ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

OPPORTUNITIES AND CHALLENGES OF FOREIGN DIRECT INVESTMENT IN ETHIOPIA: EVIDENCE FROM SELECTED SECTORS

By JEMIL SHAFFE SEMAN

ID: SGS/0078/2009B

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of **Abereham G/Giorgis (Ass. Prof).** 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 on in full to any other higher learning institutions for the purposes of earning any degree.

Abraham G
Advisor

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ENDORSEMENT

This thesis, titled “Opportunities and Challenges of Foreign direct investment in the Agro processing and Textile and Garment Sectors 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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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
NBA	National Bank of Ethiopia
OECD	Organization for Economic-Cooperation and Development
TNCs	Trans National Corporations
PESTL	Political Economic Social Technical and Legal
SNNP	South National, Nationalist and People
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

Ethiopian Government has adapting different strategies and incentive packages to enhance its foreign direct investment performance. The main aim of this paper is to identify challenges and opportunities for foreign investors of Agro processing sector and Textile & Garment sector. Political, economic, socio cultural, technological and legal variables are given much emphasis in the study. To this end primary data are collected from 119 and 35 foreign investors Agro processing sector and Textile &Garment sector respectively and employees of Ethiopian Investment commission. Questionnaire and interview were the main data collection tools used in collection of primary data. The study has found insufficient supply of foreign exchange, getting financial loan, getting investment land, political instability, raw material supply and electricity as the main challenges of foreign investors. On the other hand, law cost of labor, huge market potentials, and encouraging investment proclamation are among the prospects foreign investors can reap because of investing in Ethiopia. Finally, the study recommended 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, Agro processing, Textile & Garment, PESTL

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CHAPTER ONE

1. Introduction

This study intends to assess the opportunities and challenges of Foreign Direct Investment hereinafter (FDI) inflows into Ethiopia. This chapter provides the background of the study, statement of the problem, main and specific objectives of the study, research questions and definition of terms, significance of the study, the limitation and finally organization of the research report.

1.1. Background of the study

Foreign Direct Investment (hereafter, FDI) is considered less prone to crisis because direct investors, typically, have a longer-term perspective when engaging in a host country. In addition to the risk-sharing properties of FDI, it is widely believed that FDI provides a stronger stimulus to economic growth in host countries than other types of capital inflows. The underlying argument is that FDI is more than just capital, as it offers access to internationally available technologies and management knowhow (The Economist, 2028).The growth of Foreign Investment has become more prominent in the world economy due to its contribution to the growth and development of an economy. FDI as a category of international investment where resident entity in one country obtains a lasting interest in an enterprise resident in another country. FDI can be in form of equity capital, reinvested earnings and other capital. Beneficial as FDI can be, especially for developing economies through technology transfer, increasing market liquidity, increase resource absorption, its contribution can bring with it negativities in the form of loss in domestic production control, crowding out of domestic enterprise through unfair competition and unfavorable Balance of Payment especially when production by the foreign firm still relies on importation of raw inputs (Idowu, 2014)

Ethiopia is one of the fast growing developing countries in the Sub Saharan Africa and the current government allocating substantial budgets on infrastructures to catalyze the growing economy with the aim of "rising Ethiopia to its former glory" (as it"s known, Ethiopia was one of the four origins of ancient great civilizations ever occurred on this planet) by setting stretched goals. To attain these stretched goals, the government is reforming sectors in the country to enhance their effectiveness and productivity. With this fact, The World Bank report has predicted that the country can join the lower-middle-income country by 2025, if the current trend/scenario to continue. To ensure this, the government has operated mega projects in Growth and Transformation Plan (GTP) I, and is operating in the GDP II. These projects are intended to accelerate the development of the country and will have a positive impact on attracting foreign investment (World Bank, 2012). Multinational corporations are looking developing countries for their investment destination due to availability of resources and inexpensive labor. Host countries are also keeping promoting to attract more FDI inflows to speeding up their economic development by easing the FDI entry processes (Rahman, 2013). Similarly, Ethiopia through its missionaries (ambassadors), electronic promotions and organizing international events intensively to promote investment opportunities in the country (EIC, 2017).

Ethiopia"s economic performance has been robust, but its FDI inflows have increased only moderately over the past decade**.** Ethiopia is one of the fastest growing non-oil producing economies in Africa. Since Ethiopia issued its first investment proclamation in 1992; an attempt has been made to use FDI as an instrument to develop the economy. However, FDI inflows to Ethiopia have struggled to grow for many years. WDI (2018)

Industrial development was envisaged to be achieved through the development of import substituting light industries. Investments in manufacturing were directed towards creating high input-output linkages with agriculture such as textile, leather and other agro-industries. Underlying the lack of capital and entrepreneurial skill, a package of incentives were designed to promote private domestic and foreign investment. The plan anticipated that foreign direct private investment would play the leading role in financing the investment capital required for the sector. As a result, most the large scale manufacturing enterprises (about 65 per cent) at this period were owned or operated by foreign nationals signifying that ownership and management of the sector continued to remain in the hands of foreigners and its employment generating capacity was "unimpressive" (EIC, 2019).

Ethiopian ministry of communication department of press and Audiovisual 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. 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.

Therefore, there are sectors (the Textile & Garment and Agro processing) that need the attention of researchers to assess problems that hinder the efficient utilization of benefit from the existing foreign firms and attract more foreign investors especially in the priority sectors. Hence, analyzing the opportunities and challenges of those priority sectors will play major roles in the FDI attraction and utilizing 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 sectors especially in textile and garment and agro processing sector.

1.2. Statement of the Problem

FDI is important to sustain high investment rates and is essential for knowledge and technology transfer. Hence, attracting FDI is generally considered as an integral part of the development policy mix of successful emerging economies. Ethiopia"s cheap and abundant labor, privileged access to high-income markets and growing domestic and regional markets add to its attraction as an FDI host country. But looking at the FDI levels (in % of GDP) currently observed in Ethiopia and in comparison to the successful East Asian countries, it is clear that there is an opportunity to improve the promotion of incoming FDI (WB 2012). FDI as a % of GDP in Ethiopia has been at a relatively low level of 2.0% between 2004 and 2014. But the country"s FDI stock has been increasing since 1995 and the country has become one among the best 10 destinations in Africa (Dejene 2016).

Currently, it is the 3rd largest FDI recipient in Africa. FDI flow to Ethiopia was $146.6 million in 1997 and yearly FDI inflow has varied between $146.6 million and $977 million between 1997 and 2016. This is in part because the Ethiopian Industrial Strategy is attracting Asian capital to develop its manufacturing base. Indeed FDI in light manufacturing from China, Turkey and India is the major cause of the increase in FDI inflow to Ethiopia (Selamawit Berhe 2015).

Ethiopia‟s economic performance has been robust, but its FDI inflows have increased only moderately over the past decade. Ethiopia is one of the fastest growing non-oil producing economies in Africa**.** Since Ethiopia issued its first investment proclamation in 1992; an attempt has been made to use FDI as an instrument to develop the economy. However, FDI inflows to Ethiopia have struggled to grow for many years, WDI (2018).

According to Henok (2014) there have been new motives for FDI in recent years next to the traditional ones such as resource seeking i.e. oil. He showed that most of FDI to Ethiopia has been targeted for domestic and regional market seeking. Investment incentives, political and social stability are also the main opportunities that attract foreign investors to Ethiopia. The three main challenges that the government must address to attract more FDI includes, exchange rate volatility, corruption and delay in license and regulatory impediments.

Woldemeskel (2012) noted that low level of effective demand due to the limited purchasing power of the people, absence of some important natural resource, low level of infrastructure development, excessive bureaucracy, inefficient and ineffective legal system, unstable political environment, and lack of skilled labor force, lack of liberalization and slow process of privatization program are the main challenges of FDI inflow in Ethiopia.

Ali (2016) analyzed opportunities and challenges of FDI projects at Pre-implementation and implementation stages targeting Agro processing, Textile and garment and leather and leather products. He reveal that political stability, foreign investment policy, tax policies, tariff policies, terrorism situation and supply of competent labor, availability of abundant raw materials, presence of huge market demand and proxy to international market are opportunities for foreign investors. He added that inadequate supply foreign exchange and inflation, absence of capital market and access to financial loans, lack of proper automation system and the current technological development of the country, inadequate electricity supply are challenges that foreign investors are facing. Hence, projects at operational stages have its own challenges and opportunities.

Ali Sheferaw (2016) analyzed opportunities and challenges of FDI projects in Ethiopia at pr-implementation and implementation stages targeting Agro processing, Textile and Garment and Leather and Leather products sector. Hence projects at operational stages were not addressed by the researcher through his paper. However; FDI projects reached at operational stages had its own opportunities and challenges. Therefore, to fill this gap this study aimed to give full picture of opportunities and challenges of FDI in Ethiopia for Agro processing and Textile and Garment sectors.

1.3. Research questions

The research attempts to address the following basic questions:

1. What are the current statuses of FDI in Agro processing and Textile and Garment sector?

2. What are the opportunities of FDI in Agro processing and Textile and Garment sector?

3. What are the challenges of FDI in Agro processing and Textile and Garment sector?

1.4. Objectives of the study

1.4.1. General Objective

The main objective of this study is to assess the opportunities and challenges of Foreign Direct Investment in Agro processing and Textile and Garment sector.

1.4.2. Specific objectives

The study tries to achieve the following research objectives.

- To assess the current FDI status of Agro processing and Textile and Garment sector.
- To examine the opportunities of FDI in Agro processing and Textile and Garment sector.
- To examine the challenges of FDI in Agro processing and Textile and Garment sector.

1.5. Definition of Terms

- Operational Stage: refers to investment projects which either partially or fully begun production of goods or provision of service (Ethiopian Investment Commission, 2016)
- 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 planned fulfillment of infrastructure and various services such as road, electric power, 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 investment board (Industrial park proclamation, 2015).

1.6. Scope of the study

This study focuses only in examining the opportunities and challenges of FDI in selected manufacturing business. In this paper, the researcher considers only foreign investors who are at textile & garment and Agro processing sector. Primary data are obtained from foreign investors and employees of the Ethiopian Investment Commission. Secondary data are obtained from Ethiopian Investment Commission & Ministry of Trade & Industry. The main reasons behind the selection of target sectors are: First, in the country‟s industrial policy Ethiopian government indentify seven sectors; textile and garment, leather and leather product, Agro processing industry, Metal industry, Chemical industry, pharmaceutical industry, and construction industry as the priority sectors of the country. According to the above document, the government believing that the country has comparative advantage on those sectors. Hence, analyzing the practical opportunities and challenges of the industry enhances the performance of the country in utilizing areas at which the country has comparative advantage. Secondly, the selection of textile & garment and Agro processing sector, for the analysis rests mainly on labor intensive in the area. The priority sectors were vast which are beyond the capacity of the researcher and time constraint the researcher didn‟t cover the rest other sectors. Hence analyzing challenges and opportunities at industries helps a lot in minimizing the dropout of FDI projects.

1.7. Limitation of the Study

All studies faces with various limitation and this study is no exception to the phenomena. The limitations of the study include; first the country‟s industrial policy indentifies seven sectors however the study targets only Agro processing sector and textile and garment industry. Second, at various stages, the study suffered due to inadequacy of time serious data frame related to agencies.

1.8. Significance of the study

The main aim of this paper is to assess the opportunities and challenges of FDI in selected manufacturing business in Textile & Garment and Agro processing sector. In addition global and industrial environments will also assess to indentify challenges and opportunities in the area. Hence, the paper has significant advantages for policy makers‟ and for the potential foreign investors who have an interest in FDI especially in the sectors mentioned above.

The paper also benefit Ethiopian Investment Commission that has legal mandate to overlook and support foreign investors through revealing where there is good practices and area where it needs improvements. Hence, it will help in scaling the good practice up and mitigating observe and potential challenges. Besides this, the study will serve as a reference for potential foreign investors while conducting feasibility study and for students and researchers who are interesting to work their paper in the examining relating with FDI in Ethiopia.

1.9. Organization of the paper

The rest of the research paper will organize as follows. Chapter two deal with review of related literature. It cover theoretical concepts of Foreign Direct Investment, Historical background of FDI and it current features in Ethiopia and Empirical findings especially on factors that have influence in making Foreign Direct Investment. Chapter three deal with the Research methodology. Hence, research design, type of the data, population and sample frame, sampling technique, data collection instrument, source of data, and method of data

Analysis and presentation are discusses. In Chapter four, collecting data are analyzing and findings are present using tabular and figurative approaches. Finally, Chapter five present conclusion, recommendation.

