foreign companies engaged in the FDI. Addis Ababa has become a preferred destination for foreign direct investment and emerging hub for manufacturing in Africa due to its potential of in all aspect Companies or governments considering a foreign direct investment (FDI) generally consider target firms or projects in open economies that offer a skilled workforce and above-average growth prospects for the investor. Light government regulation also tends to be prized. FDI frequently goes beyond mere capital investment. It may include the provision of management, technology, and equipment as well. A key feature of foreign direct investment is that it establishes effective control of the foreign business or at least substantial influence over its decision making.

Macroeconomics specialists argued that economic growth is highly positively correlated with the level of investment in the nation. The level of investment in a country in turn depends on the general saving capacity of the country. However, least developed countries like Ethiopia fall in short of capital to finance their investment double small Gross Domestic Saving.(ibid) Therefore, the main role of FDI in those hosting LDC's is filling the gap between the level of Gross domestic saving and the required gross domestic investment through increasing the type and number of investment. In addition to this, the hosting country is benefited from the inflow of foreign direct investment in terms of technology spillovers, assists human capital formation, contributes to international trade integration, narrows the trade balance gap, and helps create more competitive business environment and enhances enterprise development. However, there are scholars who argue that the negative effect of FDI outweigh the positive effect for hosting developing countries. They argued that foreign firms have not be interested to invest their profit; foreign firms were an obstacle for the development of domestic enterprise by importing raw materials and intermediate input from their subsidiaries in other countries.

Even though there were controversial ideas regarding FDI and LDCs' give due attention to FDI as a source of economic growth and modernization. As a result, counties in this category are adapting different incentives like brooding the eligible FDI areas, removing tax and tax related obstacles and other incentives in order to attract more inflow of FDI to their countries. However, empirical analysis conducted by international organization shows that the share of LDC's from world FDI flow is too small compared to the developed countries. For example, the entire African continent (except South Africa) received FDI inflows around USD \$ 8.2 billion (0.6% of the total world inflow of FDI) in 2000 which is equal with the total FDI inflow attracted by Finland the same year (OECD, 2002). Researchers identified that Macroeconomic instability; loss of assets due to non-enforceability of contracts; and physical destruction caused by armed conflicts are identified as the main discouraging factors for foreign firms to invest in Africa (OECD, 2002). Ethiopian ministry of communication department of press and Audiovisual (2002)identified seven sectors; textile and garment industry, leather and leather product industry, Agro processing industry, Metal industry, Chemical industry, pharmaceutical industry and construction industry as priority areas of the government (Kotebe Metropolitan university (2022) Investment Opportunities, Challenges and Priorities in Addis Ababa Excerpt) Investors who are interested to invest in the above sectors will

get special support unlike the remaining sectors. According to the above document the selection of the priority sectors is on the bases of comparative advantage due to the resource endowment of the country. By giving due attention for the selected sectors without compromising others, the government aimed efficient utilization of the abundant resources through special supports to the investors. Hence, a number of measures have been taken by the government to attract international and domestic investments in the areas. As a result, the inflow of capital as a form of foreign direct investment has been showing improvement from time to time. However, facts articulated in the domestic and international organizations like World Bank and others indicate that the performance of Ethiopia in attracting FDI in general and in the priority sector in particular is too small compared to other similar countries and the potential of the sectors. Having this real fact in mind different scholars by implementing different research methodologies undertook researches to identify the major determinant of foreign direct investment in Ethiopia. Beside this, there are findings that show the potentials of Ethiopian major sectors to foreign and domestic investors. However, Ethiopian performance in the attracting and utilizing foreign direct investment is still insignificant. Therefore, this has to be needs further study to assess how to attract and increase the spillover of FDI with having here are areas that need the attention of researcher to assess the efficient utilization of benefit from the existing foreign firms and attract more foreign investors especially in the manufacturing sectors. Hence, assessments of the opportunities and challenges of those play major roles in the FDI attraction, spill over and retention in utilizing the effort of the government. Therefore, the main aim of this paper is to assess the major opportunities and challenges of foreign direct investment in the government priority of on manufacturing sector.

## **1.2 Statement of the Problem**

According to World Bank With about 120 million people (2021), Ethiopia is the second most populous nation in Africa next to Nigeria, and still the fastest growing economy in the region, with 6.3% growth in FY2020/21 over the past 15 years. Ethiopia's economy has been among the fastest growing in the world (at an average of 9.5% per year (world economy report 2021). for the decades and was one of among the fastest growing economy in the world. Ethiopian Gross Domestic Saving rate (GDS) and Gross Domestic Investment also shows an increasing trend. For instance, in 2014 the gross domestic saving reaches its maximum 22.5%. The share of gross domestic investment in the GDP for the same period is found to be 34.16 % (Asian Journal of social science and management studies, 2017). The

resource gap (measured as the difference between Gross Domestic Investment and Gross Domestic Saving) is about 11.66%. Hence, from this figure it is possible to infer that there was difficulty of financing all required investments from domestic sources. Therefore, the country should find alternative sources to finance its investment and sustain its economic growth. In addition to the huge gap between gross domestic saving (GDS) and required investment Ethiopian trade balance and balance of payment has been exhibiting abnormal deficit for the last three years. For example, the balance of payment for the period 2018 was \$-12.18B, a 5.99% decline from 2017. 2019 was \$-12.41B, a 1.86% increase from 2018 and 2020 was \$-10.50B, a 15.38% decline from 2019. 2021 was \$-10.09B, a 3.87% decline from 2020. Respectively (World Bank, 2022). This abnormal deficit in the balance of payment reduces the official monetary reserve of the country. In poor nation like Ethiopia such kinds of macroeconomic problems results in limited stock of official monetary reserves. The country adopted different alternatives strategies to mitigate the above two macroeconomic problems. For instance, Ethiopian currency was depreciated in terms of USD by 12.5% in 2021/2022 which means according CBE The value of the US dollar to Ethiopian Birr (ETB) increased by 3.2 percent in the first two months of 2022, reaching an all-time high ETB 50.7667 on February 25, 2022, up from ETB 49.1936 on December 31, 2021.. However, the country's export improved by 21.5% in July 2022 while its import increased by 18% at the same period (annual report of national bank, 2021). Hence, the desired result did not achieved. As mentioned in the industry policy (2002) Ethiopia identified FDI as the strategy to mitigate saving –investment gaps of the country.

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 and constructing Industry parks in Addis Ababa Hawassa, Oromia, Amahara and others regional state specially focus for foreign investors base on textile, garment, agro-processing and Pharmaceutical specially in Addis Ababa for investment at lowest rental rate, duty free importation of capital goods, export tax exemption (except coffee), 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, its comparative share from the total inflow to Africa is still insignificant. For instances, Ethiopia accounted only 2.2% of the total FDI flows to Africa in 2020 while representing 8.9% of the population of Africa the same year (Haile, G. and Assefa, H. (2006). Determinants of foreign direct

investment in Ethiopia :). Scholars have been undertaking researches mainly focusing on assessing of factors that are responsible for the low performance of Ethiopia in attracting FDI. For example, Solomon (2012) identified limited purchasing power of people, absence of natural resource like petroleum, low infrastructural development, unstable political condition, lack of skilled force, slow process of liberalization as the major determinant of FDI in Ethiopia. However, as far as the researcher knowledge, challenges that foreign investors are practically facing at the grass root level do not get proper attention by the academicians. Hence, this Research to assess the gap of the challenges and opportunities foreign investors in manufacturing sectors have been facing in Political, Economic, Social, Technical and legal environment of in Addis Ababa. Identifying challenges and opportunities in those sectors at the specified project stages is an important step to efficiently utilize, the opportunities and develops to minimize challenges. Based on the above gaps try to respond the following research questions

### **1.3 Objective of the Study**

#### **1.3.1 General Objective**

The general objective of this study was the current status to assess Opportunities and Challenges of FDI in manufacturing sector in Addis Ababa.

#### **1.3.2 Specific Objectives**

The study tried to achieve the following research on specific objectives.

1. To assess the current status of FDI in Addis Ababa.
2. To assess the major opportunities for FDI in manufacturing sector.
3. To assess the major challenges foreign investors are facing in manufacturing sector.
4. To evaluate the measures taken by the government to increase the inflow of FDI.

### **1.4 Research Question**

The research attempts to assess and answer the following basic questions:

1. What is the current status of FDI in Addis Ababa?
2. What major opportunities are available for foreign direct investment in manufacturing Sectors?
3. What are the major challenges for foreign direct investment in manufacturing sectors?
4. Does the Ethiopian government create conducive environment for foreign direct investment?

## **1.5 Significance of the Study**

The main focus of this is on assessing the significant challenges and opportunities for foreign direct investment in the manufacturing sector. The researcher has identified the challenges facing foreign investors that are at an early implementation stage as well as those confronting since the start of the investments process through implementing SPSS and descriptive statistical analysis. Besides that, to identify challenges and opportunities in this area, there is also a need to assess the Global and Industrial Environment. Hence, the paper has significant advantages for policymakers, government institutions and for the potential foreign investors who have an interest in FDI especially in the manufacturing sectors. The findings of the paper give clear in sight for policy makers to develop a policy and procedures in a way that maximize the opportunities and minimize the challenges to create fertile environment for foreign investors. Through the disclosure of areas where good practice exists and needs improvement, this paper will also benefit Ethiopia's investment commission at Addis Ababa which has a legal right to overlook foreign investors and support them. As a result, it is helping to increase the level of good practice and mitigate observed and potential problems. This study also serves as a reference point for prospective investors while the feasibility studies are being carried out and to students and researchers who wish to pursue research.

## **1.6 Scope and Limitation**

### **1.6.1 Scope of the study**

#### **1.6.1.1. Conceptual scope**

This study focused only in examining the opportunities and challenges of FDI in Addis Ababa manufacturing sectors. In this study's, the researcher considered only foreign investors who are at pre-implementation, implementation and operation stages during 2018 to 2022 period. Respondents also must have experience with these opportunities and challenges to be included as a sample.

#### **1.6.1.2. Geographical scope**

This study focused in FDI those who invest only in Addis Ababa city administration in manufacturing area especially in the areas of Textile, leather and leather product, Agro-processing and chemicals and chemical products.

### 1.6.1.3. Methodological scope

Methodology scope is used “Statistical Package for Social Sciences” (SPSS version 25.) Descriptive statistics such as frequency distributions were used in order to conduct the analysis process and present the results.

### 1.6.1.4. Unit of study’s.

Primary data were obtained from foreign investors and employees of the Ethiopian Investment Commission. Secondary data was obtained from Ethiopian Investment Commission and publications. Hence, analyzing challenges and opportunities at this stage helps a lot. In maximizing attraction, spillover or inflow and retention of FDI and minimizing the dropout of the project.

## 1.6.2 Limitation of the study

One of the limitations of this study is cost benefit analysis of the opportunity and challenges in attracting FDI inflow in Ethiopia due to the difficulty in both data source and complicated calculation. However, the idea of opportunity and challenges can be a subject of further research after knowing the relationship and effect of challenges and opportunity on FDI inflow. On the other hand the study does not cover all investors who are under FDI. In considering taking samples and getting respondents due to improper address of firm and lack of communication during collection of data create its own limitation.

