

Impacts of Foreign Direct Investment on Local Communities in Oromia Region

Lema Teshome Beyecha¹, Nafyad Tola Abebe²

¹*College of Business and Economics, Arsi University
PO box 193, Asella, Oromia, Ethiopia
Tel: +251 911 75 08 00*

²*College of Business and Economics, Arsi University
P. Box. 193, Asella, Oromia Ethiopia
Tel: +251 910 76 01 68*

Abstract: *This study is desired to assess the impact of Foreign Direct Investment (FDI) on the local communities in Oromia Region of Ethiopia. The type of research employed in this study is descriptive research that employs survey method. The population of the study includes farmers displaced from their lands due to the FDI, woreda investment office experts. Qualitative and quantitative primary and secondary data were collected using questionnaires, FGD and structured interviews whereas websites and documented data from Investment offices are used as a source of secondary data. The study showed that the FDI projects in the selected areas have both positive and negative impacts on the local communities. Among the positive impacts are: employment creation, technology transfer, access to infrastructure and proximity to urban which brings an opportunity to engage in another business than farming. The major negative impacts identified are insufficient and uni-modal compensation for the displaced farmers, lack of support from the government to support the displaced farmers, lack of prior training and awareness creation on cash management, failure of FDIs in working closely with the local community and environmental impacts. Some of the recommendations given are: making an adjustment to the amount of compensation paid, making farmers shareholders in the investments, providing the compensation, not just in cash but through other non-cash packages, providing sufficient training and awareness on cash management before paying.*

Foreign Direct Investment, Local Community, Economic Impacts

I. Introduction

Oromia is the largest of all regions in Ethiopia both in terms of land size and population. Thirty two percent (32%) of the total number of projects between and 46% of the total investment capital b/n August 22, 1992-March 13, 2018 are located in Oromia Region, incorporating Finfinnee, 52% and without Finfinnee, 23%) (MoFEC, 2018).

Foreign Direct Investment (FDI) is an important part of the massive private investment, which is driving economic growth around the world, particularly in the past three decades. It is being sought by most, if not all developing countries as means of complementing the level of domestic investment as well as securing economic-wide efficiency gains through the transfer of appropriate technology,

management knowledge and business culture, access to foreign markets, increasing employment opportunities and improving living standards (Dabour, 2000).

From the 1960s onwards there have been voices in favour of FDI and against it. Some argue that FDI led to economic growth and productivity increases in economy as a whole, but others stress the risk associated with FDI. The impact of foreign investments on developing countries is a topic of debate among the contemporary scholars. While, some believe FDI plays a crucial role in poverty reduction and development effort, others are of the opinion that its negative effects outweigh the intended benefits and is largely responsible for the ever increasing inequalities between the under developed and developing countries. The effect of globalization in Ethiopia demonstrates both positive and negative trends (ODI 2019).

The way foreign investors carry out production fuels the problems. The on-going act of ‘land-grabbing’ committed by the government and the environmental, soil and water pollution caused by private actors frustrate the very nature of this rights as it will affect the majority means of subsistence. As the execution of the development program comes with its own side effects, the government has the responsibility of tacking regulatory actions to mitigate the possible negative consequences.

Therefore, the assessment attempts to address the impact of foreign direct investment (FDI) on the local people, farmers alienated from their land, the negative side of FDI and analysing issues, offering conclusion and providing some recommendations.

Recently Ethiopia has faced unrests, especially in some part of Oromia and Amhara. Even though the major reason forwarded for these unrests are bad governance, the deprivation of farmers from their land due to these investment and related activity also have the undeniable share. In connection to this, lack of employment opportunities for the rising youth was another major cause of the unrest.

According to the World Bank assessment (2016), unemployment has been decreasing but remains high due to rapid urbanization.

According to the proclamation No 280/2002 of the investment policy of the federal democratic republic of Ethiopia, investments are designed to improve the living standards of the people through the realization sustainable economic and social development which will create wide employment opportunities for Ethiopians.

However, the proclamations and other environmental regulatory and cautionary measures are not properly implemented by the government of Ethiopia who issued FDI as the best means of economic development for the country.

Different studies scholars have tried to address different aspects of FDI in Ethiopia. Amanuel (2014) have addressed different factors affecting FDI inflow in Ethiopia. He identified the factors to be market size, level of trade openness, inflation rate, infrastructure, and human capital .