CHAPTER TWO

2. REVIEW OF LITERATURE

2.1. Foreign Direct Investment Overview

FDI can bring both benefits and costs to host countries, which suggests that FDI needs to be managed actively to maximize benefits. Common definitions of FDI emphasize the long-term character and the fact that FDI carries a controlling ownership (e.g., at least 10 percent or more of the equity shares) with the enterprises in the host country (see definitions of FDI by OECD, IMF, and the UN Statistics Division, for instance). Therefore, FDI can offer not only stable capital inflows but also job opportunities, technology transfer, know-how of management, and access to foreign markets because of the intention of a long-term investment that requires the ability to monitor and control the investment (Prasad et al. 2003). More recent studies also show that FDI is recognized to have positive spillover effects on local firms through increased productivity, skills formation, and value chain integration (Lederman et al. 2010; Farole and Winkler 2014). Nevertheless, there are also potential drawbacks to FDI, including a deterioration of the balance of payments as profits are repatriated, a lack of positive linkages with local communities, and a lack of absorptive capacity for taking advantage of FDI spillover effects (OECD 2002). Given these characteristics of FDI, it is prudent for policymakers to carefully evaluate the trend and impact of FDI on an ongoing basis so to maximize the benefits of FDI.

The global FDI inflows rose 16 per cent in 2011, surpassing the 2005–2007 pre-crisis level for the first time, despite the continuing effects of the global financial and economic crisis of 2008–2009 and the ongoing sovereign debt crises (UNCTAD WIR, 2012). This increase occurred against a background of higher profits of transnational corporations (TNCs) and relatively high economic growth in developing countries during the year. This surge in inflows of FDI facilitates capital accumulation and transfer of technology to developing countries. (G/Medhin, 2014)

One of the arguments for FDI is that it should increase economic growth in the host economy (Alfaro, Chanda, Kalemli-Ozcan, & Sayek, 2010; Mencinger 2003) and even be more effective in boosting economic growth than domestic investment (Borensztein, De Gregorio, & Lee 1998). The ways foreign direct investment should have positive effects on economic growth in the host economy are five, given the "appropriate host-country policies and a basic level of development" (OECD 2002, 5): FDI facilitates the transfer of technological advances and know-how; it increases competition; human capital improves; it integrates the economy towards the world economy; and it pushes for more positive development of firms.

However, FDI can also negatively affect economic growth. Moura and Forte (2009) point out FDI can also negatively impact the implementation of domestic economic policies. Furthermore, Mencinger‟s (2003) study pointed out that funds raised through the FDI flows in the form of M&A activity can simply be spent on imports. Profit repatriation comes on top of that. This can have a negative impact on the balance of payments and, following Thirlwall‟s Law, have a negative impact on the long term economic growth of the country.

2.1.1. Types of Foreign Direct Investment

According to Chryssochoidis, Millar and Clegg (1997), there are four different types of FDI.

2.1.1.1. Access to specific factors of production

The first type of FDI is made to gain access to specific factors of production, e.g. resources, technical knowledge, patent or brand names etc. owned by a company in the host country. If such factors of production are not available in the home economy of the foreign company, and are not easy to transfer, then the foreign firm must invest locally in order to secure access.

2.1.1.2. Product cycle hypothesis

The second type of FDI is developed by Raymond Vernon in his product cycle hypothesis. According to this model the company shall invest in order to gain access to cheaper factors of production, e.g. low cost labor. The government of the host country may encourage this type of FDI if it is pursuing an export oriented development strategy. Since it may provide some form of investment incentive to the foreign company, in form of subsidies, grants and tax concessions. If the government is using an import substitution policy instead, foreign companies may only be allowed to participate in the home economy if they possess technical or managerial know-how that is not available to domestic industry. Such know how may be transferred through licensing. It can also result in a joint venture with a local partner.

2.1.1.3. Joint venture

The third type of FDI involves international competitors undertaking mutual investment in one another, e.g. through cross-shareholdings or through establishment of joint venture, in order to gain access to each other‟s product ranges. As a result of increased competition among similar products and R&D-induced specializations this type of FDI emerged. Both companies often find it difficult to compete in each other‟s home market or in third-country markets for each other‟s products. If none of the products gain the dominant advantage, the two companies can invest in each other‟s area of knowledge and promote sub-product specialization in production.

2.1.1.4. Access to customers

The fourth type of FDI concerns the access to customers in the host country market. In this type of FDI there is no observed shift in comparative advantage either to or from the host country. Export from the company‟s home base may be impossible, for example, certain services, or the capability to request immediate design modifications. The limited tradability of many services has been an important factor explaining the growth of FDI in these sectors.

2.2 Theoretical explanations of FDI

The theoretical explanations of FDI largely stem from traditional theories of international trade that are based on the theory of comparative advantage and differences in factors endowments between countries. Multinational companies are usually attracted to a particular country by the comparative advantage that the country or region offers. For instance, multinational companies may establish foreign subsidiaries in one country to take advantage of its lower labor costs or its large market size.

Thus, in their basic form, traditional theories of international trade do offer some explanation of FDI. Nonetheless, the traditional trade theories do not provide full answers as to why multinational companies prefer to operate in a foreign country rather than engaging in exporting or licensing, which are alternatives to FDI. This has led to the development of alternative explanations of FDI.

2.2.1 The theory of portfolio investment

The theory of portfolio investment (the neoclassical theory of portfolio flows) is one of the earliest explanations of FDI. The basis for this explanation lies in interest rate differentials between countries. Capital, according to this explanation, moves in response to changes in interest rate differentials between countries/regions and multinational companies are simply viewed as arbitrageur of capital from countries where its return is low to countries where it is high.

This explanation, however, fails to account for the cross movements of capital between/across countries. In practice, capital moves in both directions between countries. In addition, that capital is only a complementary factor in direct investment and that this theory does not explain why firms go abroad contribute to the criticism of the neoclassical theory of portfolio investment (Harrison et al, 2000).

2.2.2 Product life cycle theory

Vernon"s product life cycle theory is another explanation of FDI worthy of some discussion. This theory focuses on the role of innovation and economies of scale in determining trade patterns. It states that FDI is a stage in the life cycle of a new product from its invention to maturity. A new product is first manufactured in the home country for the home market. When the home market is saturated, the product is exported to other countries. At later stages, when the new product reaches maturity and loses its uniqueness, competition from similar rival products becomes more intense.

At this stage producers would then look for lower cost foreign locations. This theory shows how market seeking and cost reduction motives of companies lead to FDI. It also explains the behaviors" of multinational companies and how they take advantage of different countries that are at different levels of development. Additionally, it has been noted that Vernon"s theory perceives foreign direct investment as a defensive strategy by firms to protect their existing market position (Dunning 1993).

Knickerbocker (1973), following Vernon"s theory, argues that there is follow-the-leader type of defensive FDI especially in industries characterized by oligopoly. His argument relies on uncertainty and risk aversion behavior of oligopolists. This theory suggests that firms go abroad because of oligopolistic reaction which is "an interactive kind of corporate behavior by which rivals in industries composed of a few large firms counter one another"s moves by making similar moves themselves" (Knickerbocker, 1973). However, this theory does not explain why FDI is more efficient than exporting or licensing for expanding abroad.

2.2.3 Hymer’s Theory on multinational companies

Companies as global industrial organizations. Hymer‟s major contribution was to shift attention away from neoclassical financial theory. He argued that the need to exercise control over operation is Hymer‟s (1976) pioneering study on multinational companies draws attention to the role of multinational the main motive for FDI than the mere flow of capital. Capital is used to facilitate the establishment of FDI rather than an end in itself. He states that for firms to engage in cross border activities, they must possess some kind of monopolistic advantages. The advantages result from a foreign company‟s ownership of patents, know how, managerial skills and so on and these advantages are unavailable to local companies. His argument relies on the existence of market imperfections, such as difficulty of marketing and pricing know how, or in some cases markets may not exist for such products, or if they exist, they may involve huge transaction costs or time-lags. In such cases it would be more efficient for the company to engage in direct investment than exporting or licensing. FDI will allow the companies to control and exploit their monopoly power to the full.

Hymer‟s argument led the way to the development of internalization theory. According to this theory the firms internalize their activities whenever there are inefficiencies in dealing with the external market and FDI would occur when this internalization involves operation across countries (Harrison et al, 2000).

2.2.4. The Electric Paradigm theory

By incorporating Hymer‟s explanations and various other theories of FDI, Dunning‟s eclectic paradigm provides a general explanation for the determinants of FDI. Dunning (1993) identified three factors which must be satisfied before engaging in cross border activities.

The ownership advantages of a firm: These advantages are firm specific as they are assumed to be exclusive to the firm that owns them. These advantages arise from firms possessing proprietary technology or other unique intangible assets, and the firm‟s ability to coordinate complementary activities such as manufacturing and distribution. These kinds of advantages give foreign firms more power over their local counterparts.

Internalization advantages: These advantages refer to the firm‟s ability to internalize its activities, which can be done through market transactions. Through internalization, the firm can reduce its transaction costs. Moreover, the firm can retain exclusive rights to its assets and it maintains its competitive advantage.

Location specific advantages: these advantages include host countries natural resource endowments, superior infrastructure, and macroeconomic stability. These location advantages determine the profitability with which the ownership advantage and internalization advantage of the firm should be combined. From these three advantages if only one is met, then firms will rely on exports, licensing or the sale of patent, to service foreign markets.

Thus, the generalized predictions of the eclectic theory are that a firm can only capture a foreign market through FDI if it has the capacity to exploit simultaneously all the three advantages. In Dunning"s eclectic theory, the ownership and internalization advantages are firm specific features whilst the location advantages are country specific characteristics which the host country can influence directly.

In general, countries that have location advantages can attract more FDI. But firms do not undertake FDI only for the presence of location specific advantages in the host country. Their location choice decisions consider the profitability with which the ownership and internalization advantage can be combined with the location ones.

2.3. Empirical findings

Globally many empirical studies were conducted to identify factors that influence the inflows of FDI; however, scholars undertake research come up with different list of opportunities and challenges of FDI inflows. This is mainly because of some have gained or lost importance over time, (UNTACD, 1998). On this review the focus is on empirical studies conducted on challenges and opportunities of FDI in developing countries and especially in Ethiopia.

2.3.1. Opportunities of Foreign Direct Investment

2.3.1.1 The size of Domestic Market

The size of the domestic market is an opportunity of FDI. The wealth and development of a country can be used as proxy to measure the size of the domestic market. Most commonly, per capita income (PCI), which is an indicator of effective demand, is used to measure the size of local market. In addition to PCI, the GDP of a country and the population size are also used as an indicator to measure the size of local market. However, if a firm is export-oriented and not market seeking, the size of domestic market will not be an important determinant of FDI (Root and Ahmed, 1979).

Investigating the opportunities of FDI in developing and developed countries, Chakabarti (2001) concludes that host country"s market size measured by per capita ,GDP, has a positive and significant effect on foreign direct investment (Agodo,1975), Schneider and Frey(1985), Morriset(2000), Lemi and Asefa(2001), and Lee(2003) are some of the other studies with evidence in support of the hypothesis that large market size encourages foreign direct investment on the other hand, however, Salisu(2003) finds both per capita income and growth rate of GDP to be statistically insignificant determinants of FDI in Nigeria while Tsikata et al (2000) fail to support the market size as important opportunity of FDI in Nigeria.

2.3.1.2. Natural Resources

Birhanu (1999) noted that countries that have sufficient deposit of some minerals can attract foreign investors particularly those involved in exploitation of natural resources. Empirically, according to many studies conducted on the determinants of FDI in Africa argue that FDI inflow is attracted largely by natural resource endowments.

In Africa almost 40 percent of FDI has been in the primary sector, particularly oil and mineral extraction business. Countries like Angola, Botswana, Namibia and Nigeria who are endowed with oil and mineral resources have received foreign investment targeted at the oil and minerals sectors of their economy (Basu and Srinivasan, 2002). Morisset (2000) indicate in his study that, on a survey conducted on 29 African countries, there is a high correlation between FDI inflows and total value of natural resources in each country.

(Getinet, Hirut 2006)As stated on UNCTAD world investment report, 2004, though natural resource abundance is a common factor explaining much of the FDI inflows, the few successful African countries have also put particular attention to the creation of favorable economic, social and political environment for FDI.

2.3.1.3. Low Labor Cost

UNCTAD (2004a) reported that availability of cheap labor in China is taking jobs from Europe and United States. In addition to cheap labor, the out-put labor ratio (labor productivity) also determines the inflow (Solomon, 2008). The effect of FDI on economic growth is dependent on the level of human capital available in the host economy and there is a strong positive interaction between FDI and the level of educational attainment (Borensztein, 1998). Fayyaz et al, 2012, also concluded that availability of skilled labor force encourages the FDI inflows.

2.3.1.4. Geographical Proximity

Jinayu (1997) noted that in the current global economic structure, geographical proximity and cultural and linguistic affinities are becoming an opportunity of FDI. The IFC&FIAS (1997) study as well confirmed that FDI from developed to developing countries are influenced by geographical proximity. For instance, while Japanese firms tend to open subsidiaries in China and newly industrialized Asian countries, the West European firms tend to open their subsidiary in East Europe.

2.3.1.5. Political Stability

The economic process of a country and in particular the inflow of FDI into a country can be disrupted by unsettled, implicit or explicit, internal or external political disputes and crises. Without stable political conditions, whatever the economic environment may be, a country"s effort to create a more hospitable environment for oversea investors cannot be fruitful.

Political instabilities can delay FDI until the storm weathers away or diverts away for good (Birhanu and Kibre, 2003) .It has been argued that macroeconomic stability, government policies and political variables are an opportunities of FDI in Africa than the market variables. Lemi and Asefa (2001) also arrive at similar conclusions.