## 1.7 Operational Definition of Key Terms

- 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, 2022/23).
- 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, 2022/23)
- Operation:** refers to investment projects which either partially or fully begun production of goods or provision of service (Ethiopian Investment Commission,2022/23).
- Industrial Zone:** it means an area with distinct boundary designated by the appropriate organ to develop comprehensive, integrated, multiple or selected function of industries,

based on a planned fulfillment of infrastructure and various services such as road, electric power and water, one stop shop and have special incentive scheme, with a broad view to achieving planned and systematic, development of industries, mitigation of impacts of pollution on environment and human being and development of urban centers, and includes special economic zones, technology parks, export processing zone, agro processing zone, free trade zone and the like designated by the investment Board (Industrial Park proclamation 2015)

### **1.8 Organization of Study**

This study is organized in five chapters. chapter one depicts background of the study, statement of the problem , research questions, objectives of the study, scope of the study , significance of the study and organization of the paper. In chapter two, related literatures are reviewed. It covered theoretical concepts of Foreign Direct Investment, Historical background of FDI and its current features in Addis Ababa and Empirical findings especially on factors that have an influence in making Foreign Direct Investment Decisions. Chapter three of the thesis dealt about research methodology. Hence, research design of the paper, type of the data, Population and sample frame, sampling technique, data collection instruments, source of data, and method of data analysis. Chapter results and discussion result of the study. Chapter summary, conclusions and recommendations.

# CHAPTER TWO

## REVIEW OF LITERATURE

### 2. Theoretical Concept

#### 2.1 Foreign Direct Investment Flow

International capital flow is the mobility of capital across the national borders. Economists argue and encourage the flow of capital across the national borders as it allows seeking out high rate of return. Foreign Direct Investment (FDI) is distinguished from portfolio foreign investment (the purchase of one country's securities by nationals of another country) by the element of control. Standard definition of control use internationally agreed 10 per cent threshold of voting shares, (UNCTAD, 2012).. Flows from FDI, Debt and FIP (equity) can get countries substantial gains by increasing local saving and improving technology and incentives. Investing companies acquire market access, lower cost input and opportunities for profitable introduction of production methods in the countries where they invest, (Feldstein, 1999). Foreign Direct Investment in Ethiopia increased by 874.30 USD Million in the second quarter of 2022.

#### 2.2 Definition of FDI

FDI is a particular type of foreign capital as opposed to domestic investment. According to Fu FDI does not include capital generated from loan by international organization, foreign government, or private commercial banks. Nor does FDI automatically include portfolio investment such as stocks and bonds purchased by foreigners. Unlike other types of capital investment it is the concept of managerial control over an enterprise in which foreign capital participate. According to the definition of IMF and OECD (2022), direct investment reflects the aim of obtaining. a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is. Resident in another economy (the direct investment enterprise) FDI is an investment that is made to acquire a lasting interest in an economy other than that of investor, the investor purpose being to have an effective voice in the management of the enterprise. Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment investor, (World

Bank.org.2022).According to OECD definition FDI is an international investment by an entity resident in one economy in an enterprise resident in another economy that is made with the objective of obtaining a lasting interest. The lasting interest implies the existence of long term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both initial transaction that establish the relationship between the two entities and all subsequent capital transition between them and among a joined enterprise both integrateand disintegrated (OECD, 2001)

**Foreign Direct Investment**, or FDI, is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor. Investors are granted management and voting rights if the level of ownership is greater than or equal to 10% of ordinary shares. Shares ownership accounting to less than the stated amount is termed portfolio investment and is not categorized as FDI

## 2.3 Types of FDI

On the bases of products that an international investing firm produces in the hosting countries, FDI can be classified into vertical, horizontal and Conglomerate.

### 2.3.1 Horizontal FDI;

Where, the company carries out the same activities abroad as at home (for example, Toyota assembling cars in both Japan and Ethiopia, (ibid).

### 2.3.2 Vertical FDI:

When different stages of activities are added abroad Forward FDI takes the firm nearer to the market and Backward Vertical FDI is where international integration moves back towards raw materials (ibid).

### 2.3.3 Conglomerate:

Where, an unrelated business is added abroad. This is the most unusual form of FDI as it involves attempting to overcome two barriers simultaneously - entering a foreign country and a new industry (ibid)

## 2.4 Benefit and Cost of FDI for Developing Countries

This paper will also help Ethiopia's Investment Commission special those invest in Addis Ababa, which enjoys a legislative right to ignore foreign investors and support their investments, by providing information on areas of good practice where there is room for improvement. It helps to raise the level of good practice and reduce any problems that might arise. On the other hand, the FDI hosting country will be worse off in terms of losing strategic economic sectors by MNCs' and there drawbacks.

### 2.4.1 Pro FDI View

The pro-FDI groups of scholars argue that FDI play important role in the economic growth process of a nation. The level of investments that depends on gross domestic saving is a decisive factor for economic growth in the country. In the interest of promoting sustainable economic growth for their countries, we can see very clearly at present that developed countries are particularly interested in this. In those countries, though, the levels of domestic savings that are required to meet investment targets are not sufficiently high. 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).

In 2014, the World Bank argued that foreign direct investment could also be used to reduce the effort of a country to reduce its balance of payments deficit. Over decades, developing countries have shown a substantial deficit in their balance of payments. Where, compared to the necessary amount of foreign exchange, the overall quantity of foreign exchange received through export and Net Public Foreign Aid is small.

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 in to 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.

### **2.4.2 Anti FDI View**

There are also scholars that disagree with the pro FDI views. Their arguments explained as the first of the counter arguments is that multinational corporations make higher incomes for low income groups which are less inclined to save. It is not possible to bridge the savings and investments gap if individuals do not save enough. In addition, foreign firms may be unable to make a return on the profits they generate in host countries; and this would restrict growth of local enterprises and domestic investment by importing inputs 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. A key source of solving development challenges for the LDC cannot be foreign direct investment, such as official development aid. Countries that are unable to obtain local financing for investments are not likely beneficiaries of foreign direct investment. The foreign exchange positions of the Host States are affected by this large volume of indirect and capital goods imports as well as repatriating profit, interest, royalties and governance issues. 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), 2022).

### **2.5 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.

## **2.5.1 Political Environment**

### *2.5.1.1 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 Kats Keas 1997)

## **2.5.2 Economic Environment**

### *2.5.2.1 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).

### *2.5.2.2 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 is 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).

### *2.5.2.3 Currency area theories*

The level of currency exchange and customs or tariffs in the host country is 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, FDIs 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 (Cywiński and Harasym, 2012).

#### *2.5.2.4 Factor endowment-based theory*

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

#### *2.5.2.5 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).

### **2.5.3 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).

### **2.5.4 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).

## **2.6 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.

### **2.6.1 The Edectic Paradigm Theory**

John Dunning has developed a heterogeneous theory of foreign direct investment, which he refers to as the OLI paradigm. The advantages of ownership, the location advantage and the internalization conditions are referred to in O, L and I. 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 An advantage is the particular advantage of a firm, which allows it to exercise its power over its competitors. This includes benefits of technology, in management practices, easy access to financial resources, an economics of scale and the ability to coordinate activities. The location advantage is a country specific benefit compared to the advantages of ownership. 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).

### **2.6.2 Internalization Theory**

Internalization theory believes that external markets do not provide an efficient environment where firms are able to profit through the use of their production resources and technologies. This results in the creation of an adequate market by investments in several countries and enables companies to meet their objective, which is profit. 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).

### **2.6.3 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 gain 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, productions 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).

## **2.7 FDI in Ethiopia**

According to Michael as mentioned in Mustafa (2011) the history of FDI's went back to the regime of emperor Hilesilassie especially in 1950. When foreign investors from different European nations invested their capital in different sectors; the Investment climate in general and FDI in particular was not encouraging during pre1991 period. The problems of political instability, insecurity, and the nationalization of major industries severely discouraged foreign and private investment. The government, realizing that foreign direct investment is essential, went on to attempt the revival of FDI with a 1983 joint venture decree. The proclamation gave incentives such as a five year income tax holiday, exemption from import duties and duty on exports, protection against tariffs or repatriation of profits and capital. However, no foreign investor has shown interest in the proclamation. In 1989, the government revised the 1983 proclamation by allowing majority. It also attempted to provide more protection to investors.

However, the political instability and the prolonged civil war at the time further discouraged FDI. The political instability got worse and it consequently led to the overthrow of the regime in 1991 (Getinet and Hirut, 2005,cited in Tesfaye 2018:37). Due to the investment-friendly environment created in the country, the inflow of foreign direct investment (FDI) has been increasing over the last twenty years. Accordingly, out of the total investment projects licensed between 1992-2022 FDI shares is about 15.8% (2022).

## **2.8 Empirical Findings**

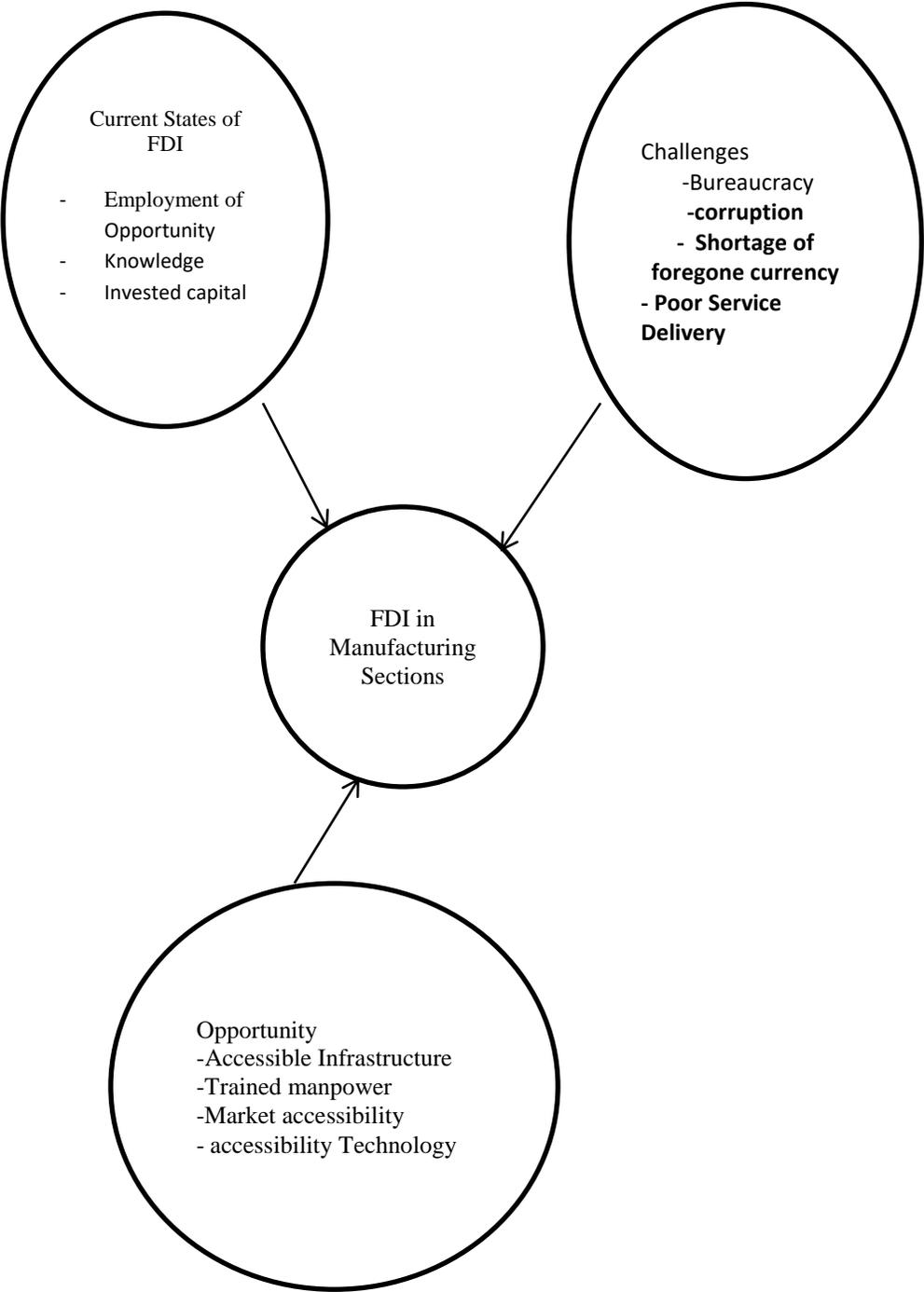
What is Empirical finding or research? It is a research based on observed and monitored phenomena that gets information from actual experience, rather than theory or belief Google (2022) globally many empirical studies were conducted to identify the factors that influence the inflow of FDI. However, scholars undertake research come up with different list of determinants of FDI inflows. Global foreign direct investment (FDI) flows in 2021 were \$1.58 trillion, up 64 per cent from the level during the first year of the COVID-19 pandemic of less than \$1 trillion. FDI flows appeared to have significant momentum mainly because of booming merger and acquisition (M&A) markets and rapid growth in international project finance as a result of loose financing conditions and major infrastructure stimulus packages. This is mainly because of some have gained or lost import a cover time, (UNTCD, 2022). On this review the focuses is on the empirical studies conducted on

determinants, opportunities and challenges of FDI in developing countries and especially in Ethiopia. Woldemeskel (2012) using qualitative and quantitative methods studied the determinants 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. According to his research, low level of effective 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 determinant of FDI inflow in Ethiopia.