Another scholars (Getinet and Hirut, 2006), Tesfaye (2017), Henok (2014), Haregewoyn (2016), Gelowdewos (2015), Habtamu (2018), Gudisa (2014) and Shiferaw (2014) have all tried to address different aspects of FDI in Ethiopia. However, none of them beside Gudisa have addressed the impact of FDI on local community.

Therefore, this study has paid attention to the positive and negative impacts of FDI on the local communities.

II. Literature Review

1.1. Overview of Foreign direct investment (FDI) in Ethiopia

According to UNCTAD's World Investment Report 2019, FDI inflows to Ethiopia decreased to USD 3.3 billion in 2018, compared to USD 4.017 billion in 2017 (18%). In total, FDI stocks were estimated at USD 25 billion in 2019 up from USD 19 billion in 2017. FDI has been negatively impacted by instability in some parts of the country, including regions with industrial parks. Yet Ethiopia remained the largest recipient of FDI in East Africa, with investments in petroleum refining, mineral extraction, real estate, manufacturing and renewable energy. China was the largest investor in 2019, accounting for 60% of newly approved FDI projects, with significant investment in manufacturing and services. The other main investor countries are Saudi Arabia, the United States, India and Turkey. Agriculture (particularly horticulture), renting of agricultural land and leather goods are the sectors that traditionally attracted the most FDI (WIR, 2019).

According to Nordea (<https://www.nordeatrade.com/>) Ethiopia also took advantage of the crisis of the Bangladeshi textile sector to attract foreign companies to the textile industry. Despite its commitment to a program of economic reforms and liberalization, the current Ethiopian government also keeps exercising full control over the services sector, holding the monopoly in the telecommunications market, and a virtually full control over the financial sector and local banks.

Foreign investors might face a number of obstacles while investing in Ethiopia. Some of the major obstacles they might face include; strict foreign exchange controls, state interference in the economy, poor condition of infrastructure, difficulties related to land acquisition, very high transaction costs and weakness of institutions. On the other hand, significant progress has been made in terms of transport infrastructure and electricity production in order to improve Ethiopia's attractiveness (https://www.nordeatrade.com).

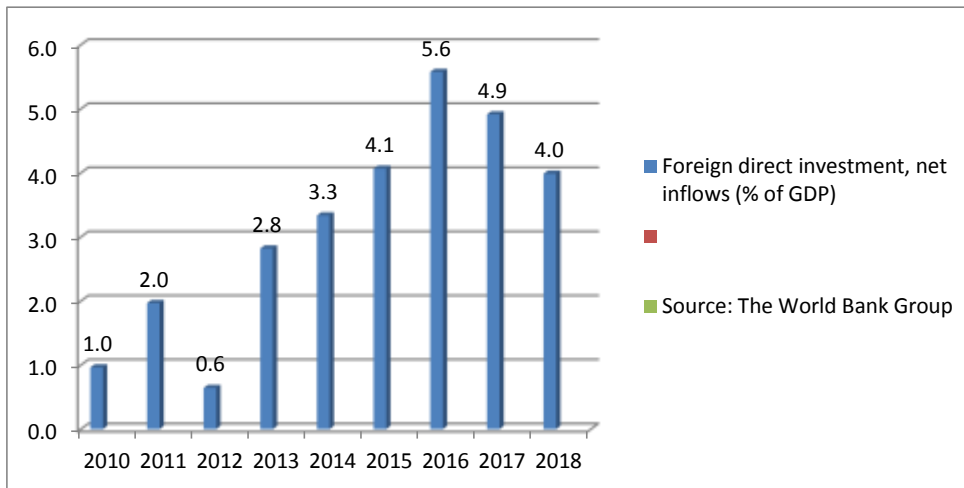
Ethiopia has been ranked 159th worldwide, for the ease of doing business in the World Bank's 2019 Doing Business Report. Two ranks above the position the country occupied a year earlier. In addition, Ethiopia made progress in registering properties. Among others, the country improved the quality of its land administration system by publishing the official list of documents required for property registration (Doing Business).

In order to attract more foreign investors, Ethiopian government has also put some investment incentives in place. Some of the investment incentives in Ethiopia are:

- Customs import duty (100% free)
- Exemption from payment of export customs duty.
- Income tax holiday (for the period ranging from 2-6 years subject to the council of ministers regulation no 841/2003 issued based on investment proc no 280/2002)
- Loss carried forward
- Guarantees to investors.

The result these incentives has resulted in more FDI attractions in the country and until 2019, the country is among the top foreign investment destinations in Africa.