Their study examines the impact of economic and political uncertainty on FDI flow to 31 African countries. Their study indicates that for U.S. manufacturing FDI in particular, Political stability and government policy commitment are the most important factors. Empirically, Salisu (2003) analyses the impact of corruption on FDI in Nigeria and finds corruption having a significant challenge on FDI.

In general, greater red tape, more restrictive performance requirements, an unstable political situation, or economic instability would make the host country less attractive for FDI. Using a panel of 97 countries, Dutta and Roy (2008) investigates the role of political risk in the association of FDI and financial development and show that the impact of financial development on FDI becomes negative beyond a threshold level of financial development while political risk factors affect the relationship by altering the threshold level of financial development.

Regarding the political opportunity of FDI, Schneider and Frey conclude that political instability significantly reduces the flow of foreign direct investment. Nigh(1985) by using the COPDAB(conflict and peace) data bases, which constructs aggregate measure of intra-country and inter-country conflict and co-operation, found that, for developed countries, Inter country political events are more significant challenges of FDI than intra-country events.

For developing countries, intra-country political events had a more robust relationship with for FDI. Wheeler and Moody (1992), has found a broad principal component measure of administrative efficiency and political risk as the determinants of FDI.

2.3.1.6. Legal and Regulatory Framework

While stable, transparent and reliable legal and regulatory frameworks promote both domestic and foreign investment, an inefficient and ineffective legal system is an impediment to enforce laws and contacts.

(Birhanu and Kibre, 2003) indicated that an efficient and transparent legal system, and in particular LDCs, does not automatically make a country more attractive for FDI.

Other countries, such as Mauritius and Seychelles have managed to attract FDI by tailoring their FDI policies through liberalization, export orientation, tax and other investment incentives. Several other studies find that countries that have a higher degree of openness attract more FDI. Chakrabarti‟s (2001) finds openness to trade, measured by exports plus imports to GDP, being positively correlated with FDI.

Morisset (2000) finds a positive and significant correlation between trade openness and the investment climate for 29 African countries. Their findings indicate that FDI responds significantly to increased openness in the whole economy and in the services sector in particular. In general, the empirical evidence supports the theoretical argument in favor of favorable government policies and liberal trade regimes as important determinants of FDI. Lee (2003) draws particular attention to the effectiveness of government policies towards foreign direct investment activity.

2.3.1.7. Privatization

Privatization provides a concrete vehicle for TNCS to invest in a country. It has generated substantial amounts of FDI in many developing economies. Sound privatization programs have three main characteristics: political commitment, business orientation, and transparency. Large-scale privatization programs send a signal to foreign investors that a government is taking steps to create a climate conducive to FDI. Thus, FDI in privatization of infrastructure enterprises (e.g. telecommunications) and industrial enterprises would have great impact on other FDI flows (IFC&FIAS, 1997).

2.3.1.8. Regional Integration (Access to Regional Markets)

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

Mwilima (2003) point out that regional integration is a determinant of market-seeking FDI. The benefits of regional integration depend on a respective country‟s domestic market size, level of infrastructure development and availability of skilled and cheap labor force compared to other member countries. Moreover, some countries like Lesotho and Swaziland have attracted FDI because they are near to South Africa and investors wishing to serve the large market in South Africa have located their subsidiaries in these countries.

2.3.1.9. Investment Promotion Strategy and Incentive Structure

Investment incentives are FDI policy instruments used to attract foreign investors. These include tax reductions & exemptions, special tax allowances, financial incentives such as low interest loans, subsidies as well as grants. Investment guarantees (e.g. guarantees for repatriation of capital and transfer of profits, and guarantees for provision of foreign currencies) can also be seen as an incentive to attract TNCs.

Bilateral and multilateral investment treaties are also an incentive to increase investment, through creating a predictable investment climate, thereby improving direct foreign investors confidence (Birhanu and Kibre, 2003). However, investment incentives are not substitutes for other determinants like infrastructure and market size. This clearly indicates that the effectiveness of investment incentives is highly determined by the host country‟s level of development (UNCTAD, 2000).

As regards investment promotion, “some economists argue that, and if countries would only get their investment policies right, investors would search out all worthwhile investment opportunities” (IFC& FIAS, 1997:49). In reality, not all prospective investors search for opportunities; as a result, investment promotion is vital particularly in least developed countries (LDCs).

Image building, investment generation and investors servicing are the three main elements of successful investment promotion. Investment promotion agencies can help the investment process if they indentify sectors and clusters of activities where comparative advantages exist and where new ones can be developed (IFC&FIAS, 1997).

Several other studies find that countries that have a higher degree of openness attract more FDI. Chakrabarti‟s (2001) finds openness to trade, measured by exports plus imports to GDP, being positively correlated with FDI.

Morisset (2000) finds a positive and significant correlation between trade openness and the investment climate for 29 African countries. Their findings indicate that FDI responds significantly to increased openness in the whole economy and in the services sector in particular. In general, the empirical evidence supports the theoretical argument in favor of favorable government policies and liberal trade regimes as important determinants of FDI.

2.3.2. Challenges of Foreign Direct Investment

2.3.2.1. Level of Infrastructure

In today‟s globally competitive business environment, absence and lack of efficient infrastructure means not only high transaction costs for those that are already in business but also a barrier to entry for new firms. Infrastructure development has high importance for the expansion of FDI because efficient and adequate infrastructure implies better access to natural resources and potential market.

According to Birhanu (1999) availability and reliability of telecommunication services, developed and adequate road and air transport services, reliable water and electricity supply facilities have paramount importance for the profitability of foreign companies and in attracting FDI. According to Musila and Sigue (2006) and Dupasquier and Osakwe (2006), FDI in Africa is dependent on the development of infrastructure. Also, other studies on developing countries (Mengistu and Adams, 2007; Cotton and Ramachandran, 2001);

emerging economies (Zhaing, 2001); Western Balkan Countries (Kersan-Skabic and Orlic, 2007) and Southeast European Countries (Botric and Škuflic, 2006) show the significant role of infrastructure development in attracting the inflow of FDI.

However, the results of a study on US FDI flow to Africa by Nnadozie and Osili (2004) find less robust evidence on the role of infrastructure on FDI. Results from Anyanwu and Erhijakpor (2004) indicate that telecommunications infrastructures, economic growth, openness and significantly increase FDI inflows to Africa. while credit to the private sector, export processing zones, and capital gains tax have significantly negative effect.

Gholami et al (2006) uses a sample of 23 developed and developing countries observed for the period 1976–99 based on ICT data availability to show that in developed countries, existing ICT infrastructure attracts FDI; a higher level of ICT investment leads to a higher level of FDI inflows but in developing countries the direction of causality goes instead from FDI to ICT.

Findings by Sekkat and Veganzones-Varoudakis (2007) indicate that infrastructure availability, openness, and sound economic and political conditions are important for South Asia, Africa, and the Middle East in attracting FDI. In a study of South East European Countries (SEECs), Dauti (2008) identifies ICT infrastructure market as the major factor positively influencing FDI inflows while seeking factors (GDP growth, GDP per capita, GDP level) have perverse signs, showing significantly negative effects on FDI inflows.

2.3.2.2. Inflation

According to Solomon (2008), through its effect on the cost of inputs and the price of outputs, inflation reduces the real return on investment and firms‟ competitiveness. Hence, countries that pursue policies that reduce inflation rate have better chance in attracting FDI. Low and predictable inflation rate is central for the long-term investment of both domestic and foreign companies. Therefore, higher and unpredictable inflation will decrease the inflow of FDI (Solomon, 2008). On the other hand, Fayyaz et al (2012) also found that macro-economic environment as depicted by low and stable inflation also encourages FDI inflows. Through its effect on the cost of inputs and the price of outputs, inflation reduces the real return on investment and firms‟ competitiveness. Hence, countries that pursue policies that reduce inflation rate have better chance in attracting FDI. Low and predictable inflation rate is central for the long-term investment of both domestic and foreign companies. Therefore, higher and unpredictable inflation will decrease the inflow of FDI (Birhanu, 1998).

2.3.2.3. Exchange Rate Variability

Frequent and erratic changes in exchange rate of the domestic currency affect the inflow of FDI (Goldberg and Klien, 1997). Exchange rate devaluations have a twofold role in explaining variations in FDI. On the one hand, the real value of foreign investors‟ capital increases when the host country‟s currency is devalued. On the other hand, frequent and continuous declines in the value of host country‟s currency would decrease FDI inflow, as it creates high uncertainty (Accolley et al, 1997).

2.3.2.4. Foreign Debt

Excessive foreign debt is one source of instability and uncertainty in macroeconomic Environment of under developed countries and hence this foreign debt is likely to affect adversely the inflow of FDI. Excessive foreign debt may signal imminent fiscal crises and foreshadow the future economic situation in a country (Serven and Solimano, 1992).

2.3.2.5. Fiscal Deficit

The fiscal deficit of a government, whether it is financed through printing additional bank notes or through taxation (which equally leads to inflation), decreases the real return on investment (Serven and Solimano, 1992). Moreover, in many developing countries it is apparent that due to excessive government borrowing the financial resources available for the private sector are limited and the interest rate is high.

On the other hand, expansionary fiscal policy may be important for the expansion of public sector investments on infrastructure (UNCTAD, 1998). In general, the overall impact of fiscal deficit as empirically tested by different studies is ambiguous. However, the theory postulates that there is a negative relationship between fiscal deficit and FDI inflows (Accolley et al, 1997).Quazi (2007) estimates the determinants of FDI to nine Latin American countries, with emphasis on the investment climate, and finds that FDI inflow is significantly boosted by foreign investors‟ increased familiarity with the host economy, better infrastructure, higher return on investment, and greater trade openness, but the inflow is significantly depressed by lack of economic freedom.

Also, FDI inflow is negatively correlated with policy changes that result in higher trade barriers, more repressive taxation, more restrictive foreign investment code, more repressive financial system, and further price and wage controls. The study identifies two factors, namely, excessive bureaucracy and inefficient financial markets, which act as location disadvantages for Mexico in comparison to its regional „rival" countries.

2.3.2.6. Skilled labor force

FDI is one of the channels that can improve the level of human capital in the host economy, again through spillovers and on-the-job training (Ozturk 2007). Improving the human capital level, FDI can therefore boost economic growth. The way FDI can have a negative impact on economic growth through the labor force is through the higher use of technology in FDI performing firms (Moura & Forte 2009). Such usage of technology can lead to layoffs, having potential negative impact on overall demand in the economy as wage income can decrease. Lack of demand can again lead to lower economic growth. The possible positive spillovers that FDI performers have on the level of human capital in the host economy are therefore potentially counterweighted by this decrement in demand for labor. However, weighing against this come the effects on demand for labor if the FDI performer is carrying out investments in the economy, especially those that create new real-capital.

Often, FDI is found to have a positive impact on employment levels (Subramaniam 2008) although its impact on job creation cannot be taken for certain (Seyf 2000). Furthermore, wages in foreign-owned companies have been found to be higher than in domestic firms (Griffith & Simpson 2003) although it is not certain that there is a causal relationship between higher wages and a foreign ownership, i.e. there may be correlation but causality is unclear (Martins 2004).

The quality of education matters as well (Wang & Sunny Wong 2011). The education factor is not only a determining factor when it comes to the absorptive capabilities of the economy but it also stimulates more FDI to come into the country (Noorbakhsh *et al.* 2001). Institutions also matter: the better the institutions – especially property rights – the higher the FDI will be (Ali, Fiess & MacDonald 2010).

Wang and Wong (2009) found similar differences in the impact of FDI on economic growth depending on whether it was a Greenfield investment or M&A activity: the former\encouraged economic growth while the latter only did if there was enough human capital in the host country prior to the FDI inflow. They also explain the ambiguity regarding the effects of FDI on economic growth with the explanation that in most FDI investigations there is no distinction made between Greenfield and M&A related FDI.

2.3.3 FDI OVERVIEW IN ETHIOPIA

FDI Trends Ethiopia‟s economic performance has been robust, but its FDI inflows have increased only moderately over the past decade. Ethiopia is one of the fastest growing non-oil producing economies in Africa with an average growth rate of 10.7 percent per year between 2004 and 2012, almost double the SSA average of 5.4 percent over the same period. Since Ethiopia issued its first investment proclamation in 1992, an attempt has been made to use FDI as an instrument to develop the economy. However, FDI inflows to Ethiopia have struggled to grow for many years. The ratio of FDI to GDP declined to below 1 percent between 2008 and 2013, making Ethiopia the second lowest in the average FDI-to-GDP ratio among comparators. Similarly, the share of FDI to export averaged 10 percent in this period, lower than the comparators.