(Gichamo and Zekiwoset, 2012) who studied the determinant of FDI in sub-Saharan countries taking 14 countries as a sample including Ethiopia and using panel regression model, trade openness, Gross Domestic Product, Gross Fixed Capital Formation Inflation and Lag of FDI are the main determinant of FDI are the main determinant of FDI in sub Saharan Africa. According to Getinet and Hirut (2006) who studied the determinant of FDI in Ethiopia using time serious analysis for the period 1974-2001 concluded that Economic growth ( growth of GDP), liberalization and export orientation (trade openness) have a positive impact on FDI. Macro-economic instability and low infrastructure had a negative impact on FDI. 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. Increasing growth, based on an increasingly diversified economy, stable nonperishable inflation and increasing exports to a diverse variety of markets, better trade balance, and generally stable economic policy as well as a strong investor. The positive factors identified by economists in macroeconomics are the protection framework environment of Addis Ababa. Inflation that is both high and volatile in headline terms. High and volatile headline inflation rate and negative real interest rates are the challenges to sustain economic performance.

The researcher drew five general conclusions after a depth study of each major economic sectors of the country. First, the assessment of the sectorial 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 sectorial 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. Mustafa (2011) studied the challenges and prospects of FDI in the Agricultural sector of Ethiopia using primary data collected from concerned government officials and from selected foreign agricultural firm and secondary data from different domestic and international publications. On the bases of his analysis Mustafa concluded that the existence of different challenges that hinder the country from benefiting the contracts of foreign lager farms. In addition to this, he concluded that the profitability of a given foreign firm depended on that the respective country's government role that makes it beneficiary for the host country or misery to that host country. Finally, the study provided some recommendation to get due benefit from large scale firm deal and consequently address some challenges that hamper the process of the deal.

**This Conceptual framework express the current states of FDI, challenge of FDI, FDI in Manufacturing sectors and Opportunities FDI**



**Fig 1. Conceptual Frame Work to study**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section contains five major components; the first part discussed the research design, the second part presented issues related with population and sampling technique, the third part of the chapter-discussed types of data and tools of data collection as well as described data collection procedures and data analysis.

#### **3.2 Research Approach and Design**

Research design refers to the blue print for collection, measurement and analysis of data. It is the plan and structure of investigating so conceived as to obtain answers to research questions (Kothari, 2004). Descriptive design has used in this study since the researcher intends to describe the phenomena pertaining to the macro environment foundation for FDI in Ethiopia as per data obtained from reported by subjects - foreign investors and employees of Ethiopian Investment Commission - using questionnaire and interview methods of data collection. Using the descriptive design, the researcher will look at the problem at hand thoroughly to define it, clarify it, and obtain pertinent information that could be of use for operational and strategic decision making.

#### **3.3 Population and Sampling Technique**

The population for this study is foreign investors at pre-implementation, implementation and operation stages in manufacturing sector between the periods 2018 up to 2022. So as draw repetitive samples from each project stages the researcher stratified the project population into three, namely pre-implementation, Implementation and operation stage.

As mentioned in table 3.1 below there are 150 projects in pre implementation, in implementation and in operation stages in four targeted sectors (EIC). Since, the number of projects in the implementation stage is small; include all projects in all stages. However, to draw appropriate sample from preimplementation stage projects, the researcher used Slovin's sample calculating technique.

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

Where  $n$  is sample size, 3.42

$N$  = Population

$e$  = Margin of error

Total Population 513

Sample size 150

Accordingly, the sample size is determined using 95% confidence level and 5% margin of error.

Therefore, the sample size is  $n = \frac{513}{1 + 513 * (0.05)^2}$  and approximately equal to 150 projects.

**Table 1: Sample Frame and Proportion of Sampling for pre implementation, Implementation and Operation**

S/N	#of projects in the sample frame	Sector on manufacturing
		% age from the total population
1.	87	Agro Processing 58%
2.	19	Textile and Garment 12%
3.	30	Leather and Leather Products 20%
4.	14	Chemical and Chemical Products 9.3%
5	<b>50 number of Employee</b>	Employee staff of EIC
	Total population	<b>200</b>

Source is an Ethiopian Investment Commission; it was started on Feb. 2022

### 3.4 Types of Data and Tools of Data Collection

The researcher is used primary data collection from sampled foreign investors, officers, and officials in Ethiopian Investment commission using Likert scale type closed ended questions and open ended questions. A different questionnaire is developed for foreign investors for individuals. Besides to this, semi-structure interview has been conducted with team leaders of promotion directorate, follow up and after care directorate of Ethiopian investment commission.

### **3.5 Procedures of Data Collection**

The questionnaires were distributed to the respondents at Ethiopian investment commission, to One stop service directorate, follow up and after care directorate employee and foreign investors those who came to get new investment license, for support and aftercare service and to get new information from the commission and other manufacturing sectors. Regarding the interview, all the targeted interviewees were contacted through the cooperation letter from the university and time scheduled was prepared. Then, the researcher himself was conducting the interview.

### **3.6 Data Analysis Method**

The collected questioners were sorted, coded and then processed using a software package called “Statistical Package for Social Sciences” (SPSS version 25.) Descriptive statistics such as frequency distributions were used in order to conduct the analysis process and present the results. Tables are used to present findings.

### **3.7 Ethical Consideration**

Ethics is there to minimize harm and to insure that the research participants will not be subjected to any risk and exposure due to improper method of protecting privacy. In relation to the research work, the researcher inform each participant about the study, all of them will be voluntarily participate in filling, and being filled the questioners. The responses of each participant keep confidentially, and research findings are purely the results of the analysis of the collected data. There are no intentionally unacknowledged issues of other works incorporated in my thesis.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### 4.1 INTRODUCTION

This research has been conducted to assess macro environments opportunities and challenges of FDI in the Agro-Processing, Leather and Leather products, Textile and Garment and chemical and chemical product sectors at pre-implementation implementation and operation stages. 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 and employees' respondents. Of the 200 questionnaires distributed to respondents, 200 were collected yielding a response rate of 100 %. To complement the questionnaire data, interview has been administered to team leaders of agro-processing, leather and leather products, promotion and textile and garment teams. The questionnaires have the value of "r" (Cranach's alpha) **0.73**, **0.86** and **0.80** for pre implementation, implementation and operation stages I.

#### 4.2 Result of the Study

This chapter is based on the primary data collected from foreign investors, employees and team leaders of Ethiopian Investment commission. A total of two hundred questioners (twelve questioners from pre implementation, seventy from implementation stage and 68 from operation stage foreign investors and fifty from employees of EIC) were collected and analyzed. Therefore, in this part of the paper the views of respondents on the challenges and opportunities of foreign direct investment presented in tabular and graphic for

The study tried to achieve the following research on specific objectives.

**1. To assess the current status of FDI in Addis Ababa.**

- We can assess in terms of Employment of Opportunity permanent & temporary capital and Knowledge as it shown in the conceptual frame work

**2. To assess the major opportunities for FDI in manufacturing sector.**

- Accessible Infrastructure
- Trained manpower
- Market accessibility
- Accessibility Technology

**3. To assess the major challenges foreign investors are facing in manufacturing sector.**

Bureaucracy, corruption, shortage of foreign currency, poor service delivery

**4. To evaluate the measures taken by the government to increase the inflow of FDI.**

The government should intensively working to establish industrial zones in different parts of the country. To facilitate and overlook the development of it, Ethiopian government has established industrial park Development Association. Industrial parks have sheds for investment and all necessary infrastructures. Hence, the approach of industrial parks solve problems related with land, water, electric city and other infrastructures facilities institutionally especially in Addis Ababa.

#### 4.1,1 Those FDI Investors came to Ethiopia

**Table 1: Home Country of Contacted Investors**  
**Home country of Investor**

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
India	17	11. 3	11. 3	11.3
China	75	50. 0	50. 0	61.3
USA	1	0.7	0.7	62.0
Turky	11. 9	12. 7	12. 7	74.7
Eu	1	0.7	0.7	75.3
Other country	37	24. 7	24. 7	100.0
Total	50	100 .	100 .	

Source: own survey, 2022/23

As it can be seen from the above table, 50% of the sample came to as foreign direct investment is drawn from Chaises investors. Turkey and India took the second and the third position having 12.7% and 11.3% respectively. Other countries 24.7% fourth and US and EU took the fifth position having 7% of the respondent respectively.

Similarly, the majority of the respondents for implementation and operation stage is also from china and India respectively. This is mainly due to the large number of projects owned by the citizens from these two countries on the targeted sectors at the specific time period.

**Table 1: Sector of the targeted Project**

**Sector of the company**

	Frequency	Percent	Valid Percent	Cumulative Percent
Agro-processing	87	58.0	58.0	58.0
chemical	14	9.3	9.3	67.3
leather	30	20.0	20.0	87.3
TEXTILE	19	12.7	12.7	100.0
Total	150	100.0	100.0	

Table 1 presented the percentage share of each sectors to the sample size. Hence, 58% of the sample for was drawn from agro processing 9,3% for chemical 20% leather, 12.7% textile sector respectively.