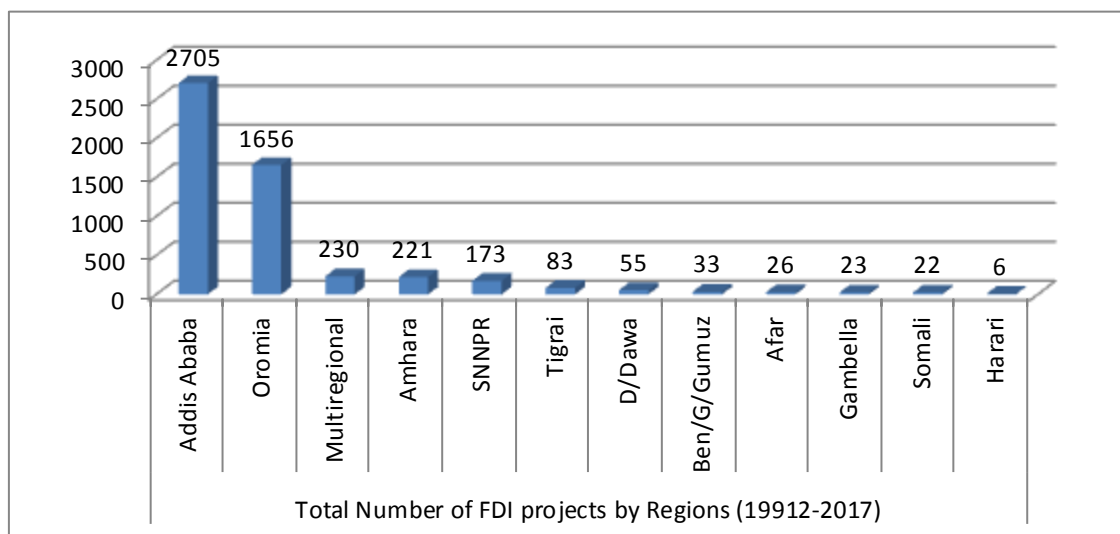
Figure 1: Ethiopia's Foreign Direct Inflows (% of GDP)



1.1.1. Regional Distribution of FDI in Ethiopia

As it is shown in table 3.3 below, over the periods of 1992-2017, the majority of the FDIs are destined to Addis Ababa (2075), the capital, representing 51.7% of total projects, while Oromia accounted for 31.7% of the total investments during the stated time. Oromia region attracts more investments due to its proximity to the capital and good infrastructural development of the region too (Gudisa, 2014). As it can be observed from the figure, multiregional projects follow Oromia. Here we can observe that there is huge gap between the first two (Addis Ababa and Oromia) and the remaining regions. Of the total FDI operating in Ethiopia during these period, 31.7% of the capitals were invested in Oromia.

Figure 2: Regional distribution of FDIs in Ethiopia (1992-2017)



Source: Ethiopian Investment Commission

1.2. Brief Introduction about Oromia

The Oromia National Regional State is one of the regional states in the Federal Democratic Republic of Ethiopia. Except for the Tigray Regional State, the Oromia Regional State shares borders with all of Ethiopia's regional states. Oromia also shares international boundary lines with Sudan (66km) and Kenya (521km) in the West and in the South respectively. The region is the largest and the most populous regional state in the country. Moreover, Oromia is located in the very heart of the country. The capital city of the Region is Finfinnee (Addis Ababa), which is also the capital city of Ethiopia and seat of African Union (<http://oromiainvest.com/>).

III. Objectives of the Study

1.3. General Objective

The overall objective of the study is to examine the negative impacts of FDI on the economy and local communities in Selected Woredas of Oromia Region

1.4. Specific Objective

The specific objectives of the study are:

- To find out the major impacts of FDIs on farmers alienated from their farm land
- To check major policy gaps concerning FDI, if there are any.
- To study the major implementation gaps concerning FDI in Oromia.

IV. Research Designs and Methods

The type of research employed in this study is descriptive research that employs survey method. The data collected are organized, tabulated and explained in detail. The research uses samples as it is very difficult to cover the whole population in these areas.

The target population of this study was displaced farmers living in Asella, Adama, Bishoftu, Batu and Modjo surrounding woredas/kebeles of Oromia Regional government where the FDIs are common. The woredas are selected based on their access to foreign investment and Arsi University's thematic area which mainly covers the two Arsi Zones and East Shewa Zone.