Ethiopia‟s FDI has hit a record high of US$953 million, or about 2 percent of GDP in 2013, indicating a sign of new momentum (WDI 2015). Within FDI flows, the conversion rate of licensed FDI projects from the "pre-implementation" phase to the "operational" phase is quite low, and it varies significantly across sectors. While some of this may be related to methodological issues, there is a real trend of decreasing operationalization. Ethiopia‟s official FDI data distinguishes various FDI phases from pre-implementation to operational. From 2008 to April 2014, 4,378 investment projects were registered with the Ethiopia Investment Agency. Moreover, the share of operational projects in all licensed projects declined in recent years (from 38 percent in 2008 to 18 percent in 2012)

Data for pre-implementation may be slightly inflated due to the ease of registering interest to invest even when no concrete investor interest persists. On the other hand it is difficult to distinguish registrations that never aimed to get operationalized and those that failed to operationalize for real reasons. However, the overall trend of low and decreasing operationalization is most likely to be intact as evidenced when only looking at declining numbers of operational FDI projects in Ethiopia across all sector

As for manufacturing FDI, although its cumulative growth is in line with the country‟s development plan as described in Ethiopia‟s Growth and Transformation Plan (GTP), recent data indicates challenges in implementing manufacturing projects and bringing them to the operational stage. The registered projects in manufacturing reached 1,472 cumulative over the time period from 2008 to 2013 (or about $US8.9 billion), indicating a good level of interest by foreign investors in this sector. Compared to other sectors, the share of operational projects in manufacturing is the highest in capital investment. However, the proportion of manufacturing projects that actually started operations, after obtaining business licenses issued by EIC, was estimated at 25 percent (374 out of 1,472) from 2008 to 2013. Of these, only 4 percent (16 out of 433) commenced operations in less than one year in2013. Even after six years, only 25 percent started operations, and the rest of projects have likely been discontinued. Therefore, the low conversion rate is a key issue that Ethiopia needs to solve in order to realize the potential benefits of FDI because significant delays may force investors to leave and adversely affect investor confidence in Ethiopia.

Manufacturing accounts for the largest share at 76 percent of the total investment for operational projects, reaching US$2.2 billion over the last six years. Moreover, the average size of manufacturing projects has been the largest, almost double than that of agriculture projects; the second largest sector in average size of project (EIC, 2014) The FDI trend varies by subsectors in the manufacturing sector from 2008 to 2013. The relative weight of textile and clothing, and leather and footwear subsectors increased rapidly; and the same happened to the food and beverage subsector. Additionally, the paper, printing, and packaging subsector also increased. In comparison, nonmetallic mineral products (such as cement, concrete, and gypsum manufacturing) declined. Finally, the metal products, chemicals and pharmaceuticals subsectors roughly maintained the same weight. Because only projects that survived were examined, this may imply that current investment climate has favored some subsector s over others.

The majority of manufacturing FDI comes from new partners such as China, India, Turkey, and Sudan, and their average project sizes vary considerably. There were 920 operational projects in Ethiopia from 2008 to 2013, either solely owned by one country or as joint venture. By project number the top five investors are China (196 fully owned by Chinese), India (64), Turkey (57), Sudan (54) and the U.S. (45); while by capital, the top five are Turkey (US$967 million), China (US$545 million), Saudi Arabia (US$279 million), India (US$254 million) and France (US$96 million). Among these, Turkey has the largest average project size; in contrast, Sudan‟s project size is the smallest. India, Turkey, and Sudan) are also the top investors by project number, while traditional investors have limited presence because most of their investment is in services. Furthermore, traditional investors use joint ventures more often in this sector, and Netherlands, Germany, the US and Italy are the major investors in this group. Among new partners, China and India have maintained long historical ties with Ethiopia in trade and investment, but exhibited many differences in investment patterns. Before 2008, the Chinese FDI was mainly in construction and related activities (30 percent by number of projects and 56 percent by investment since 1992) (EEA/EEPRI 2009).In comparison, the Indian FDI concentrated in cut flowers, plastic manufacturing, and water drilling.

Manufacturing FDI from both countries has grown rapidly and their operational projects reached peak in 2008–2009. Over last seven years, manufacturing has attracted the lion‟s share of FDI from both countries. Also, China and India recorded relatively high conversion rate: both reached 30 percent. Apart from textile and clothing, leather and footwear, and nonmetallic mineral products (including building and construction materials), Chinese and Indian FDIs have shown different concentrations in manufacturing products. Chinese companies have become engaged in products such as electrical and electronic equipment and rubber and plastic products; while Indian investors focus on chemicals and pharmaceuticals, as well as paper, printing and packaging.

2.4 Literature Gap

Scholars undertake research come up with different list of opportunities and challenges of FDI inflows. This is mainly because of some have gained or lost importance over time, (UNTACD, 1998). On this review the focus is on empirical studies conducted on challenges and opportunities of FDI in developing countries and especially in Ethiopia. The review Suggests the following gaps in the literature:

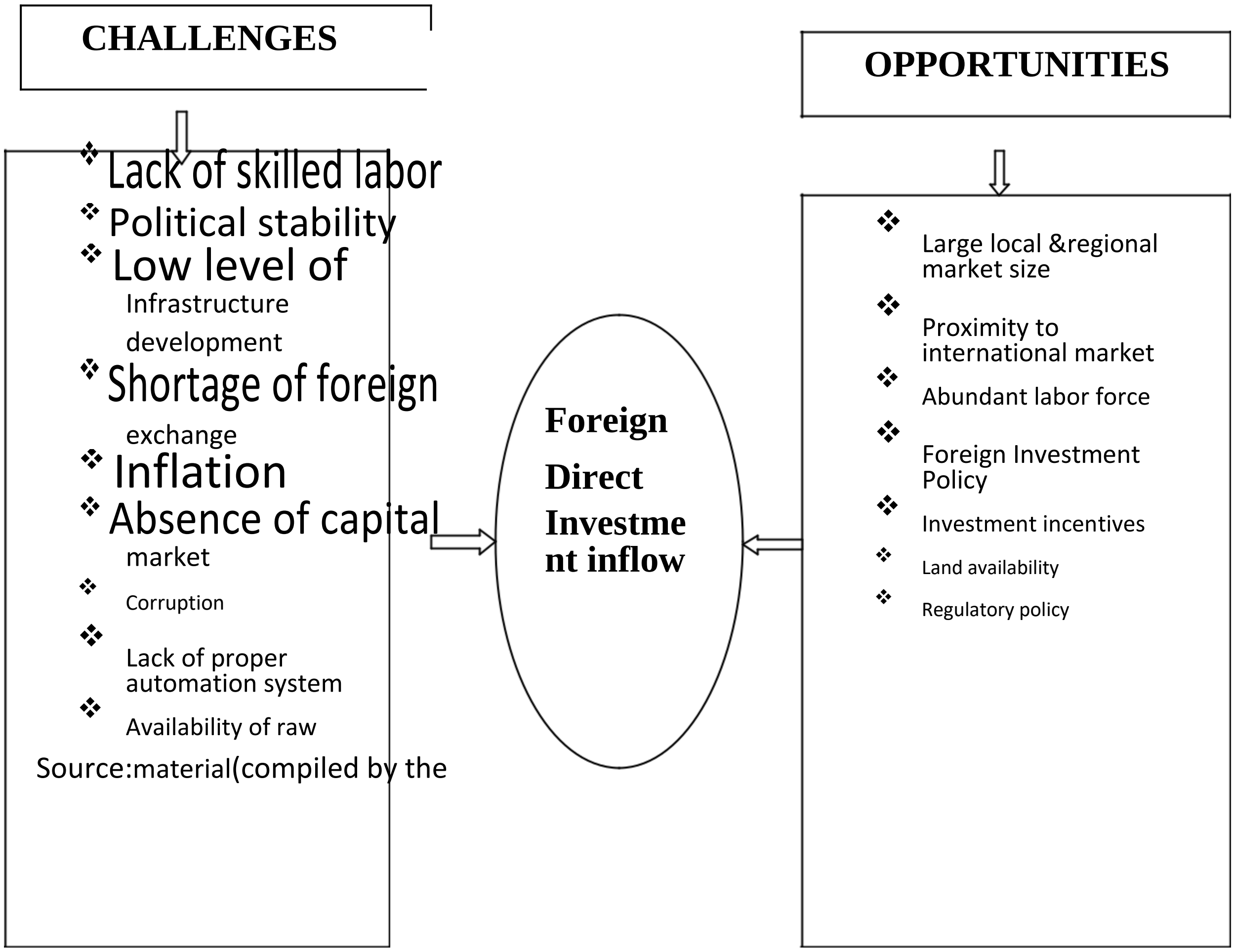
According to Henok (2014) there have been new motives for FDI in recent years next to the traditional ones such as resource seeking i.e. oil. He showed that most of FDI to Ethiopia has been targeted for domestic and regional market seeking. Investment incentives, political and social stability are also the main opportunities that attract foreign investors to Ethiopia. The three main challenges that the government must address to attract more FDI includes, exchange rate volatility, corruption and delay in license and regulatory impediments.

Jaumotte (2004) finds that regional trade agreements have an opportunity to the FDI received by the member countries. Similarly, Asiedu (2003) studies 22 African countries observed from 1984 to 2000 and finds that countries that are endowed with natural resources will attract more FDI.

Woldemeskel (2012) noted that low level of effective demand due to the limited purchasing power of the people, absence of some important natural resource, low level of infrastructure development, excessive bureaucracy, inefficient and ineffective legal system, unstable political environment, and lack of skilled labor force, lack of liberalization and slow process of privatization program are the main challenges of FDI inflow in Ethiopia.

Ali (2016) analyzed opportunities and challenges of FDI projects at Pre-implementation and implementation stages targeting Agro processing, Textile and garment and leather and leather products. He reveal that political stability, foreign investment policy, tax policies, tariff policies, terrorism situation and supply of competent labor, availability of abundant raw materials, presence of huge market demand and proxy to international market are opportunities for foreign investors. He added that inadequate supply foreign exchange and inflation, absence of capital market and access to financial loans, lack of proper automation system and the current technological development of the country, inadequate electricity supply are challenges that foreign investors are facing. Due to this opportunities and challenges vary from one country to another country so, to fill this gap it needs further study on the challenges and opportunities of selected manufacturing business in Ethiopia.

2.5. Conceptual Framework of the Study



Source :(World Bank, 2018)

CHAPTER THREE

3. RESEARCH METHODOLOGY

This chapter will include the methodology that deploys for data gathering as well as relevant statistical analytical tools that uses for analyzing the survey results data during the process of the study. The purpose of this section is to discuss the research design, the population of the study, sample size and sampling techniques, data sources, data collection procedures and analysis tools.

3.1. Research Design

Research designs are plans and the procedures for research that span the decisions from broad assumptions to detailed methods of data collection and analysis (Cresswell, 2009). Descriptive research is employed as it helps to identify present conditions and points to present needs, study immediate status of a phenomenon, examine the relationships of traits and characteristics and the descriptive survey is more realistic than other research types (Singh, 2006).

Descriptive research design needs a clear specification of what, who, where, when, how and why the research is to be done (Mohan, 2007). The present research study is descriptive in nature since the researcher intends to describe the phenomena pertaining to the challenges and the opportunities of selected manufacturing business in Ethiopia and apply survey tools to collect data from samples drawn from population.

3.2. Research Approach

The study employed a combination of quantitative and qualitative approaches to assess the challenges and opportunities of selected manufacturing business in Ethiopia to convergence across qualitative and quantitative methods (triangulating data sources). Creswell (2003 & 2014) noted that in an investigative study there are three familiar types of research approaches to business and social research namely, quantitative, qualitative and mixed approach. Though, each approach has its own strengths and limitations, Creswell (2003 & 2014), advocates that certain types of social research problems call for specific approach. Hence, in selecting an approach one should take in to account the nature of the research problem, the personal experience of the researcher, and the audience for whom the report will be written.

The use of quantitative and qualitative methods in the study is considered to help counterbalance the limitations of one approach with the strengths of the other and enhance reliability of the results (Dornyei, 2003; Grix 2004; Jicks 1979; Punch 1998; Newtom & Rudestam, 2001).

Specifically, qualitative methods enable flexible and detailed exploration of issues in a broader context while quantitative methods help to make statistical inferences about attributes (Creswell2009; Punch, 1998). This approach enables detailed interpretation to enrich understanding of the results (Gillham, 2000).

The Researcher used both qualitative and quantitative data normally serve to achieve various purposes. For quantitative data approach cloth-ended were using to lay out all of the possible answers to respond and for qualitative approach semi-structured interviews are more of open-ended to allow interviewers to follow issues that diverge from the guide. Adopting of mixed method research approach in this research provided the best understanding of a research problem because it opens the door to multiple methods of data collection and to both generate the findings to a population and develop a detailed view of the meaning of a phenomenon or concept for individuals (Creswell, 2003, pp. 12-22).

3.3. Population and Sampling Technique

The population for this study was foreign investors in textile & garment industry and Agro processing sector, established between the periods 2012 up to 2020.As mentioned in table 3.1 below there were168 projects in Agro processing sector and 35 textile & garment industry in targeted sectors. To draw appropriate sample from Agro processing sector, the researcher used Slovin‟s sample calculating technique. Hence, n= N/1+Ne2 Where n is sample size, N = Population e = Margin of error. Accordingly, the sample size was determined using 95% confidence level and 5% margin of error. Therefore, the sample size is n= 168/1+168*(0.05)2 and approximately equal to 119 projects. Once the sample size was determined the researcher used convenience technique to access specific respondents. To get information from employees of Ethiopian Investment Commission 20 questioners are distributed for 3, 2, 4, 7 and 4 employees who have been working at promotion, registration and licensing and textile and garment and Agro processing directorates. The number of population in the targeted directorate was manageable, the researcher distributed and collected questionnaire from all employees. Hence, census was used to collect information from employees of Ethiopian Investment Commission.