**Table 2 the sources of an information**

**source of getting information about EIC**

	Frequency	percent	Valid percent	Cumulative %
Ethiopian embassy host country	28	18.7	18.7	18.7
EIC WEBSITE	39	26.0	26.0	44.7
Repetitively visit EIC	7	4.7	4.7	49.3
FROM FRIENDS IN EIC	72	48.0	48.0	97.3
FAMILY	4	2.7	2.7	100.0
Total	150	100.0	100.0	

Source: own survey, 2022/2023

Table 2 presented the responses of foreign investors regarding their sources of information about Ethiopia and its investment climate. Accordingly, 18.7% of the respondents got investment information from the host country of Ethiopian Embassy. Ethiopian Investment Commission website, repetitive visit to Ethiopia, From friends in EIC and family influence served as a source of information for 26.%, 4.7%, 48.% and 2.7% of the contacted foreign investors respectively. Hence, the finding implies that the role of existing investors in selling Ethiopian investment climate is significant than others potential sources of communication strategy. On the other hand, the finding indicates the presence of gaps in the Ethiopian

investment commission website and Ethiopian embassies in promoting investment opportunities and attracting foreign investors. Similarly, as indicated in the above figure, information obtained from friends is the main mechanism from which implementation stage investors got information about Ethiopia and the sectors. About 72 respondents that are (48%) got information about Ethiopia and investment climate from their senior friends. Ethiopian Embassy and Ethiopian investment commission website take the second and the third place as a source of information having 26% 2.7% respectively. The same number of respondents chooses Family influence and repetitive visit to Ethiopia as a source of information. Among the alternative family influence is the least source of information for foreign investors to make investment decision. This indicates that the role of family to the new comer foreign investors is minimal and do not giving its intended service

**Table 3: Political Challenges and Opportunities**

<b>at pre-implementation, implementation and operation stage</b>	SA	A	MA	DA	SD	Mean	SD
Ethiopia is politically stable country	24,7	70,7	3,3	1,3	0,0	1,81	0,591
Ethiopian Foreign Investment Policy is attractive	27,3	72,7	0,0	0,0	0,0	1,73	0,144
Tax Polices of Ethiopia are encouraging	24,0	64,0	12,0	0,0	0,0	1,88	0,590
Tariff Policies of Ethiopia are encouraging	16,0	64,0	18,0	2,0	0,0	2,06	0,647
Terrorist activities are growing	0,7	10,0	49,3	40,0	0,0	3,29	0,669
The Justice system sound	2,0	13,3	68,0	16,7	0,0	2,99	0,618
Timely information is not adequately	0,0	58,7	28,0	11,3	2,0	2,7	0,772

**Source: own survey, 2022/23**

The researcher used SPSS soft wear tool to identify the first element in PESTL analysis of challenges and opportunities of foreign investors at pre-implementation implementation and operation stage. In the above table, the researcher presented political challenges and opportunities, which is the first element of the tool. In the political environment, the researcher used seven elements to assess the feeling of foreign investors towards those political environment variables. According to sun, (2002) political stability is an absolute pre-requisite for any kind of private investment, including FDI. Only in extreme cases, such as the existence of crucial natural resources, would a foreign investor go to a war zone or where there is rampant inflation.

In this research 95.4 % of the respondents from in all stage pre implementation, implementation and operation stages feel that the political situation of Addis Ababa is at least rationally stable without

considering the mean value. Therefore, Addis Ababa has satisfied one of the pre-requisite for foreign investor's investment location decision. Hence, being stable politically is one of the opportunities in Ethiopia's the political environment.

Regarding foreign investment policy of Ethiopia 95.4 % of the respondents, perceived that it is at least only 3.3% moderately attractive for foreign investors. Hence, the policy as a policy does not have issues that will hamper foreign investment practice in the county. Therefore, it is also an opportunity for Addis Ababa Ethiopia to promote its foreign direct investment policy as foreign investors appreciate it.

Under its fiscal incentive packages Ethiopian government provided income tax exemption from 1 up to 6 years on the bases of sectors and location of the investment. Hence, 88% from pre implementation, implementation and operation stages in general 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. It is obvious that the primary aim of foreign investors is maximizing of their profit. Hence, they do not want to go and invest in areas where there is high risk of instability and terrorist activity. As it can be seen in the table, 95.4% and 40% of the respondents from pre-implementation, implementation and operation stages opposed the thinking of terrorism growing in Ethiopia spatially in Addis Ababa. The result strengthens the finding that Ethiopia is a politically stable country. It also tells us that foreign investors feel secured in both their property and their life when they come and work in Addis Ababa It is a big asset for Ethiopia to attract foreign investors by indicating its level of security both in their life and property.

The presence of sound justice system is one of the imperative elements that encourage foreign investors to come and invest in foreign countries. According to sun (2018) how commercial disputes are handled through the judiciary system have a huge impact on where the investor will go and how much contribution the investment will make to the host economy. To this end, 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 83.3% of the respondents from pre-implementation, implementation and operation respectively believe that the judiciary system of the country is

relatively good which means 68% they agree moderately. This implies that more than half of the respondents do not think their problems will be solved through the domestic judiciary system properly. Hence, the county lacks behind important pre-requisite to come and invest in Addis. The perception of team leader in legal directorate of Ethiopian investment commission strengthens the feeling of foreign investors.

According to him, dealing locally is the main strategy of the legal directorate to solve disputes. This is mainly to avoid taking issues to courts and experience inefficient system. Therefore, the justice system of the country is not trustworthy.

Regarding the availability of information at the required moment and having necessary detail, As we have seen from the table the respondents agree 58.7% and moderately agree 28% totally 86.7% at pre implementation, implementation and operation stage experienced that they are relatively 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 hamper investors to make informed decision at the right time.

## ECONOMIC ENVIRONMENT

Table 4 Economic Environments of Ethiopia

	SA	A	MA	DA	SD	Mean	SD
Foreign exchange/currency is adequately available	2.0	16.0	71.3	7.3	3.3	2.94	0,668
Absence of Capital Market limit source of financing	3.0	28.0	67.3	1.3	1.3	2,72	0,592
Inflation rate is not favorable	2,0	28,0	67,3	1,3	1,3	2,72	0,592
Interest rate is not favorable	2,0	32,7	56,7	7,3	1,3	2,73	0,682
Adequate access to Loan	2,7	12,7	15,3	66,7	2,7	3,54	0,848
Adequate Supply of competent Labor force	26,0	71,3	1,3	1,3	0,0	1,78	0,529
Raw materials are abundantly Available	20,7	72,7	4,0	2,7	0,0	1,80	0,585
Proximity to International Market	13,3	84,7	1,3	0,1	0,0	1,95	0,903
Huge Market Demand for Project Output	16,0	78,7	4,0	1,3	0,0	1,91	0,496
Fiscal Policies of the Government are encouraging							
Monetary Policies of the Government are encouraging	16,0	68,7	11,3	2,7	1,3	2,05	0,708
Easy Import Procedures	1,3	11,3	38,0	49,3	0,0	3,35	0,734
Easy Export Procedures	0,7	20,0	66,0	13,3	0,0	2,92	0,597

Source: own survey, 2022/23

The second Element in PESTL analysis tool that the researcher used to identify challenges and opportunities of FDI in the targeted sector was Economic environment. Hence, respondents asked to rate their feeling on thirteen Economic variables. The first economic variable that the researcher asked its sample respondents to identify economic challenges and opportunities was 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. The money has to be deposited in one of commercial banks account in birr form. If licensed foreign investors need withdrawal from the deposited amount in dollars, he has to follow the usual foreign exchange requesting procedures. 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, only 18.0% of the respondents from pre implementation stage feel that the supply of foreign currency 71.3 responds at least moderate. Similarly, projects back the feeling of pre implementation stage investors about foreign currency supply. The supply of foreign currency was the main challenges that interviewed team leaders are stressed on it. The finding implies that foreign investors demand foreign currency is barely satisfied. This in turn will negatively affect the progress of foreign projects and genuine foreign investors become dissatisfied.

The second economic variable address in this paper was about capital market. Capital market is a financial market where long-term debt or equity-backed securities are sold and bought. Since the lending is not securitized through resalable securities like shares or bonds regular bank lending is not included in capital market transaction. Hence, the researcher aims to know whether the absence of capital market has significant impact or not in their investment. Thus, 98.3 % of investors all stage experienced that absence of capital market at least has a moderate challenge in their investment. The result indicates that absence of capital market barred foreign investors from getting alternative source of finance.

This in turn affects the progress of projects and their efficacy. Inflation, which has historically been high and volatile, has been contained to single digits since October 2013, due to a combination of moderate international food prices and reduced central bank financing of the budget deficit

as well as other complementary policy measures.

In this question, the researcher wondered to know how much the current inflation rate not favorable for foreign investors. Accordingly, 98.3% of the respondents from pre-implementation stage, implementation and operation stage feel that the current inflation rate of Ethiopia is discouraging. Hence, the result indicates the non-stability of one of macroeconomic element. This is in turn indicating the prudent fiscal and monetary policy of the country.

The fifth economic variable of this paper was about the accessibility of loan. Thus, only 16.7% of respondents in all stage feel the availability loan is not good. The remaining big number of respondents does not feel loan availability is adequate.

The result indicates that financial resource is not available to foreign investors at the required amount. The situation become worsens due to absence of alternative source of finance like capital market. Therefore, the volume of investment and its intended FDI benefit for the host country become shallow. The six economic variable addressed in the paper asked the respondent to rate their attitude towards Addis Ababa economic system contribution to attract foreign investors. It is known that Addis Ababa is currently following market oriented economic system. Thus, the intention of this paper was to collect the feeling of foreign investors on how much the economic system is creating fertile ground for foreign investors. The sixth economic variable of the paper was about labor supply. According to Ethiopian industry policy (2002) one of Addis Ababa comparative advantage area for foreign investment is the availability of adequate an affordable labor force as well as trained and easily trained work force.. Hence, the motive of this question was to collect perception of foreign investors on the adequacy of labor force availability. Accordingly, 87.3% from all stage feel that the supply of labor force is at least moderately adequate. Hence, the finding confirms that labor force is one of the opportunities for especially labor intensive industries like textile and leather sectors. The finding also confirmed that in an interview with team leaders of Ethiopian investment commission. The seventh economic variables of that the researcher used to identify economic challenges and opportunities for FDI projects was raw material supply. 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, 93.4%

of respondents especially those who in operation stage consider the current supply of raw material somehow moderately available. The result indicates that majority of the respondents from both stages satisfied with the current supply level of raw materials.

But considerable numbers of respondents still do not feel comfortable with the availability of raw materials. In an informal interview with team leaders, the researcher identified that in sectors like textile and garment there are shortage of raw materials. As a short-term solution, the government facilitates the import of those raw materials from abroad. Since both of the targeted sectors in this paper uses their raw materials from primary sector, the situation may open an opportunity to establish a backward linkage business due to presence of huge potential to do so. The eighth economic variable used under this category was proxy to international market. According to electric paradigm theory of FDI, Location advantages of different countries are the key factors to determining who is become host countries for the activities of the transnational corporations. Thus, the researcher asked its respondents to rate their perception regarding the impact of proxy to international market. Accordingly, 98% of respondents to all stage feel that proxy to international market at least highly/strongly important to their investment in Ethiopia. Hence, it Proxy to international market contributed in the attraction of foreign investors. Therefore, Ethiopian geographical location is one of an attraction factor.

The ninth variable administered in the economic environment is the market size of the country. According to working group report, (2022) domestic market size is measured by GDP, Per capita Income or size of middle class population. The larger the market size, the higher the motivation of market seeking foreign investors. In this question, it is intended to know how huge the domestic market for outputs of foreign projects. Accordingly, 94.7% of respondents from pre implementation stage to operation stage consider the current market size ishuge to accommodate outputs of foreign projects. Therefore, the prospect of Ethiopia to become a destination for market seeking foreign investors is promising.

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. The figure indicates that Ethiopian fiscal macroeconomic policy perceived as stabilizing the macroeconomic environment and creating stable economic situation. Regarding the monetary policy in 2013/14 largely geared towards 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, 94.7% of respondents from pre implementation to operation stage answered that they are at least 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 except the last two years because the war This in turn brings macroeconomic stability that foreign investors' underscore location decision c criteria The eleventh economic variable used in the assessment of economic opportunities and challenges of FDI is the import procedures. As stated in the investment guide to Ethiopia (2015) duty free importation of capital good is one of the fiscal incentives of Ethiopian government for foreign investors. However, foreign investors need to follow different steps to realize this benefit. The researcher intention in this variable was to know the perception of foreign investors about the import procedure. Hence, 50.6% of the respondents from pre implementation to operation stages perceive that the import procedure is at least moderately good. Therefore, more than half of the respondents have at least a moderate perception towards import procedure.