Table 3.1: Sample frame and proportion of sampling

S/N	Sector	# of projects in the sample frame	% age from the Total population	sampled
1	Agro processing sector	168	71	119
2	Textile & Garment	35	100	35

3.5. Data Sources

The primary and secondary sources of data used in this study. Myers (2008) says that primary data is the data which is collected for the research project. Primary data do not exist until and unless it is generated through the research process as part of the project. The primary sources generate are through closed-ended questionnaire from sampled foreign investors, officers, and officials in Ethiopian Investment commission using Likert scale type closed ended questions. The researcher used closed-ended questionnaires because it lay out all of the possible answers, removing respondents‟ task of coming up with their own responses and it is descriptive in nature and also using likert scale to gain accurate results and it can help to avoid some of common pitfalls of survey design, like creating every broad questions that respondents may find too hard to think about.

Besides to this, semi-structure interview was conducted with twenty team leaders of promotion directorate, follow up and after care directorate of textile and garment, agro processing directorate, and law directorate of Ethiopian investment commission. Semi-structure interviews are used when the literature is less developed and the researcher wants to develop a better understanding of the topic under consideration and it may provide a way to gain additional knowledge by allowing respondents to express their view in their own words.

3.5.1. Primary Data

3.5.1.1. Questionnaire

Questionnaires were developed from review of literature on the challenges and opportunities of FDI selected manufacturing businesses. Foreign investors and Staffs of Ethiopian Investment Commission are solicited to provide information on challenges and opportunities of FDI. The questionnaires were taken with modification from prior studies and literature review (Ali, 2016).This approach is recommended in methodological literature for studies of this nature (Bell & Bryman, 2007). The questionnaire engaged a five point Likert-Scale items requiring respondents‟ agreement or disagreement where Likert scale questions had five degrees namely strongly agree, agree, neutral (undecided), disagree, and strongly disagree that are combined into a single composite score/variable during the data analysis process (Kothari, 2004; Boone Jr& Boone, 2012). A "good" Likert scale is a scale which is balanced on both sides of a neutral option, creating a less biased measurement.

3.5.1.2. Interview

It is a two way systematic conversation between an investigator and an informant, initiated for obtaining information relevant to a specific study (Stake, 2010).The reasons of conducting an interview were used to collect data which is unique and to obtain information which was unable to gather by the researcher through other methods (Stake, 2010).

The interviews conducted by the researcher to ensure that all the interviews were conducted in a similar manner, thereby enhancing data reliability (Fowler, 2002).Furthermore, Mihret (2010) noted that multiple data sources are important to consolidate results. Yet as a further step to enhance data reliability, interviews were conducted until it was felt that the saturation point has been reached. The interview„s semi-structured design helped foster the flexibility that the purpose of the research presumed. Therefore, the researcher used semi-structured interview in order to fill the information gap and to establish data reliability by exploring additional information for the research.

3.5.2. Secondary Data

Detailed review of literature from secondary sources were provided the base for identifying the domain, selection, designing and inclusion of various measuring variables in the questionnaire for the study. We also used various sources of secondary data which include: Ethiopian Investment Commission (EIC) and Ministry of Trade and Industry.

3.6. Data Analysis Method

Data analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data groups. Data analysis requires a number of closely related operations such as estimation of categories, application of these categories to raw data through coding, tabulation and then drawing statistical inferences (Kothari, 2004).

The data collected through questionnaires were analyzed with descriptive statistics using SPSS version 20. Qualitative research is fundamentally interpretative that is the researcher was interpreted the qualitative data. Thus, data collected from the interview and reviews of documents were interpreted qualitatively (Creswell, 2003)).In addition the researcher was used interview and document analysis to the rich data. (Tefera ,2007) noted that qualitative research is characterized by adherence to diverse array of orientation and strategies for maximizing the validity of trustworthiness of study procedures and results.

Furthermore, Document analysis is the collection review, interrogation, and analysis of various forms of text as a primary source of research data. It refers to both a data collection method and a mode of analysis (Leary, 2004)

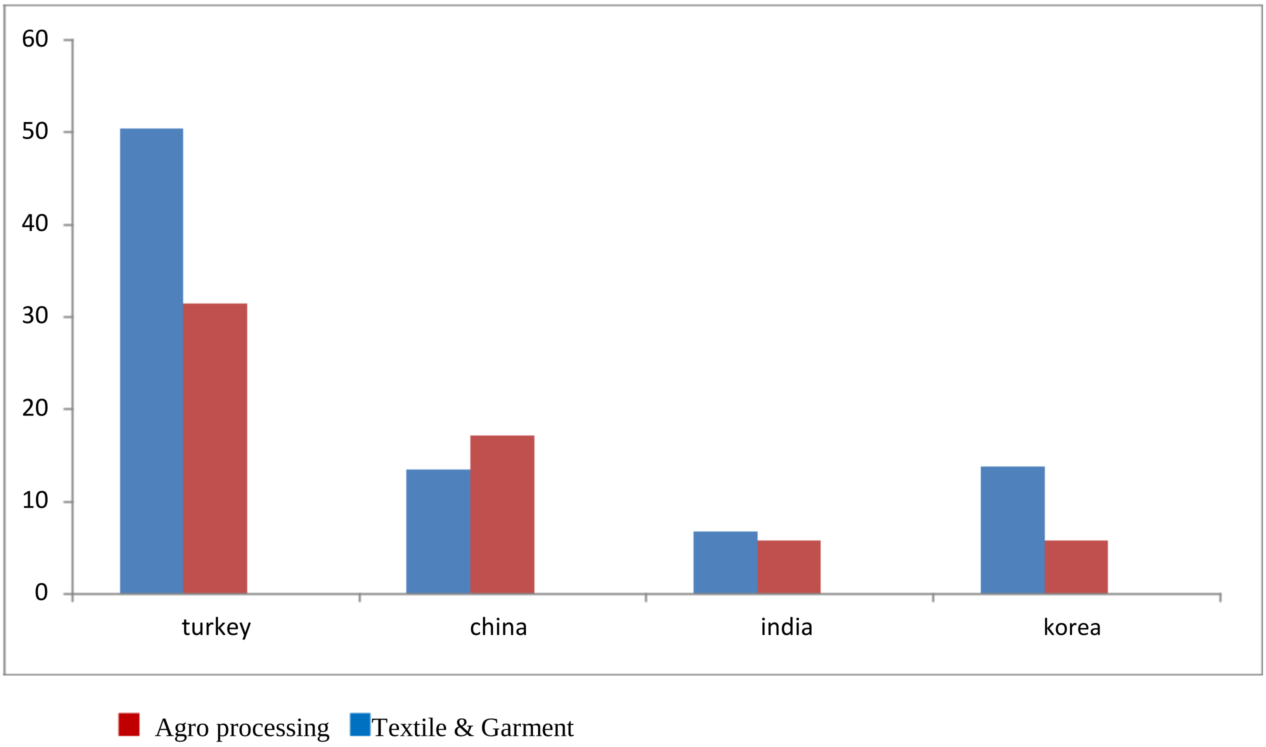
CHAPTER FOUR

4. RESULTS AND DISCUSSION

This research has been conducted to assess opportunities and challenges of FDI in the Agro-Processing and Textile and Garment sectors. 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 119 questionnaires distributed to respondents, 106 were collected yielding a response rate of 89 %. To complement the questionnaire data, interview has been administered to team leaders of agro-processing and textile and garment teams.4.1 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 one hundred fifty four questioners (one hundred nineteen questioners from Agro processing sector and Thirty five from Textile & Garment sector, foreign investors and twenty from employees of EIC) were collected and analyzed. Therefore, in this part of the paper the views of respondents on the opportunities and challenges foreign direct investment presented in tabular and graphic form.

4.1 Agro processing and Textile & Garment

Figure 1: Home Country of Investors



SOURCE: survey 2020

As it can be seen from the above figure, 50.4% of the sample for textile & garment is drawn from turkey investors. Korea and china took the second and the third position having 15% and 13.4% respectively. India took the fourth position having 6.7% of the respondent each. Similarly, the majority of the respondents for Textile & Garment sector are also from turkey and china 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 2: Investment License issuance years

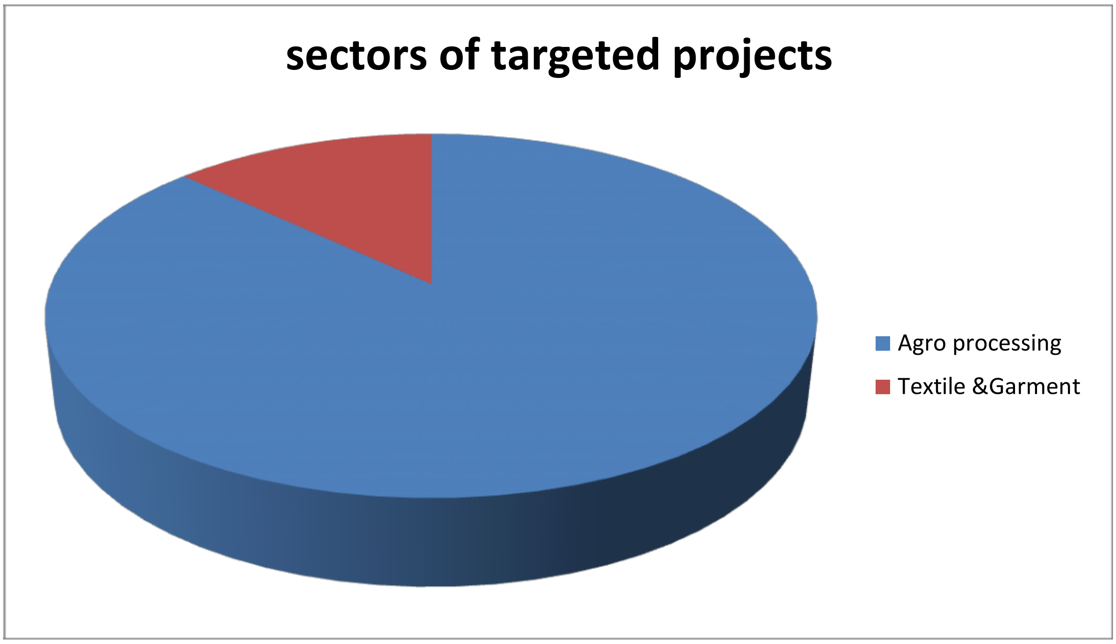
Agro processing	frequency	percent	Valid percent	Cumulative percent
2012	9	7.6	7.6	7.6
2014	78	65.5	65.5	73.1
2015	32	26.9	26.9	100
Total	119	100	100	
Textile & Garment				
2012	7	20	20	20.0
2013	14	40	40	60.0
2014	10	28.6	28.6	88.6
2015	4	11.4	11.4	100
	35	100	100	

Source: Survey, 2020

Table 2 depicted the years at which the sample foreign investors owned projects got their investment license. Thus, 65.5% this paper‟s respondents from Agro processing industry got their investment license in 2014. The remaining 26.9% and 7.6% of the respondents got their investment license in 2015 and 2012 respectively.

With respect to Textile & Garment sector, out of 35 contacted investors, 40 % got their investment licenses in 2013. The remaining 28.6 %, 20% and 11.4% respondents got their investment licenses in 2014, 2012 and 2015 respectively. Hence, majority of the sample respondents from Textile & Garment sector drawn from projects established in 2013.so this implies that the number of FDI project investment license issuance were decreased because of many reasons.

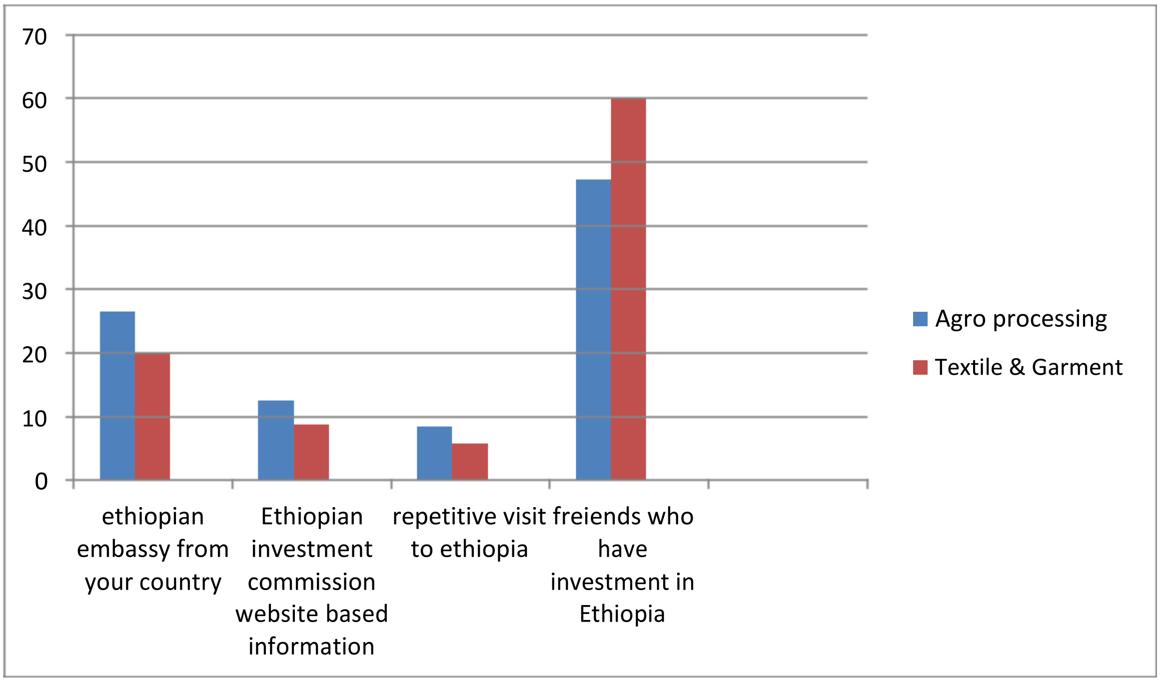
Figure 2: Sector of the targeted Project



Source: Own Survey, 2020

Figure 2 presented the percentage share of each sectors to the sample size. Hence, 87% of the sample was drawn from Agro processing sector. The remaining 13% the samples are drawn from Textile & Garment sector.

Figure 3: Source of Investment Information for Foreign Investors



Source: survey, 2020

Figure 3 presented the responses of foreign investors regarding their sources of information about Ethiopia and its investment climate. Accordingly, for Agro processing sector 47.1% of the respondents got investment information from their senior investors. Ethiopian embassies, Ethiopian Investment Commission website, repetitive visit to Ethiopia and family influence served as a source of information for 26.9%, 12.4%, 8.3% 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. so, getting sources of investment information is challenging to foreign investors from EIC promotion channels.

Similarly, for Textile & Garment sector of the above figure, information obtained from friends is the main mechanism investors got information about Ethiopia and the sectors. Out of 35 responses, 21 respondents that are (60%) 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 20% 8.6% respectively and 5.7% repetitive visit to Ethiopia as a source of information. Among the alternative Ethiopian Investment Commission website is the least source of information for foreign investors to make investment decision. This indicates that the role of website to the newcomer foreign investors is minimal and do not giving its intended service.

Table 3: Political Challenges and Opportunities

Agro processing	SA	A	MA	DA	SD	Mean	Std
Ethiopia is politically unstable	57.1	13.4	29.4	0	0	1.72	0.9
Ethiopian foreign investment policy is attractive	34.5	51.3	14.3	0	0	1.8	0.7
Tax policies of Ethiopia are encouraging	42.00	21.0	0	37.0	0	2.32	1.34
Tariff policies of Ethiopia are encouraging	26.9	14.3	29.4	29.4	0	2.6	1.2
Terrorist activities are growing	6.7	0	8.4	54.6	30.0	4.02	1
The justice system sound	6.7	14.3	27.7	36.3	15.00	3.34	1.14
Timely information is not adedequately	21.00	56.3	22.7	0	0	2.02	0.66

Textile & Garment							
Ethiopia is politically unstable	37.1	51.4	11.4	0	0	1.74	0.7
Ethiopian foreign investment policy is attractive	17.12	37.1	429.	0	2.9	2.34	0.9
Tax policies of Ethiopia are encouraging	11.4	40	25.7	20	2.9	2.63	1.
Tariff policies of Ethiopia are encouraging	17.1	34.3	28.6	14.3	5.7	2.6	1.1
Terrorist activities are growing	2.9	20.	2.9	51.4	22.00	3.7	1.1
The justice system sound	5.7	14.3	22.9	45.7	11.00	3.43	1.00
Timely information is not adedequately	5.7	54.3	14.3	22.9	2.9	2.63	1.00

Source: survey, 2020

The researcher used political, economical, social, technological, legal (PESTL) tool to identify challenges and opportunities of foreign investors at Textile & Garment sector. 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 all respondents from both Agro processing sector and Textile & Garment sector feel that the political situation of Ethiopia unstable. Therefore, Ethiopia has not satisfied one of the pre-requisite for foreign investors" investment location decision. Hence, being unstable politically is one of the challenge in Ethiopia"s the political environment. Regarding foreign investment policy of Ethiopia 97.1 % and 100% of the respondents, perceived that it is at least 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 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 10 years on the bases of sectors and location of the investment.

Hence, 63% and 77.1%from Agro processing sector and Textile & Garment sector respectively 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, 74.3% and 84.6% of the respondents from Agro processing sector and Textile & Garment sector opposed the thinking of terrorism growing in Ethiopia. The result strengthens the finding that Ethiopia is a politically unstable country. It also tells us that foreign investors feel unsecured in both their property and their life when they come and work in Ethiopia. It is a big problem 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 (2002) 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 42.9% and 48.7% of the respondents from Agro processing sector and Textile & Garment sector respectively believe that the judiciary system of the country is rationally good. 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 Ethiopia. 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, 81% from Agro processing sector and 74.3% from Textile & Garment sector experienced that they are not getting necessary information at the moment they need with the required detail. Hence, the result indicates that information handling and communicating mechanisms are not in a position to provided up-to-date and detail information on the spot. This will hamper investors to make informed decision at the right time.

Table 4: Economic Environment

AGRO PROCESSING	SA	A	MA	DA	SD	Mean	Std.
Foreign currency is adequately available	0	5	13.4	21.8	59.7	4.36	0.9
Absence of Capital Market limit of financing	0	6	15.4	19.8	60.1	4.48	1.00
Inflation rate is favorable	0	5.7	13.4	19.7	59.7	3.93	0.89
Interest rate is favorable	0	6.00	14.3	18.9	60.00	3.38	1.2
Adequate access to loan	5.9	10.1	11.8	40	31	3.8	1.2
Economic system of Ethiopia is fertile for FDI	14.3	49.6	36.1	0	0	2.2	0.7
Adequate supply of competent labor force	0	6	15.4	18.97	59.6	3.4	0.9
Raw materials are abundantly Available	0	5.7	14.3	21	58.67	3.35	0.9
Proximity to international Market	22	34.5	42.8	0	0	2.1	0.8
Huge Market Demand for project output	36	28.6	28.6	6.7	0	2	0.95
Fiscal policies of the Government are encouraging	21.8	14.3	34.5	29.4	0	2.71	1
Monetary policies of the Government are encouraging	6.7	20.2	50.4	22.7	0	2.9	0.8
import procedures	0	5	14	21.8	57.9	4.36	0.9
Export procedures	0	6	13.9	22	60	3.97	0.89
TEXTILE & GARMENT							
Foreign currency is adequately available	0	5	13.4	21.8	59.7	4.36	0.9
Absence of Capital Market limit of financing	0	6	15.4	19.8	60.1	4.48	1.00
Inflation rate is favorable	0	5.7	13.4	19.7	59.7	3.93	0.89
Interest rate is favorable	0	6.00	14.3	18.9	60.0	3.38	1.2
Adequate access to loan	5.9	10.1	11.8	40	31	3.8	1.2
Economic system of Ethiopia is fertile for FDI	14.3	49.6	36.1	0	0	2.2	0.7
Adequate supply of competent labor force	0	6	15.4	18.97	59.6	3.4	0.9
Raw materials are abundantly Available	0	5.7	14.3	40	58.67	3.35	0.9
Proximity to international Market	22	34.5	42.8	0	0	2.1	0.8
Huge Market Demand for project out	36	28.6	28.6	6.7	0	2	0.95
Fiscal policies of the Government are encouraging	21.8	14.3	34.5	29.4	0	2.71	1
Monetary policies of the government are encouraging	6.7	20.2	50.4	22.7	0	2.6	0.8
Import Procedures	0	5	14	21.8	57.9	2.9	0.9
Export Procedures	05	6	13.9	22	60.0 0	2.5	0.8 9

Source: survey, 2020

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. 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 18.4% of the respondents from Agro processing sector feel that the supply of foreign currency at least moderate. Similarly, 25.7% of respondents from Textile & Garment sector back the feeling of Agro processing sector 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 for 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, 78.2 % of investors from Agro processing sector experienced that absence of capital market at least has a moderate challenge in their investment. Likewise, 71.4% of investors from Textile & Garment sector have similar feeling with those Agro processing sector investors. 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 2020, 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 favorable for foreign investors. Accordingly, 85.7% of the respondents from Agro processing sector and 85.7% from Textile & Garment sectors feel that the current inflation rate of Ethiopia is not encouraging. Hence, the result indicates the instability of one of macroeconomic element. This is in turn indicating the fiscal and monitory policy of the county were not prudent.

The fifth economic variable of this paper was about the accessibility of loan. Thus, only 27.7% of respondents from Agro processing sector and 31.4% from Textile & Garment sector feel the availability loan at least moderate. The remaining big number of respondents does not feel loan availability 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 Ethiopian economic system contribution to attract foreign investors. It is known that Ethiopia 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. As it is presented in result part, 100% of respondents from Agro processing sectors and 77.1% from Textile & Garment sector envisage the current economic system contribution to FDI at least moderate. Hence, the current market oriented policy appreciates foreign investors and lays fertile environment for the smooth running of FDI.

The seven economic variable of the paper was about labor supply. According to Ethiopian industry policy (2002) one of Ethiopian comparative advantage area for foreign investment is the availability of adequate cheap labor force. Hence, the motive of this question was to collect perception of foreign investors on the adequacy of labor force availability. Accordingly, 96.6% from Agro processing sector and 91.5% from Textile & Garment sector 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 Agro processing & Textile & Garment sectors the finding also confirmed in an interview with team leaders of Ethiopian investment commission.

The eight economic variables 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, 78.2% of respondents from Agro processing sector and 71.4% from Textile & Garment sector consider the current supply of raw material at least moderately available. The result indicates that majority of the respondents from both sectors not satisfied with the current supply level of raw materials. But considerable numbers of respondents feel comfortable with the availability raw materials. In an interview with team leaders, the researcher identified that in sectors like Agro processing 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 ninth 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 will 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, 100% of respondents from Agro processing sector and 88.6 % of from Textile & Garment sector feel that proxy to international market at least moderately 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 tenth variable administered in the economic environment is the market size of the country. According to working group report, (2018) 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, 93.3% of respondents from Agro processing sector and 85.7% from Textile & Garment sector consider the current market size is huge 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. Thus, the researcher asked sample respondents to point their perception on the attractiveness of Ethiopian current fiscal policy. Accordingly 70.6% of respondents perceive that the current fiscal policy of Ethiopia at least moderately attractive. Similarly, 80% of respondents from Textile & Garment sector hold similar view with the perception of the above Agro processing sector respondents. The figure indicates that Ethiopian fiscal macroeconomic policy perceived as stabilizing the macroeconomic environment and creating stable economic situation.

Regarding the monetary policy in 2018/2020 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, 77.3% of respondents from Agro processing sector answered that they are at least moderately agreed on the attractiveness of Ethiopian monetary policy. Similarly, 85.7% of respondents from Textile & Garment sector hold similar perception with the above Agro processing sector respondents. Hence, the finding indicates that foreign investors perceived the monetary policy of the country bringing stability through maintaining inflation rate small. This in turn brings macroeconomic stability that foreign investors‟ underscore location decision criteria.

The thirteen 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 (2019) 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, 56.3% of the respondents from Agro processing sector perceive that the import procedure is not good. Likewise, 60% of respondents from Textile & Garment sector backed the perception of Textile & Garment sector investor‟s ideas on the procedure. 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, 77.3% of respondents from Agro processing sector pointed that the procedure is at least moderately easy. Regarding investors from Textile & Garment sector, 71.4% of them share the perception of investors from Agro processing sector in the export procedure. Therefore, the finding tells us that more than half of the respondents perceive the export procedure at least moderately good. However, considerable number of respondents feels that the export procedure is not even rationally simple for foreign investors.

Table 5: Social Environment

AGRO PROCESSING	SA	A	MA	D	SD	Mean	Sts.
Favorable communal culture	36.1	48.7	15.1	0	0	1.79	0.7
Ethiopia‟s growing population is an advantage for FDI Business	49.6	28.6	21.8	0	0	1.72	0.8
Availability of qualified workforce	0	5	13.4	21.8	59.7	4.36	0.9
Prudent work ethics of the labor force	0	4.9	14.4	20.9	58.9	4.31	0.89
Citizens spending power is promising to secure local market	13.4	6.7	50.4	29.4	0	3.0	1.0
TEXTILE & GARMENT							
Favorable communal culture	25.7	48.6	17.1	2.9	5.7	2.1	1.0
Ethiopia‟s growing population is an advantage for FDI Business	34.3	40.0	17.1	2.9	5.7	2.1	1.1
Availability of qualified workforce	0	5	13.4	21.8	59.7	4.36	0.9
Prudent work ethics of the labor force	0	4.9	14.4	20.9	58.9	4.31	0.9
Citizens spending power is promising to secure local market	11.4	37.1	22.9	17.1	11.4	2.8	1.2

Source: Survey, 2016

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, work ethics and citizens spending power as a measurement to assess challenges and opportunities in the social environment.