However, considerable number of respondents does not see the import procedure simple for foreign investors. Therefore, the country import procedure does not seem that much simple for foreign investors. Duty drawback scheme, voucher scheme and bonded factory and manufacturing warehouse scheme are the fiscal incentives of Ethiopian government for foreign investors engaged in the export sectors. There are also non-fiscal incentives packages for foreign investors in the export sector. However, to rape the incentive packages there are steps that investors' necessary to pass through. Hence, the intention of the researcher in this question was to know the perception of investors about the easiness of the procedure. Thus, 86.7% of respondents in all stages pointed that the procedure is at least moderately easy and good.. Therefore, the finding tells us that more than 86.7% of the respondents perceive the export procedure agreeably good. However, considerable number of respondents feels that the export procedure is not even rationally simple for foreign investors.

**Table 5: Social Environment**

	SA	A	MA	DA	SD	Mean	Std
Favorable Communal Culture	18.7	76.7	4.7	0.0	0.0	1.86	0.454
Ethiopian's growing population is an advantage for FDI Business	7.3	90.7	2.0	0.0	0.0	1.95	0.302
Availability of qualified workforce	5.3	92.7	2.0	0.0	0.0	1.97	0.270
Prudent Work ethics of the labor force	11.3	78.7	10.0	0.0	0.0	1.99	0.463

Source: own Survey, 2022/23

The third element in PESTL analysis tool that the researcher used to identify challenges and opportunities of FDI in the targeted sector was social environment. Hence, the researcher used communal culture, growing populations, qualified workforce, and work ethics as a measurement to assess challenges and opportunities in the social environment.

Communal culture gives a sense of belongingness to its members. Hence, 95.4% of the respondents at least believe there is favorable communal culture in Ethiopia. Hence, the finding indicates that Addis Ababa communal culture makes foreign investors conformable psychologically secured. Therefore, it is one of an opportunity in the social environment for foreign investors. The second variable under social environment was about the population growth of Ethiopia. As it can be seen in the table 99% of the contacted foreign investors see the population growth of Ethiopia specially Addis Ababa an opportunity for foreign investors. Hence, majority of the respondents from pre implementation and implementation and operation stage consider the population growth as an opportunity.

Therefore, we can say from the finding that foreign investors see the population growth as growth of domestic market size.

The third variable in the social environment used to assess in identifying challenges and opportunities for foreign investors was the availability of qualified work force. Hence, 98% of the respondents from pre implementation, implementation and operation stage perceive the availability of qualified work force at agreeable status good. Hence, the finding tells us that qualified workforce is also another potential factor that Ethiopia can use to attract foreign investors. In an interview with leaders of Ethiopian investment location they affirmed the availability of qualified workforce especially in urban areas. However, in remote and marginalized areas the supply of qualified workforce is limited.

Ethics of worker was the fourth variable used by the researcher under social environment category. Thus, 90% of the respondents from pre implementation to Operation stage perceive that at least Ethiopian workers ethics is agreeably prudent that in general they do have work ethics. Therefore, the result implies that trustworthy and ethical workers are available for foreign investors. This in turn will indicate that investors are secured in their resource being abused by employees. The interviewed team leaders affirmed that they do not hear any complain from foreign investors regarding unethical work behaviors of Ethiopian. Hence, the result tell us that majority of the contacted investors perceive that Ethiopian domestic market has a promising growth future. Therefore, the country becomes destination for foreign investors who are looking new international markets as a result of electric paradigm theory.

**Table 6: Technological Environment**

	SA	A	MA	DA	SD	Mean	Std
Adequate Internet Facility	1.3	24.7	56.0	18.0	0.0	2.91	0.689
Automated systems are Used in government Institution	0.7	32.7	52.7	14.0	0.0	2.80	0.676
Adequate Transportation System	0.0	26.0	58.7	15.3	0.0	2.89	0.636
Current Technology Development	0.7	22.0	68.0	9.3	0.0	2.86	0.568

Source: Own survey, 2022/23

To identify opportunity and challenges for FDI the fourth element is technological environment, the researcher employed four variables.

The first one is availability and adequacy of internet facility. In today’s information age, internet service plays indispensable role in personal and business life. It is an important marketing and communication tool for business. In general, the world is highly dependent on the internet service (<http://smallbusiness.chron.com>). This indicates that internet facility among the basic facilities that investors’ in general foreign investors in particular require to engage in business. In this paper the researcher asked foreign investors about the adequacy of internet facility. Accordingly, 82% of the respondents feel the current internet service is adequate but 56% of respondents agree moderately. Hence, the finding tells us that more than half of the respondents from all stages are not happy with the provision of internet facility. This implies that they are not fully using the benefits of internet application both for their business and for personal life. This in turn will make them dissatisfied being in Ethiopia

and invest their resources.

The second employed variable in the technology environment was the degree of automation system in then government institution. Thus, 33.4% respondents feel that government institutions that they have a contact used automation system but 52.7% at least moderately in serving their customers. The result showed that less than half of the respondents feel good on the degree of automation used in the government institution. Hence, more than half of the respondents are experiencing intolerable dalliance to be served in government institution due to low automation system. Hence, it is possible to draw from the finding that getting service in government institution where foreign investors need to go is source of dissatisfaction due to low automation systems.

The third variable in the technological environment incorporated in the questioner was the level of transportation system. According to working group reports, (2018) transportation system in a host country is among the basic infrastructure facility that foreign investors used as a location decision criterion in emerging markets. Cognizant of its cardinal role, Ethiopian government has identified the transportation sector as a priority public sector. Accordingly, the government has working in road, railway, sea and air transport sectors intensively. Thus, in this paper sample investors were asked on the level of current transportation system adequacy in Addis Ababa. Accordingly, 26.0% of the respondents and 58.7% feel that the current transportation system of Addis Ababa is at least moderately adequate. Though half of the respondents feeling towards the transportation system are rationally good, there are significant numbers of respondents that have hesitation on the adequacy of transportation system. Regarding the technology development level of the country, consider 26% agree whereas 58.7% respondents the current technology development moderate. The remaining respondents do not agree with the statement that depicts technological development in Ethiopia.

**Table 7: Legal Environment**

	SA	A	MA	DA	SD	MEAN	STD
Investment proclamation is encouraging	44.7%	46%	8%	1.3%	0.0	1.66	0.684
License getting procedure are efficient	18.7%	65.3%	12.7%	3.3%	0.0	2.01	0.671
Land getting procedure are efficient	3.3%	15.3%	22.7%	54.7%	4%	3.41	0.913
Availability of water supply	2%	28%	38.7%	30%	1.3%	3.01	0.847
Availability of electric supply	0.0	34%	29.3%	34%	2.7%	3.05	0.888
Custom clearance procedure is efficient	3.3%	14.7%	5.3%	36.7%	40%	3.95	1.161

As it can be seen in the table, the researcher used five variables to identify challenges and opportunities for foreign investors under legal environment part. Thus, respondents at all stages asked to express their degree of consent on the encouragement of foreign direct investment proclamation. Accordingly 90.7 % of the respondents all stage it is good and agreeable except 8% moderately accepted that the 2012 investment proclamation. Similarly, team leader in legal directorate of Ethiopian investment commission confirmed that the current investment proclamation is encouraging for 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.

The second legal variable addressed in this paper is about the procedures that foreign investors need to follow to get investment license. In the 2012-2014 investment proclamation, the mandate of issuing investment license is given to Ethiopian Investment Commission. Hence, all licenses issuing service is rendered by Ethiopian investment commission. Thus the researcher asked respondents to rate their experience in getting investment licensee from the commission. Accordingly, 84.% from pre implementation stage have at least more agreeable with the exception of 12.7 respondent a moderate positive experience in getting investment license. Hence, the result indicates that Ethiopian investment commission worker at license and registration directorate has been working efficiently. This may be due to the introduction of one stop shopping service. At which the investor get all services necessary to get the investment license.

The third variable under this category was land-getting procedures that the licensed investors need to follow to get investment land. In Ethiopian Federal Democratic and Republic (EFDR) constitution, land is public property. Hence, regional governments have a full mandate to administer lands in their territory. Therefore, investors have expected to follow procedures of regional governments to get investment land. The researcher asked the sampled foreign investors to know the presence of challenge in getting investment lands. Accordingly, only 18.6% from all stages have respond which is not good experience in getting investment lands. The remaining huge numbers of respondents have experienced hectic procedures to get investment lands. Lengthy procedures of regional states are the main causes of challenges in getting investment lands as identified in the interview with team leaders of Ethiopian investment commissions. As a result, the problem in getting investment land for foreign investment rested mainly on procedures of regional and city administrations.

The fourth legal variable addressed in this paper was, availability of water supply at the investment site. As indicated by working group report (2003) water is among the basic infrastructure component that foreign investors point to importance in influencing FDI investment location. Through Ethiopia has huge run-off and ground water potential, it utilized small proportion. The overall national average of access to potable water supply was to 68.45% in 2012/13 (an investment guide to Ethiopia, 2015). Thus, the researcher asked its respondent to indicate their perception regarding the availability of water. Accordingly, 30% of the respondents from pre implementation stage perceive that the availability of water is moderate. On the other hand, only 38.7 % of respondents from implementation stage perceive the supply of water is at least moderate. The result indicates the presence of difference between pre implementation and implementation stages regarding water availability. Since, the pre implementation stage projects are the most recent one than implementation stages, the result tell us that the availability of water for foreign investors is improving. This may be due to implementation of alternative source like ground water and others.

The fifth legal variable used in identifying challenges and opportunities under this environment was the availability of electricity. It is one of the critical determining factors to transform from pre implementation and implementation stage to operational one. Hence, the researcher asked its respondent to rate their perception on the degree of electricity availability. Accordingly, 63.3 % of the respondents all stage share the idea of their juniors. The finding indicates that the supply of electricity to foreign investors owned projects are below the required amount. Hence, investors with an investment license and installed machineries are waiting for electricity facility. Due to this, machineries are idle and operating bellow their capacity where there are unsatisfied demands for projects output. Therefore, electricity is one of the challenging facilities in hold backing the smooth running of business. Moreover, the perception of foreign investors is degraded from time to time. This can be seen the finding where rather pre implementation stage respondents give lower positive perception than that of implementation and operation stage respondents.

The last variable in legal environment category was custom clearance procedures. Duty free importation of capital goods and spare parts are among guaranteed fiscal inventive for foreign investors under 2012 and 2014 investment proclamation. In order to enhance service efficiency in custom clearance, Ethiopian investment commission takes the responsibility to handle paper works. Hence, investors'

relation with Ethiopian customs and revenue authority is mainly to receive their equipment. Thus, the researcher asked its respondent to rate their perception regarding custom clearance procedure. As they respond at all stage 76.7% stage see the custom clearance procedure at hectic and needs to work hard. Similarly, 23.3% of the respondents share the perception of investors at stage but moderately good. Hence, the finding show that foreign investors do not appreciate custom clearance procedure though it need grass root level improvement.