Communal culture gives a sense of belongingness to its members. Hence, 99% and 91.4% of the respondents from Agro processing sector and Textile& Garment sector at least believe there is favorable communal culture in Ethiopia. Hence, the finding indicates that Ethiopian communal culture makes foreign investors conformable and 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 100% of the contacted foreign investors from Agro processing sector moderately see the population growth of Ethiopia an opportunity for foreign investors. Similarly, 91.4% of the respondents from Textile & Garment sector investors perceive the population growth as an opportunity for foreign investors. Hence, majority of the respondents from Agro processing sector and Textile & Garment sector consider the population growth as an opportunity.

Therefore, we can say from the finding that foreign investors see the growth of population 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, 85% of the respondents from Agro processing sector perceive the availability of qualified workforce not good. Likewise, 82.9% of respondents from Textile & Garment sector perceive that qualified workforces are at least available at a moderate amount. Hence, the finding tells us that qualified workforce is also another challenges factor that Ethiopia can hinder to attract foreign investors. In an interview with leaders of Ethiopian investment location they affirmed the unavailability 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, 85.7% of the respondents from Agro processing sector perceive that at least Ethiopian workers ethics were not prudent. Similarly, 77.1% of the respondents from Textile & Garment sector perceive that Ethiopian worker has not prudent work ethics at their work. Therefore, the result implies that trustworthy and ethical workers are not available for foreign investors. This in turn will indicate that investors are not secured in their resource being abused by employees. The interviewed team leaders affirmed that they hear complain from foreign investors regarding unethical work behaviors of Ethiopian.

The last variable under social environment was the spending power of citizens. The aim of this question was to collect the degree of perception on the spending power of citizen in securing local market. Thus, 70.6% of the respondents from Agro processing sector perceive that the spending power of citizens is promising to secure local market. Similarly, 71.4% of the respondents from Textile & Garment sector perceive that the spending power of citizens is at least moderately promising to secure local market. 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

AGRO PROCESSING	SA	A	MA	D	SD	Mean	Std.
Adequate Internet Facility	6.7	14.3	26.9	37.0	15.1	3.4	1.1
Automated system are used in government institution	6.7	21.0	14.3	27.7	30.3	3.5	1.3
Adequate transportation system	0	6	14.4	21.9	58.9	4.38	0.9
Current technology Development	0	13.4	27.7	51.3	7.6	3.5	0.8
TEXTILE & GARMENT							
Adequate Internet Facility	2.9	20.0	25.7	37.1	14.3	3.4	1.0
Automated system are used in government institution	8.6	14.3	20.0	48.6	8.6	3.3	1.1
Adequate transportation system	0	6	14.4	21.9	58.9	4.38	0.9
Current technology Development	8.6	40.0	20.0	28.6	2.9	2.8	1.1

Source: survey, 2020

To identify opportunities and challenges for FDI in 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, 47.9% of the respondents from Agro processing and 48.6% from Textile & Garment sector feel the current internet service is adequate. Hence, the finding tells us that more than half of the respondents from both sector 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, 42% from Agro processing sector and 42.9% from Textile & Garment sector feel that government institutions that they have a contact used automation system 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 Ethiopia. Accordingly, 56.3% of the respondents from Agro processing sector and 51.4% from Textile & Garment sector feel that the current transportation system of Ethiopia is not 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, 41.2 from Agro processing sector and 68.6 % from Textile& Garment sector consider the current technology development moderate. The remaining respondents from the two sectors do not agree with the statement that depicts technological development in Ethiopia.

Table 7: Legal Environment

AGRO PROCESSING	SA	A	MA	DA	SD	Mean	Std.dev
Investment proclamation is encouraging	20.2	42	37.8	0	0	2.2	.74
License getting procedures are efficient	33.6	21	30.3	14.3	0.8	2.3	1
Land Getting procedure are efficient	0	5.9	10.9	54.6	28.6	4	0.8
Availability of electric supply	0	4.2	8.4	63.9	23.5	4.1	0.7
Custom clearance procedures is efficient	6.7	13.4	28.6	21.8	59.7	3.3	1

Availability of water supply	14.3	21.8	42.9	7.6	13.4	2.8	1
TEXTILE & GARMENT							
Investment proclamation is encouraging	11.4	25.7	48.6	11.4	2.9	2.7	0.9
License getting procedures are efficient	8.6	22.9	57.1	8.6	2.9	2.7	0.9
Land Getting procedure are efficient	0	11.4	14.3	45.7	28.6	3.9	1.0
Availability of electric supply	0	0	34.3	40	25.7	3.9	0.8
Custom clearance procedures is efficient	5.7	22.9	17.1	22.4	60.1	3.3	1.1
Availability of water supply	11.4	8.6	34.3	34.3	11.4	3.3	1.1

Source: survey, 2020

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 both Agro processing sector and Textile & Garment sector asked to express their degree of consent on the encouragement of foreign direct investment proclamation. Accordingly 100 % of the respondents from Agro processing sector and 85.7% from Textile & Garment sector at least 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 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, 84.9% from Agro processing sector and 88.6% from Textile & Garment sector have at least 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 16.8% from Agro processing sector and 25.7% from Textile & Garment sector have at least moderate positive 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 (2019) 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 2018/19 (an investment guide to Ethiopia, 2020). Thus, the researcher asked its respondent to indicate their perception regarding the availability of water. Accordingly, 79% of the respondents from Agro processing sector perceive that the availability of water is moderate. On the other hand, only 54.3 % of respondents from Textile & Garment sector perceive the supply of water is at least moderate. The result indicates the presence of difference between Textile & Garment sector and Leather & Leather product sector regarding water availability.

The fifth legal variable used in identifying challenges and opportunities under this environment was the availability of electricity. Hence, the researcher asked its respondent to rate their perception on the degree of electricity availability. Accordingly, 12.6 % of the respondents from Agro processing sector replied that the supply of electricity is at least moderate. Likewise, 34.3% of the respondents from Textile & Garment sector 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.

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 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. Accordingly, 48.7% from Agro processing sector see the custom clearance procedure not moderate. Similarly, 45.7% of the respondents share the perception of investors from Agro processing sector. Hence, the finding show that foreign investors do not appreciate custom clearance procedure though there is improvement.

Table 8: Global Environment Challenges and Opportunities

AGRO PROCESSING	SA	A	MA	D	SD	Mean	Std.
New emerging international market are attractive	7.6	49.6	28.6	6.7	7.6	2.6	1
International political events create business opportunities	6.7	42.9	28.6	14.3	7.6	2.73	1
International Economic situation is prudent	0	49.6	28.6	21.8	0	2.72	0.8
TEXTILE & GARMENT							
New emerging international market are attractive	17.1	48.6	25.7	5.7	2.9	3.1	5.2
International political events create business opportunities	0	62.9	31.4	5.7	0	2.43	0.6
International Economic situation is prudent	5.7	68.6	25.7	0	0	2.2	0.5

Source: survey, 2020

To assess opportunities and challenges of FDI in 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 85.7 %, respondents from Agro processing sector at least have a moderate feeling on the attractiveness of the emerging international markets. Likewise, 91.4% of the respondents from Textile & Garment sector also have at least a moderate feeling towards emerging international markets. The result indicates that one of the attracting factors for foreign investors both from Agro processing sector 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, 78.2% of Textile & Garment respondents at least moderately believe that international political events create business opportunities. Similarly, 94.3% of respondents from Textile & Garment have a moderate believe that international political events create business opportunity. 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 Agro processing sector support the argument that international economic situation is prudent. Similarly, 74.3% of the respondents from Textile & Garment back the idea of their junior. The finding implies that majority of the respondents from Agro processing sector and Textile & Garment believe that international economy has the ability to govern and disciplined oneself by reason.

Table 9: Industrial Environment Challenges and Opportunities

AGRO PROCESSING	SA	A	MA	D	SD	Mean	Std.
Significant Threat from new entrant	7.6	42.9	21.	28.6	0	2.71	1.00
Strong bargaining power from input supplier	14.3	20.2	43.7	21.8	0	2.73	1.00
Strong bargaining power from customer	0	27.7	42.9	29.4	0	3.02	0.8
Threat from substitute product from local & international Market	13.4	7.6	43.7	35.3	0	3.01	1.0
Intensive rivalry among others firm engaged in same	14.3	13.4	34.5	30.3	7.6	3.03	1.1
TEXTILE & GARMENT							
Significant Threat from new entrant	11.4	42.9	37.1	8.6	0	2.4	0.8
Strong bargaining power from input supplier	2.9	17.1	57.1	22.9	0	3.0	0.7
Strong bargaining power from customer	0	31.4	51.4	17.1	0	2.87	0.7
Threat from substitute product from local & international Market	0	28.6	48.6	22.9	0	2.9	0.7
Intensive rivalry among others firm engaged in same	2.9	28.6	40.0	28.6	0	2.9	0.8

Source: survey, 2020

To 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,71.4% of the respondents from Agro processing sector feel that the threat because of new entrants to the market is significant. Similarly, 91.4% of respondents from Textile & Garment sector 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, 78.2% of respondents from Agro processing and 77.1% from Textile & Garment sector 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, 70.6% of respondents from Agro processing sector consider the bargaining power of customers is strong. Similarly, 82.9% of the respondents from Textile & Garment sector share the feeling of investors Agro processing sector 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.

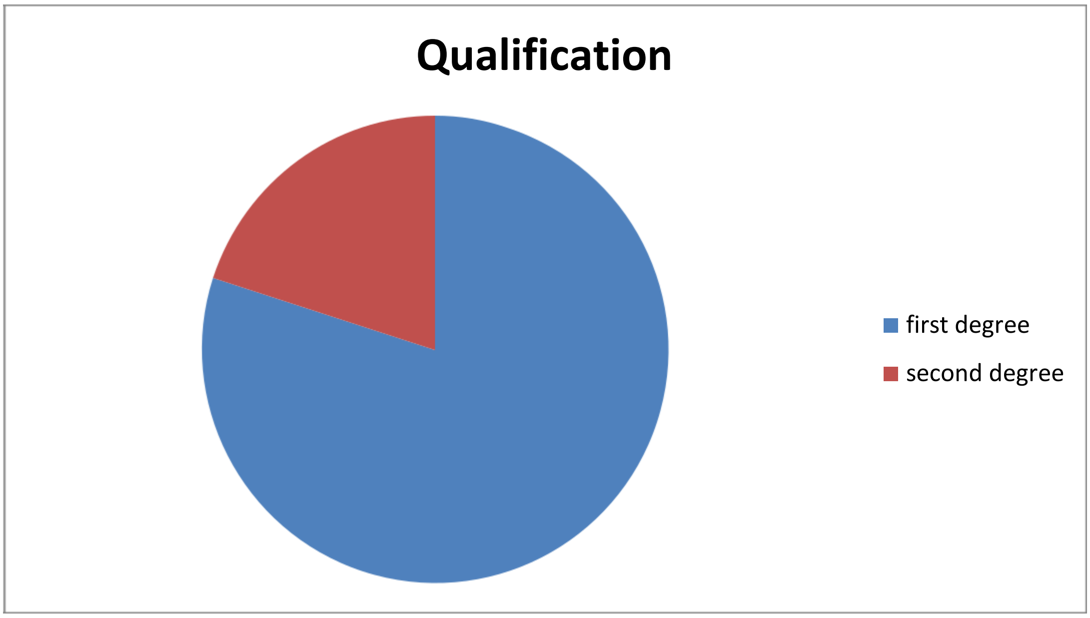
The fourth industry element in the porter"s model is the presence of substitutes. Thus, 64.7% of respondents from Agro processing sector feel that their output will be substituted by either local and/ or international outputs. Similarly, 77.1% of respondents from Textile & Garment sector have a common feeling like investors Agro processing sector. 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, 62.2% of the respondents in the Agro processing sector at least moderately agreed on the presence of rivalry within the industry. Likewise, 71.4% of the respondents have 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.

4.1.2 Ethiopian Investment Commission officials

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 4: Qualification of the respondent Source:



Source: Survey, 2020

As can be observed in the figure 7 above out of 20 contacted employees 80 % of the respondents have a first degree and the remaining 20 % of the respondent completed their second degree.

Hence, all the contacted employees have at least firs degree. This implies that the contacted employees can understand the question. 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
Valid 1-2 years	8	40	40	40
Above 2 years	12	60	60	100.00
Total	20	100.00	100.00	

Source: Survey, 2020

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.

Table 11: Departments of Respondents in EIC

	Frequency	Percent	Valid Percent	Cumulative percent
Registration & license	9	45.0	45.0	45.0
Follow up & after care	7	35.0	35.0	80.0
Valid Promotion	4	20.	20.0	100.0
Total	20	100.0	100.0	

Source: Survey, 2020

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 (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.

Table 13 Appropriateness of the Channels used to Promote FDI

Answer	Frequency	Percent	Valid Percent	Cumulative percent
Valid yes	20	100.0	100.0	100.00

Source: Survey, 2020

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: Investors problems Solves properly and immediately

Investors problems solves properly and immediately		Frequency	Percent	Valid Percent	Cumulative percent
VALID	Strongly agree	12	60.0	60.0	60.0
	Agree	7	35.0	35.0	95.0
	Moderately Agree	1	5.0	5.0	100.0
	Total	20	100.0	100.0	

Source: Survey, 2020

The table 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 foreign investors „problem promptly and appropriately solving foreign investors‟ problem, which is under their office jurisdiction. The remaining 35% and 5% 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

Ethiopia is on the right track towards FDI objectives		Frequency	Percent	Valid Percent	Cumulative percent
Valid	Yes	15	75	75	75
	No	5	25	25	100.0
	Total	20	100.0	100.0	

Source: Survey, 2020

As depicted in the table 15 above 15 respondents, which is 75%, believes that Ethiopia is on the right track towards its FDI objective. The remaining 5 respondents which are 253% perceive that the country is not on the proper line to harvest settled FDI driven objectives FDI.

Table 16: Negatively Contribute to FDI Objective of Ethiopia

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

Source: Survey, 2020

Table 16 presents reasons that deviate the country 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 county 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.

	Frequency	Percent	Valid Percent	Cumulative percent
Valid Yes	20	100.0	100.0	100.0

Source: Own Survey, 2020

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.

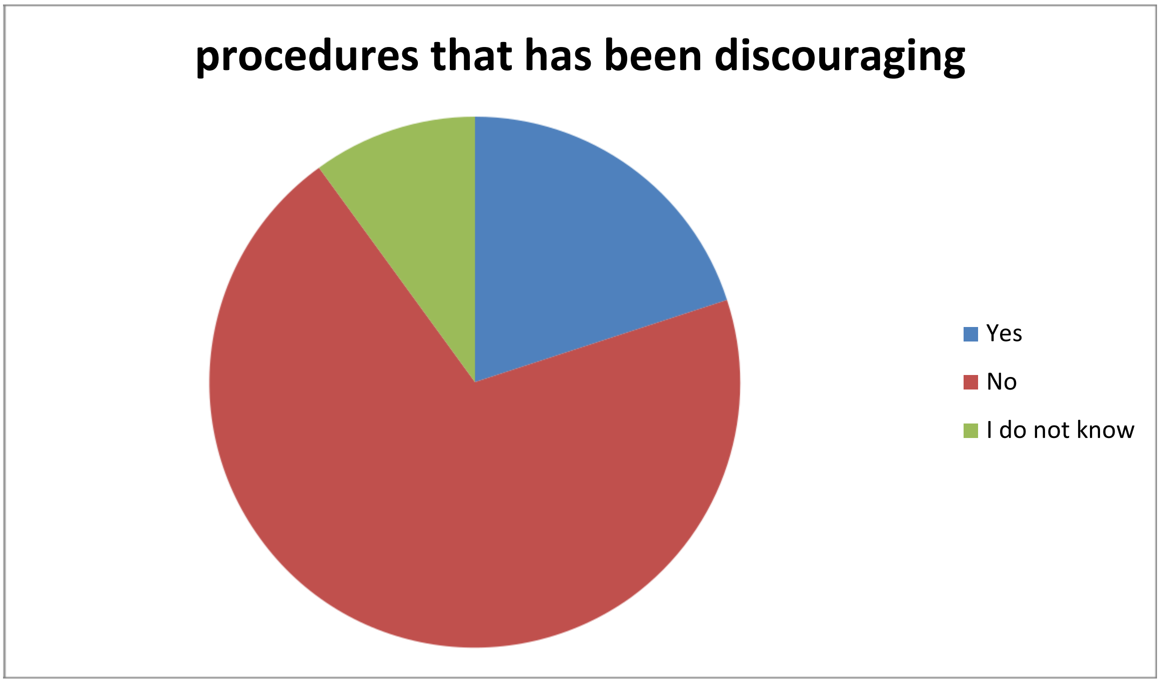
Table 18: Articles in the Proclamations that Hinder the Smooth Running of FDI

Does the proclamation articles hinder smooth running of FDI?		Frequency	Percent	Valid Percent	Cumulative percent
Valid	Yes	4	20	20	20
	No	15	75	75	95
	I do not know	5	5	5	100.0
	Total	20	100.0	100.0	

Source: Survey, 2020

In the table 18 the respondents asked whether articles in the proclamation that hinder the smooth running of FDI. Accordingly, out of 20 respondents 4 (20%) feels that some articles in the investment proclamation hinder the smooth running of FDI. However, 75 % of the respondents believe that the investment proclamation do not incorporate articles that hinder the smooth running of FDI. The remaining 7.1 % of the respondent do not know whether the proclamation has article that hinder the smooth running of FDI. Therefore, articles in the table 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, 2020

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	Response	Number of response
List procedures that discourage foreign investors	Land issues procedures	4
	Electric power supply procedure	3
	Customs clearing procedures	1
	Investment license issuance procedure	1

Source: Own Survey, 2020

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 Response	Number of time responded
What are the major challenges for foreign investors.	Unnecessary & long procedures to acquisition of land	14
	Electric power & water supply shortage & electric process to get the supply	9
	Misunderstanding of culture by foreign investors	3
	Poor infrastructure especially road	1
		2

Source: Survey, 2020

Table 20 discusses challenges foreign investors Agro processing sector and Textile & Garment sector 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 electric process to get electric power and water service are the common challenges of Agro processing and Textile & Garment sector 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 current status of FDI identified by the government, are agriculture, textile and garment, leather and leather products, pharmaceuticals, agro processing. In path of industrialize Ethiopia, Textile and Garment sector are given prominent position in boosting export and creating job opportunities. the recent surge textile and garment production and export to the global market shows that the country has the potential to become one of the leading textile and garment hubs of Africa, with the bold vision of transforming the country into compelling new Garment sourcing hub of for brands, retails and their suppliers. In agro processing sector, investment opportunities include processing of meat and meat products, fish and fish products, fruits and vegetables, manufacturing of edible oil, processing of milk and manufacturing of dairy products, baby foods, animal feed, macarini and pasta, alcohol and soft drinks, etc.

The government of Ethiopia, with vision of making Ethiopia a leading manufacturing hub in Africa, placed a high focus on industrial parks development and expansion.

The government has so far constructed and operational zed over 20 state-of-the-art industrial parks which are located along key development corridors-each with a district specialty in a priority sector(Textile and Garment, leather and leather products, Agro processing and mixed. industrial parks allow the investors to get all the necessary services easily at a single place.

In Ethiopia‟s 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.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

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

5.1 Summary of Findings

Opportunities

- Attractive tax and tariff package, low exposure to terrorism are currently viable prospects foreign investors in the political environment.
- FDI friendly economic environment, proxy to international markets, appropriate fiscal and monetary policy conducive are economic opportunities for foreign investors in Ethiopia.
- Favorable communal culture, citizens spending power is opportunities under Ethiopian social environment for foreign investors.
- Encouraging investment proclamation, efficient investment licensing service and water supply is 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 prudentness of international economy is the global opportunities to participate in FDI business.

5.1.2 Challenges

- Unstable inflation rate, interest rate, , inadequate supply of competent labor force, inadequate raw materials supply, inadequate supply of foreign currency, absent of capital market, import and export procedures and access to loan is the current economic challenges foreign investors were facing in economic environment.
- Instability of current politics, Inefficient justice system and lack of providing timely adequate information is Challenges mentioned by foreign investors in the political environment of the country.
- In sufficient Internet service, lack of proper automation system and the current Technological development of the country is technological challenges that foreign investors are currently facing.
- In efficient land management, in adequate electric 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 are the threat from industrial environment.

5.2 Conclusions

Ethiopian investment commission is the responsible organ in promoting and facilitating FDI in 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 Ethiopian and investment environment main through their senior friends who have investment in Ethiopia. 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 monitory 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 Agro processing and Textile & Garment sector perceive all the asked variables as opportunities. Hence, Ethiopian 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 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 Textile & Garment sector 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.

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

The industrial environment of the two sectors for foreign investors has fierce from porter‟s five-force model point of view. Investors at both 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.

5.3 Limitation

Time was the main challenge that the researcher encountered while conducting this research. Since the researcher is a full time worker and spends most of the time at the project site out 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.

5.4 Recommendation

This paper analyzed opportunities and challenges of foreign direct investment of targeting Agro-processing and Textile and Garment sector. This is mainly due to shortage of resources and capacity limitation of the researcher. However, foreign owned projects at these sectors have its own challenges and opportunities. Scientifically knowing those challenges and opportunities will produce comprehensive knowledge about challenges and opportunities for foreign investment in Ethiopia. Hence, if someone does it"s paper on all manufacturing sectors and assesses their challenges and opportunities, complement the findings of this paper and give full picture of Challenges and opportunities of FDI in Ethiopia 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 will solve problems related with land, water, electric city and other infrastructures facilities institutionally. 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 country should produce harmonized procedures with some flexibility with the condition of the region.

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 the prime minster of the country, government officials at different positions have been trying to promote Ethiopian 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.

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 is insignificant. Therefore, Ethiopian investment commission should provide information in alternative langue like Chinese and Arabic.

The finding of this researcher indicates that the 2012 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 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 three 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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Questionnaires for foreign investors

APPENDIX A

Dear Respondents,

I am a master's degree student in MBA-Accounting and Finance from St. Mary's University. The objective of this paper is to ***"****Assess of the opportunities and challenges of selected FDI manufacturing business's in Ethiopia "*. Hence, to gather data, I kindly request your assistance in responding to the questions listed below. Any information you present will be kept absolutely confidential and will only be used for academic purpose. Your cooperation and prompt response will be highly appreciated. Thank you very much in advance!

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 tick one which you believe appropriate.

Jemil S.

Section A: Background of the Foreign Investor

- Home country of the company:--------------------------
- Year of Establishment in Ethiopia:----------------------
- Sectors of the company- (please tick as appropriate)

  - Agro processing
  - Textile and Garment

- From which source you get information about the Ethiopian Investment Commission. (Please tick as appropriate)

  - Ethiopian embassy from your country
  - Ethiopian Investment Commission web site based promotion
  - Repetitive visit to Ethiopia
  - Friends who have investment in Ethiopia   other, please specify-------------

Questionnaire for Employees in Ethiopian Investment Commission

APPENDIX B

Dear Respondents,

I am a master's degree student in MBA-Accounting and Finance from St. Mary's University. I am Carrying out a study on *"Assessment of the opportunities and challenges of selected FDI manufacturing business in Ethiopia "*. Hence, to gather data, I kindly request your assistance in responding to the questions listed below. Any information you present will be kept absolutely confidential and will only be used for academic purpose. Your cooperation and prompt response will be highly appreciated. Thank you very much in advance!

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 tick one which you believe appropriate.

Jemil S.

Section A: Background of the Employees

1. Educational Level (please tick as appropriate)
   - ☐ Diploma
   - ☐ First Degree
   - ☐ Second Degree
   - ☐ Above

2. Experience at your current position in Ethiopian Investment Commission. (Please tick as appropriate)

   - ☐ Less than one year
   - ☐ 1 to 2years
   - ☐ above two years

3. Do you have a direct contact with foreign investors? (Please tick as appropriate)

☐Yes ☐ No

4. If your answer for question # 3 is yes, what is your role? (Please tick as appropriate)

☐ Registration and licensing ☐ follow up and after care

☐ Plan and Documentation ☐ Promotion ☐ other, please specify--------------

Section B. Foreign Direct Investment in Ethiopia

Indicate your agreement on to what extent the Ethiopian Investment Commission address for Foreign Direct Investment (FDI).please indicate the status of your agreement by putting 'x' under the rating that suits you.

Strongly Agree (5)	Agree(4)	Neutral(3)	Disagree(2)	Strongly Disagree(1)

B. Foreign Direct Investment in Ethiopia	*** (5)**	*** (4)**	*** (3)**	*** (2)**	*** (1)**
1.1. Current communication channels are appropriate.					
1.2.Follow up and aftercare directorate commission Properly follow.					
1.3. Ethiopia is on the right track with respect to its objective toward FDI.					
1.4. Your office is properly and immediately solve the Problem of Foreign Investors.					
1.5. Your office working with other governmental institution to solve Foreign Investors problem properly.					
1.6. Ethiopian Investment Commission incorporates articles that hinder the smooth running of FDI.					
1.7.Foreign investors has challenges at operational stage					

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

- What are the major challenges and opportunities foreign investors in the political environment are facing?
- What are the major challenges and opportunities foreign investors in the social environment are facing?
- What are the major challenges and opportunities foreign investors are facing in the legal environment of Ethiopia?

& **Question for Law Directorate**

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

III. Question for Promotion Directorate

& What are the main challenges and opportunities of foreign investors at operational stages?
& What are your promotion strategies?
& Does it suitable with the orientation of majority of the investors?
& What are the main challenges of promotion directorate of Ethiopian investment commission?