**Table 8: Global Environment Challenges and Opportunity**

	SA	A	MA	DA	SD	Mean	STD
New emerging international market are attractive	14.7%	73.3%	8%	1.3%	2.3	2.04	0.722
International political events creates business opportunity	15.7%	70.0%	12.7%	0.7%	1.3	2.03	0.656
International Economic situation is prudent	12%	70.7%	16%	0.0	1.3%	2.08	0.629
Aggregate mean						6.15	

To assess opportunities and challenges of FDI in Addis Ababa Ethiopian, the researcher used three global environment variables. Hence, emerging international markets, international political events and international economic situations are the variables the researcher used to identify their impact on the inflow of foreign direct investment to Ethiopia. As it can be seen in the result table 88 %, respondents all stages at least have a good feeling on the attractiveness of the emerging international markets. The result indicates that one of the attracting factors for foreign investors both at pre and at implementation stages is the emerging of new international markets. Hence, one of their motivations to engage in foreign countries is to serve the growing domestic demand.

Regarding international political events, 85.3% of respondents at all stage it is good and attractive believe that international political events create business opportunities. In a globalized world nations are strongly interlinked. Through the degree of effect will vary from nation to nation, each county of the world will be affected by the decision in other nation. Hence, the result indicates that international political events have been creating business opportunities.

The last variable in global environment analysis was international economic situation. Thus, the finding indicates that 78.2% of the respondents from pre implementation stage support the argument

that international economic situation is prudent. Similarly, 74.3% of the respondents from implementation stage back the idea of their junior. The finding implies that majority of the respondents at all stages believe that international economy has the ability to govern and disciplined oneself by reason with aggregate mean of 6.15.

**Table 9: Industrial Environment Challenges and Opportunity**

	SA	A	MA	DA	SA	Mean	Std
Significant treat from new entrant	4%	65.3%	27.3%	2.7%	0.0	2.29	0.585
Strong bargaining power from input supplier	3.3%	63.3%	27.3%	0.0	0.0	2.24	0.505
Strong bargaining power from customer	4.7%	58%	32.7%	2.7%	0.0	2.34	0.614
Treat of substitute product from local and international market	4%	40%	53.3%	0.0	0.0	2.51	0.578
Intensive rivalry among other firm engage in same product	5.3%	26.7%	65.3%	0.0	0.0	2.62	0.590
Aggregate Mean						12.0	

o analyze the industry environment and identify challenges and opportunities, the researcher used porter's five competitive force models. These forces help us to analyze everything from the intensity of competition to the profitability and attractiveness of an industry.

As it can be seen in the table 69.3% of the respondents all stage feel that the threat because of new entrants to the market is significant. Similarly, some of the respondents from implementation stage share the same idea. The figure indicates that foreign investors are operating in an industry where there is easy entry and the barrier for new entrants is weak. Hence, throat-cutting competition is the fate of such kinds of industry.

The second porter's force is the bargaining power of suppliers. The power of suppliers is measured by its impact on the company's margin and volume. Thus, 70.6% of respondents all stages at least moderately believe that the bargaining power of suppliers is strong. This implies that the supply short fall of the demand. Hence, the company will not operate at its full scale and; will have an impact on their margins and cost of production. This in turn will result dissatisfaction and frustration of foreign investors.

The third element is the power of customers. Hence, 62.7% of respondents all stage consider the

bargaining power of customers is strong. Regarding the power of customers. Hence, the figure indicates that projects operating in areas where there are contributing factors to enhance buyers bargaining power. As a result, the attractiveness and profitability of the industry at their current product is less.

The fourth industry element in the porter’s model is the presence of substitutes. Thus, 44.0% of respondents at all stage feel that their output will be substituted by either local and/ or international outputs. Hence, the result indicates that switching to another product is simple and less costly. This in turn enhances the bargaining power of customers over sellers.

The fifth and last element in porter’s model is competitive rivalry within the industry. This variable indicates the intensity of competition between existing industries. Accordingly, 32.02% of the respondents all stage at least agreed on the presence of rivalry within the industry. Likewise, 65.3% of the respondents have moderately similar feeling on industrial rivalry. The result indicates the presence of high competition between firms within the industry. This will reduce the amount of return due to high costs of competition. As a result, the industry is less attractive the current state. As the researcher considered based on the aggregate mean 12.0 indicate the new iterant has to be considered as threat.

#### 4.1.2 Ethiopian Investment Commission officials and staffs

In this part of the analysis the researcher presented the perception of fourteen respondents from Ethiopian Investment Commission. The findings are presented in a tabulated and graphical form.

*Figure 1: Qualification of the respondent*

	Frequency	Percent	Valid percent	Cumulative percent
Diploma	2	4	4	4
Degree	21	42	46	46
Second degree	27	54	54	100
Total	50	100	100	

Source: Own Survey, 2022/23

As can be observed in the figure 2 above out of 50 contacted employees 4% of the respondents have a diploma 42 % of the respondents have a first degree and the remaining 54 % of the respondent completed their second degree.

Hence, all the contacted employees have at least first and 2<sup>nd</sup> degree. This implies that the contacted

employees can understand the question in the questioner written in English. This can also imply us that the employees in three directorates have a capacity to understand and solve foreign investor’s problem in the workable environment.

*Table 10: Experience of the Respondent at Their Current Position in EIC*

	Frequency	Percent	Valid Percent	Cumulative Percent
1 and less years	5	10	10	10
1-2 years	13	26	36	36
Valid above 2 years	32	64	64	100.0
Total	50	100.0	100.0	

Source: Own Survey, 2016

Table 10 presents the experience of employees at their current position in Ethiopian Investment Commission. Hence, the table presents that out of 20 contacted employees 40 % on two years’ experience at their current position in the commission. The remaining 60% of the employee have experience in their current position at the commission for more than two years. This indicates that the contacted employees have sufficient information regarding issues in their working area and they have enough experience to answer question in the questioner. As a result, the respondent will make informed decision while filling the question of the questioners. This in turn has a positive impact on the quality of the paper’s finding.

*Table 11: Departments of Respondents in EIC*

	Frequency	Percent	Valid Percent	Cumulative Percent
Registration and licensing	9	45.0	45.0	45.0
Follow-up and After care	7	35.0	35.0	80.0
Promotion	4	20.0	20.0	100.0
Total	20	100.0	100.0	

Source: Own Survey, 2022/23

Table 11 depicts the role of employees who have a direct contact with foreign investors. Hence, out of

20 contacted employees of Ethiopian Investment Commission 9 (45%) of them have been working in registration and licensing department. The remaining 35% and 20% of the respondents have been working in follow up and after care and promotion departments. Hence, the researcher contacted all the employees that have been working in the targeted departments of the commission. Therefore, the drawbacks of taking sample are removed.

*Table 12 : FDI Promotion Channels Used by EIC*

		Frequency	Percent	Valid Percent	Cumulative Percent
Website	Yes	50	100.0	100.0	100.0
Brusher	Yes	50	100.0	100.0	100.0
Social Media	Yes	50	100.0	100.0	100.0
International TV	No	50	100.0	100.0	100.0
Ethiopian Embassy	Yes	50	100.0	100.0	100.0

Source: Own Survey, 2022/23

As displayed in the table 12 Ethiopian Investment Commission has been using website, social media, and Ethiopian embassies as an outlet to promote investment environment of Ethiopia. However, the commission did not yet used international TV channels to address potential investors. The finding implies that the commission has used different channels of communication to sell investment environment of Ethiopia to foreign investors.

*Table 13 Appropriateness of the Channels used to Promote FDI*

Answer	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	50	100.0	100.0	100.0

Source: Own Survey, 2022/23

As it is presented in the table 13 all of the respondents perceive that the promotion channels are appropriate to address potential investors. Hence, the employees believe that the channels as an outlet do not have a problem to reach potential investors to transmit necessary information to make foreign investors informed decisions.

*Table 14: Solving Investors problems properly and immediately*

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	30	60.0	60.0	60.0
Agree	18	36.0	36.0	96.0
Moderately Agree	2	4.0	4.0	100.0
Total	50	100.0	100.0	

Source: Own Survey, 2022/23

The table 14 depicts the experience of employees at the targeted departments of Ethiopian Investment commission in solving foreign investor’s problems at their respective office. Accordingly, 60% of respondents believe that there are promptly and appropriately solving foreign investors’ problem, which is under their office jurisdiction. The remaining 36% and 4% of the respondents perceive their problem solving performance normal and moderate respectively. The finding implies that employees are serving foreign investors at least in a rational efficiency regarding issues that are under their mandate.

*Table 15 : Status of Ethiopian with respect to its Objective towards FDI*

Answer	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	38	76	76	76
No	12	24	24	100.0
Total	50	100.0	100.0	

Source: Own Survey, 2022/23

As depicted in the table 15 above 38 respondents, which is 76%, believes that Addis Ababa is on the right track towards its FDI objective. The remaining 12 respondents which is 24% perceive that the country is not on the proper line to harvest settled FDI driven objectives FDI.

*Table 16: Factors Negatively Contribute to FDI Objective of Ethiopia*

Question	Response	Responses	Percentage
What are the major reason to deviate from the right track to attain FDI objective	Tedious bureaucracy while delivering service	3	60
	Shortage of foreign currency	1	10
	Poor infrastructure condition	1	10

Source: Own Survey, 2022/23

Table 16 presents reasons that deviate the city from the proper track in attaining objectives FDI. As it can be seen from the table complicated bureaucracy at different service deliver government offices is the major problem that deviate the county from the normal track. In addition to this, difficulty of getting enough foreign exchange and poor infrastructure conditions are also considerable factors for low performance of the city towards its FDI objectives. Therefore, absence of efficient resource management system is the surfaced problem even in relatively abundant resources.

*Table 17: Cooperation between EIC and other Government Institution to Solve Investors Problems*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	50	100.0	100.0	100.0

Source: Own Survey, 2022/23

Regarding the cooperation between Ethiopian investment commission and other investment supporting government institution to solve foreign investors' problems, all respondents replayed that the commission has been working with other supporting line government institutions to solve investors' problems. Therefore, smooth working relation between the commission and other supporting institution are there to handle foreign investors' issue.

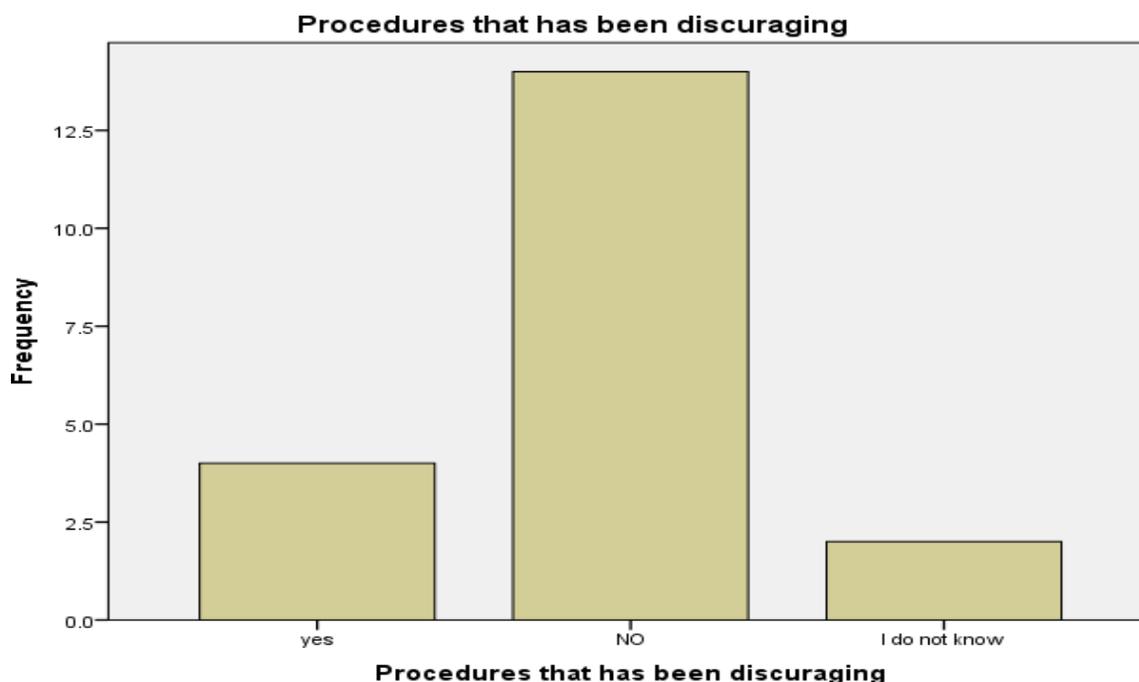
*Table 18: Articles in the Proclamations that Hinder the Smooth Running of FDI*

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	6	12	12	12
No	32	64	76	76
I do not know	12	24	24	100.0
Total	50	100.0	100.0	

Source: Own Survey, 2022/23

In the table 18 the respondents asked whether articles in the proclamation that hinder the smooth running of FDI. Accordingly, out of 50 respondents 6 (12%) feels that some articles in the investment proclamation hinder the smooth running of FDI. However, 64 % of the respondents believe that the investment proclamation do not incorporate articles that hinder the smooth running of FDI. The remaining 24 % of the respondent do not know whether the proclamation article 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.

*Figure 5: Governmental Procedures that has been Discouraging Foreign*



Source: Own Survey, 2022/23

As can be evidenced in the figure 5 above, 20 % of the respondents believe that some of the procedures that govern foreign investors have been discouraging. However, 70 % of the respondents believe that not all procedures in which foreign investors are being served have been creating problems to the level that reaches a discouraging degree. The remaining 10 % do not know whether the procedures have been discouraging foreign investors or not.

*Table 19: Procedures that Creates Challenges on Foreign Direct Investors*

Question	Responses	Number of responses
List procedures that discourage foreign investors	Land issues procedure	4
	Electric power supply Procedure	3
	Customs clearing procedure	1
	Investment License issuance procedure	1

Source: Own Survey, 2022/23

Table 19 discusses procedures that have been creating problems on the smooth running of FDI.

Hence, procedural problems to get land and electric power get high response rate. There are also respondents who believe that foreign investors are facing procedural problems in custom clearance and getting investment licensee. The finding implies that land and electric getting procedures are among the critical procedural problems for foreign investors.

*Table 20: Commonly faced Challenges*

Question	Major Responses	Number of time responded
What are the major challenges foreign investors especially at pre implementation and implementation stages faces	Unnecessary and long procedures to acquisition	14
	Electric power and water supply shortage and hectic process to get the supply	9
	Difficulty of getting foreign exchange	3
	Misunderstanding of culture by foreign investors	1
	Poor infrastructure especially road	2

Source: Own Survey, 2022/23

Table 20 discusses challenges foreign investors at pre implementation and implementation stages commonly faces. As it can be seen in the above table all respondents respond length and disgusting procedure to acquire land is the prominent challenges foreign investors irrespective of the sectors and stage of projects. The other 64% of the respondents answered that shortage and hectic process to get electric power and water service are the common challenges of pre implementation and implementation stage foreign investors. Whereas 21%, 11 % and 7 % of the response shows that difficulty of getting enough foreign exchange, poor road infrastructure and misunderstanding of culture respectively are the common challenges of foreign investors irrespective of their sector.

Hence, on the base of the finding the challenges have two basic nature shortages in supply and absence of efficient resource management. Challenges in land acquisition directly resulted from absence of clear and efficient land management system. Challenges related with electric c power supply, water supply and road condition is the capacity of the country and common almost everywhere. Therefore, infrastructure condition of the country is the major challenge for foreign investors irrespective of the sectors and stage of projects.

**Summary of Licensed Foreign Direct Investment Projects (Addis Ababa)  
By Year and Status from 2018-2022G.C**

<b>YEAR</b>	<b>TOTAL</b>			
	<b>/pre- Implementation, Implementation, operation/</b>			
	<b>No of Projcts</b>	<b>Capital in '000' Birr</b>	<b>Perm Empl.</b>	<b>Temp Empl.</b>
2018	108	8,344,096	9,748	8,226
2019	130	20,763,878	20,160	15,900
2020	137	126,186,432	8,458	5,663
2021	144	122,025,818	21,924	22,017
2022	92	359,478,069	7,363	9,603
SUB TOTAL	513			

**SOURCE: EIC**

**As it is seen in the above the data is taken in terms of capital and job opportunity.**

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, summary, conclusions and recommendations are presented on the bases of analyses and discussion presented in chapter four

The study tried to achieve the following research on specific objectives.

#### **To assess the current status of FDI in Addis Ababa.**

We can assess in terms of Employment of Opportunity permanent & temporary capital and Knowledge as it shown in the conceptual frame work

Summary and findings of opportunity

#### **To assess the major opportunities for FDI in manufacturing sector.**

Accessible Infrastructure

-Trained manpower

-Market accessibility

- Accessibility Technology

- Being politically stable, attractive tax and tariff package, low exposure to terrorism are currently viable prospects foreign investors in the political environment.
  - Stable inflation rate, interest rate, FDI friendly economic environment, adequate supply of competent labor force, adequate raw materials supply, proxy to international markets, appropriate fiscal and monetary policy conducive, easy import and export procedures are economic opportunities for foreign investors in Addis Ababa.
  - Favorable communal culture, availability of qualified work force prudently ethical labor force and citizens spending power are opportunities under Addis Ababa social environment for foreign investors.
  - Encouraging investment proclamation, efficient investment licensing service and water supply are opportunities under legal environment of the country.
    - The attractiveness of emerging international markets, the impact of international political environment in creating business opportunities and the prudent of international economy is the global opportunities to participate in FDI business.

### **To assess the major challenges foreign investors are facing in manufacturing sector.**

Bureaucracy, corruption, shortage of foreign currency, poor service delivery

In efficient justice system and lack of providing timely adequate information is challenges mentioned by foreign investors in the political environment of the country.

- Inadequate supply of foreign currency, absent of capital market and access to loan is the current economic challenges foreign investors are facing.
- In sufficient Internet service, lack of proper automation system and the current technological development of the country are technological challenges that foreign investors are currently facing.
- Inefficient land management, inadequate electric city supply and inefficient custom clearance services are the current challenges in the legal environment.
- Threat from new entrants, strong bargaining power of suppliers, bargaining power customers, threat from local and international substitute products and intense rivalry in the industry is the threat from industrial environment.

#### **4. To evaluate the measures taken by the government to increase the inflow of FDI.**

-Applicable policy and strategy should be design

-, it can be concluded that majority of the political environments used in this paper perceived by foreign investors as an opportunity. Hence, we can conclude that political stability, foreign investment policy, tax policies, tariff policies and terrorisms situation are good and opportunities for foreign investors.

In the economic environment the fiscal and monitory policies of the government enable to create stable macroeconomic environment

#### **5.1 Conclusions**

Ethiopian investment commission is a responsible organ in promoting and facilitating FDI in Addis Ababa, Ethiopia. To enhance the inflow of FDI the commission has been using different promotion and communication strategies. For example, the commission has been using web based promotion, distributing of booklet and Ethiopian embassies as the main channel to reach foreign investors. Though diversification of communication channels has its own merit, their current convincing power is minimal. The finding of the paper indicates that exiting foreign investors are informed about Addis Ababa and investment environment main through their senior friends who have investment in Addis Ababa Therefore, promotion strategies of the commission need to be strategically developed in a way that is appropriate for each segment of potential investors. Otherwise, in a stiff competition environment our competitor like Kenya, Mozambique and others will snatch them.

On the bases of the finding, it can be concluded that majority of the political environments used in this paper perceived by foreign investors as an opportunity. Hence, we can conclude that political stability, foreign investment policy, tax policies, tariff policies and terrorisms situation are good and opportunities for foreign investors. However, in areas like domestic justices system and availability of timely information the perception of foreign investors and Ethiopian investment commission employees are discouraging. In the case of the justice system the staffs in the legal directorate prefers to follow a prevention strategy to avoid the hassles of taking cases

to courts. Since sound justice is one of the guarantees to invest resources for foreign investors, the government should give special attention.

In the economic environment the fiscal and monetary policies of the government enable to create stable macroeconomic environment which is one of the critical pre-condition that foreign investors need to see before deciding their investment location. Therefore, the above two macroeconomic policies create stable and favorable inflation and interest rate. However, in areas like providing sufficient foreign exchange, establishing capital market and access to financial loans are the economic challenges that foreign investors are facing challenges. In other areas like the supply of competent labor, availability of abundant raw materials, presence huge market demand and proxy to international market are the opportunities that influence their location decisions. In general, we can conclude that overall macroeconomic environment is stable and inviting for foreign investors. However, foreign currency, capital market and access to loan are the critical challenges that need immediate intervention.

The finding in the social environment indicates that foreign investors at pre implementation, implementation and operation stages perceive all the asked variables as opportunities. Hence, Addis Ababa communal culture, its growing population, availability of qualified work force, prudent work ethics, and the citizen spending power are opportunities for foreign investors in the social environment.

Technology transfer is one of the objectives that host country engaged in FDI. On the other side, foreign investors need efficient services in their process of ease of doing a business. Hence, some level of technological advancement of the host country to deliver efficient services. From the finding in the technological environment we can concluded that the level of internet facility, the service delivery efficiency of government institutions and the overall technological development of the country is posing a challenge for foreign investors. Since it has an impact on their business performance, it will create dissatisfaction and frustration.

Investments proclamation and license getting procedures are the two attractive variables for foreign investors in the legal environment. On the other hand, land getting procedures, availability of electricity and custom clearance procedure are the most critical challenges in pre implementation and implementation. Regarding the land getting procedure the main problem is

not related with supply and lease price. Rather, the procedure and management of it is creating a problem the problem. However, the problem in the electricity emanated from its supply and the procedures of getting the service. In general, land and electricity are the critical challenges that hold back foreign investors to step forward.

On the bases of the finding we can concluded that, the global environment both political and economic contributing to the creation of foreign direct investment.

The industrial environment of the three sectors for foreign investors has fierce from porter's five-force model point of view. Investors at both stages in the three sectors perceive that the threat from new entrants, bargaining power from customers and input suppliers, presence of substitute products and rivalry among firms in the industry is high according to the finding.

## **5.2 Limitation**

Time was the main challenge that the researcher encountered while conducting this research. Since the researcher is a full time government employee worker and spends most of the time at the project site of Addis Ababa it was difficult to get sufficient time to, review books, empirical studies and relevant case studies that had been done in least developed countries. The small amount of money apportioned to undertake the research had its own drawback on the quality of the paper. In addition to this, Limited experience of the researcher also had its own impact on the findings of the paper. In general, this research is conducted in a challenge caused by time, finance and experience factors.

## **5.3 Recommendation**

This paper analyzed opportunities and challenges of foreign direct investment projects at all stages targeting Agro-processing, Textile and Garment, and Leather and leather products. However, foreign owned projects reached at operational stage have its own challenges and opportunities. Scientifically knowing those challenges and opportunities will produce comprehensive knowledge about challenges and opportunities for foreign investment in Addis Ababa. Hence, if someone does it's paper on all stage but especially operational projects and assesses their challenges and opportunities, complement the findings of this paper give full

picture of Challenges and opportunities of FDI in Addis Ababa for interested body. In addition to this, if the same issues analyzed using econometrics model to identify the degree of each macro variable effect will help in prioritizing the intervention.

Ethiopian government is intensively working to establish industrial zones in different parts of the country. To facilitate and overlook the development of it, Ethiopian government has established industrial park Development Association. Industrial parks have sheds for investment and all necessary infrastructures. Hence, the approach of industrial parks solve problems related with land, water, electric city and other infrastructures facilities institutionally especially in Addis Ababa. Therefore, government should scale up this practice to different potential areas. To mitigate problems related to getting investment land in areas where industrial zone is not established, the city should produce harmonized procedures with some flexibility with the condition of the city administration.

As indicated in the paper satisfied investors are the key informant and promoter for foreign investors. Hence, the government should support the existing investors through solving their problems and introducing incentive packages. Hence, they can be additional strategies of investment promoter.

Starting from the prime minster of the country, government officials at different positions have been trying to promote Addis Ababa investment opportunities for potential foreign investors. In an interview with Promotion directorate team leader of Ethiopian investment commission, the directorate does not have a promotion strategic plan. In addition, the professional in the directorate do not have a capacity to design in implement sound promotion strategies. Hence, the promotion is limited to usual strategies. Therefore, the researcher recommends Ethiopian Investment commission to develop competent strategic plan for its promotion directorate that will fit with its potential customers.

Considering language barriers Ethiopian investment commission uses only English as a medium of instruction to communicate different relevant information both at the office level and in its different promotion mechanisms. However, the originality of majority of the investors are from none English speaking countries. Hence, the readability of the website, booklet and other communication outlets by potential

Investors are insignificant. Therefore, Ethiopian investment commission should provide information in an alternative language like Chinese and Arabic.

The finding of this researcher indicates that the 2012 revised 2022 investment proclamation of Ethiopia is encouraging and do not have articles that hamper the smooth running of foreign direct investment. However, implementers both in the Ethiopian investment commission and in other partner governmental institutions do not equally understand the proclamation. Therefore, awareness creation works at least in basic articles of the proclamation is mandatory to eradicate unnecessary delay and actions.

The 2012 and 2022 proclamation explicitly lists areas that are allowed to foreign investor, domestic investors and for joint interventions. However, the lists are not exhaustive. Moreover, proclamation is not regularly amended. Hence, an investors who have an interest to invest in areas that are not mentioned in the proclamation, need to get approval from the board of the investment commission which is not readily available. As a result, the investors have to wait a months and more to get the license. The researcher will recommend the commission to find an alternative that allow regular update in the areas of investment.

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## **APPENDIX A**

### **Questionnaires for Foreign Investors**

ST. MARY UNIVERSITY SCHOOL OF GRADUATE STUDIES

GENERAL MBA PROGRAM

#### **Part One: Questionnaire filled by Foreign Investors**

This questionnaire is prepared to identify challenges and opportunities of foreign direct investment in the Agro-processing, Leather and Leather products and Textile and Garment sectors. Thus, it helps to collect data for partial fulfillment of the requirement of master's in General MBA program at ST. Mary's University. Besides this it will put forward recommendations for the improvement of the sectors. The information that you will provide will only be used for academic purpose and confidential. Therefore, do not hesitate to provide credible and valid information.

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

**I. General Information**

1.Home country of the Company : \_\_\_\_\_

2.Year of Establishment in Ethiopia:\_\_\_\_\_

3.Sectors of the Company – Circle the number of your choice

- 1. Agro-processing
- 2. Leather and Leather products
- 3. Textile and Garment
- 4. Chemical

4.Status of the project - Circle the number of your choice

- 1. Pre-implementation stage
- 2. Implementation stage
- 3. Operation stage

5.From which source you get information about the Ethiopian Investment climate?

- 1. Ethiopian embassy from your country
- 2. Ethiopian Investment commission web site based promotion
- 3. Repetitively visit to Ethiopia
- 4. Friends who have investment in Ethiopia
- 5. Your Family
- 6. Other, Please specify\_\_\_\_\_

## II. External Environment Foundation for FDI

The following items are intended to assess your perception about the external environment. Indicate your agreement on to what extent the external environment is enabling or disabling for FDI. Please indicate the status of your agreement by putting 'X' under the rating that suits you. Note that the questions are written in a mix of positive and negative forms.

	Strategy Agree	Agree	Moderately Agree	Disagree	Strongly Disagree
Ethiopia is politically stable country					
Ethiopia's Foreign Investment Policy is attractive					
Tax Policies of Ethiopia are encouraging					
Tariff Policies of Ethiopia are encouraging					
Terrorist activities are growing					
The justice system sound					
Timely information is not adequately available					
<b>Economic Environment</b>					
Foreign exchange/currency is adequately available					
Capital market is not available					
Inflation rate is not favorable					

Interest rates is not favorable					
Adequate access to loan					
Economic system of Ethiopia is fertile for FDI					
Adequate supply of competent labor force					
Raw materials are abundantly available					
Proximity to international market					
Huge market demand for the project outputs					
Fiscal policies of the government are encouraging					
Monetary policies of the government are encouraging					
Easy import procedures					
Easy export procedures					
<b>Social Environment</b>					
Favorable communal culture					
Ethiopian's growing population is an advantage for FDI business					
Availability of qualified workforce					
Prudent work ethic of the labor force					
Citizens spending power is promising to secure local market					
<b>Technological Environment</b>					
Adequate internet facility					
Automated systems are used in government institution					
Adequate transportation systems					
Current Technology development					

of the country					
<b>Legal Environment</b>					
Investment Proclamation is encouraging					
License getting procedures are efficient Land getting procedures are efficient					
Availability of water supply					
Availability of electricity					
Custom Clearance Procedure is efficient					
<b>Global Environment</b>					
New emerging international markets are attractive.					
International political events create business opportunities					
International economic situations is prudent					

### III. Industry Environment

The following items are intended to assess your perception about the narrower industry environment.

Indicate your agreement on to what extent the industry environment is posing challenges or offering

Opportunities for FDI. Please indicate the status of your agreement by putting 'X' under the rating that

suits you.

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Moderately Agree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
Significant threat from new entrants(the industry is open for new entrants)					
Strong bargaining power of input suppliers					
Strong bargaining power of customers					
Threat of substitute products from local and international markets					
Intense rivalry among other firms engaged in same industry					

**1. Identify challenging factors not mentioned above**

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**2. Suggest possible solutions to the challenges mentioned above**

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**3. List opportunity factors not mentioned above**

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Thank You

## **APPENDIX B**

### **Questionnaire for Employees in Ethiopian Investment Commission**

ST. MARY UNIVERSITY SCHOOL OF GRADUATE STUDIES GENERAL MBA PROGRAM

#### **Part II: Questioner field by relevant person from Ethiopian Investment Commission and Ministry of Industry**

This questionnaire is prepared to identify Challenges and opportunities of FDI in the government priority sectors especially in Agro-processing, leather and leather products and Textile and Garment sectors. Thus, it helps to collect data for partial fulfillment of the requirement of master's of General Business Administration (MBA) in the MBA programs. Besides identifying challenges and opportunities of FDI in the government priority sectors, the paper will put forward recommendations for improvement.

#### **Direction**

- It is not necessary to write your name on the questioner.
- The answer you give for all these questions are confidential and only used for academic purposes.
- For questions with choices, please choose one which you believe appropriate. For questions without choice, please, write your answers in the blank spaces provided. If you need additional blank spaces for your answers use the blank page of the questionnaire and write your answers by specifying the question number.

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

**A. General Information**

1. Educational Level
  1. Diploma
  2. First Degree
  3. Second degree
  4. Above
2. Experience at your current position in Ethiopian Investment Commission
  1. < 1 year
  2. 1 to 2 years
  3. Above 2 years
3. Do you have a direct contact with foreign investors?
  1. Yes
  2. No
4. If your answer for question # 3 is yes, what is your role?
  - a. Registration and licensing
  - b. Follow up and After care
  - c. Plan and Documentation
  - d. Promotion
  - e. Other, please specify \_\_\_\_\_

**B. FDI in Ethiopia**

5. What kinds of channels of communication do Ethiopian Investment Commission has been using to promote FDI?
  1. Website
  2. Brusher

3. Social media

4. International TV

5. Ethiopian embassy

6. Other \_\_\_\_\_

6. Do you think that the current communication channels are appropriate to address potential foreign investors?

1. Yes

2. No

7. If your answer for question # 6 is no could you list some of the reasons?

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

8. Do you think that follow up and aftercare directorate of the commission properly following FDI projects and solves their problems?

1. Yes

2. No

9. If your answer is no for question # 8 is no could you write some of the major reasons?

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

10. Do you think that Ethiopia is on the right track with respect to its objectives towards FDI?

1. Yes

2. No

3. I do not know



11. If your answer for question #5 is No what are the major reasons not to be on  
The right track?

1. \_\_\_\_\_
2. \_\_\_\_\_

12. Your office is properly and immediately solves the problems of foreign  
Investors which are related to your office.

1. strongly agree
2. Agree
3. Neither agree nor disagree
4. Disagree
5. Strongly disagree

13. If your answer for question # 7 is 4 and 5 what are the major problems?

1. \_\_\_\_\_  
\_\_\_\_\_
2. \_\_\_\_\_  
\_\_\_\_\_
3. \_\_\_\_\_  
\_\_\_\_\_

14. Is your office working with other governmental institutions to solve foreign  
Investors' problems properly?

1. Yes
2. No
3. I do not know

15. Do you think that Ethiopian Investment proclamation incorporate articles that hinder  
the smooth running of FDI?

1. Yes

2. No
3. I do not know

16. If your answer for question # 10 is yes, Could you list some of articles that have been creating a serious problems?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

17. Is there any other governmental procedure that has been discouraging foreign investors?

1. Yes
2. No
3. I do not know
- 4.

18. If your answer for question # 14 is yes, could you mention some of the procedures those significantly challenging foreign investors?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

19. What are the major challenges that foreign investors y at pre-implementation stages faces?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

20. What are the major challenges that foreign investors at implementation stages are facing

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Thank you

## **APPENDIX C**

### **Interview Question**

#### **Interview Question for Follow-up and After Care, Legal and Promotion Directorate of Ethiopian Investment Commission**

##### **I. Question for Follow-up and After Care team**

###### **leaders Political Environment**

1. What are the major challenges and opportunities foreign investors in the political environment are facing?
2. What causes those challenges and opportunities?

###### **Economic Environment**

1. What are the major challenges and opportunities that foreign investors in the economic environment are facing?
2. What causes those challenges and opportunities?

###### **Social Environment**

1. What are the major challenges and opportunities foreign investors in the social environment are facing?
2. What causes those challenges and opportunities?

###### **Technological Environment**

1. What are the major challenges and opportunities for foreign investors in the technological environment?
2. What causes those challenges and opportunities?

###### **Legal Environment**

1. What are the major challenges and opportunities foreign investors are facing in the legal environment of Ethiopia?
2. What causes those challenges and opportunities?

##### **II. Question for Law Directorate**

1. What legal related challenges and opportunities are available for foreign investors?

### **III. Question for Promotion Directorate**

1. What are the main challenges and opportunities of foreign investors at pre implementation and implementation stages?
2. What are your promotion strategies?
3. Does it suitable with the orientation of majority of the investors?
4. What are the main challenges of promotion directorate of Ethiopian investment commission?