The researchers calculated the sample size by using the Cochran Formula. Since we don't have much information on the subject to begin with, so assume that 15% of the farmers living in these woredas are directly or indirectly affected by the presence of FDI in their area. So $p = 0.15$. The researchers want 95% confidence, and at least 5 percent plus or minus precision.

$$\blacksquare n_o = \frac{z^2 pq}{e^2}$$

- Where:
- e = the desired level of precision
- p = the estimated proportion of the population which are affected by FDIs
- $q = 1-p$
- z = values of the confidence level

A 95 % confidence level gives us Z values of 1.96, per the normal tables, so we get $((1.96)^2 (0.15) (0.85)) / (0.05)^2 = 196$, so a random sample of 196 households in our target population should be enough to give us the confidence levels we need. The samples were judgmentally selected in order to focus on farmers displaced by the FDIs.

The required data for the study were collected both from primary and secondary sources by using different techniques. For the primary sources, questionnaire which is both closed and open ended was used to collect information from the family members of the displaced farmers which were selected based on the method stated above. In addition, structured interview and focus group discussion guide questions have been prepared and used in gathering qualitative information from investment offices and the local community.

The quantitative data mainly obtained through questionnaire and from secondary sources have been analyzed and organized by using the statistical package for social science (SPSS) and Microsoft Excel.

V. Analysis, Findings and Discussions

1.5. Location of the respondents

For this study, a total of 196 questionnaires were distributed to the respondents at five different towns and 145 of these questionnaires were collected. The location of the respondents is explained in Table 1 below. The number of respondents for each town is decided based on the number FDIs located in the town or its premises. As it can be seen from the Table 1 below, the majority of the respondents are from Adama (34.5%), followed by Batu (27.6%) and Modjo (17.2%).

Table 1 Location of the respondents

<i>No</i>	<i>Town</i>	<i>Questionnaires Distributed</i>		<i>Questionnaires Collected</i>	
		<i>Number</i>	<i>Percentage</i>	<i>Number</i>	<i>Percentage</i>
1	Adama	63	32.14%	50	34.5%
2	Asella	14	7.14%	10	6.9%
3	Bishoftu	27	13.78%	20	13.8%
4	Modjo	36	18.37%	25	17.2%
5	Batu	56	28.57%	40	27.6%
	Total	196	100%	145	100%

Source: Own survey, 2019

1.6. Descriptive Analysis

In this part, various impacts of Foreign Direct Investments on the local communities are analyzed. As stated earlier, a total of 196 questionnaires were distributed and out of that 145 were successfully filled and returned. Data collectors have assisted farmers who cannot read and/or write in filling the questionnaires.

Table 2: Impacts of FDI on Local communities

	Mean		Std.
	Statistic	Std. Error	Deviation
Raw Material Supply			
FDIs in your area are highly dependent on local raw materials	1.79	.124	1.490
Local communities are the main suppliers of raw material for the companies in your area	1.90	.130	1.565
Local Employment			
The majority of employed labor are from the local community	2.72	.156	1.881
The wage paid by the company is fair enough	2.69	.156	1.873
The factories in your surroundings are labor intensive.	2.71	.156	1.882
The managers of the companies are from the local community	2.29	.153	1.837
Technology Transfer			
The FDIs have brought new technologies to the community	2.59	.161	1.935
Foreign companies are teaching the surrounding community how to use new technologies	2.69	.154	1.854
Access to Infrastructure			
The local community gets access to road, electricity and telecom facilities after the FDIs have arrived.	3.31	.135	1.627
The community gets access to pure water after the FDIs.	3.56	.115	1.379
Clinics and Health centers are built after the foreign companies have arrived.	3.03	.145	1.750
More schools are constructed for the surrounding children with the arrival of FDIs	3.10	.143	1.719
The Market Analysis			
The products produced are demanded by the local community	2.14	.119	1.437
Local communities are serving as distributors, retailers or wholesalers of the companies' products.	2.13	.105	1.260
Government Regulations and Incentives			
The government regulations favor the community	1.79	.110	1.322
Local and national governments are regularly monitoring the FDIs	1.79	.105	1.270
The government listens to the complaints from the public and responds to it on time.	1.92	.098	1.176
Corporate Social Responsibility			
FDIs help the poor and people in need	2.88	.155	1.862
FDIs have built Clinics/Schools/Churches/Mosques for the communities around	2.87	.154	1.857
FDIs allocate budget to solve some of some of the economic problems of the society.	2.66	.144	1.737

Source: Own Survey, 2019

The results of the study show that the FDIs are not using the raw materials from the community. In addition, the major suppliers of the raw materials are not the local communities too.

Concerning the employment opportunity, the majority of the respondents agreed that the FDIs are mainly employing labors from their community and the wages paid by their nearby FDIs are fair enough compared to the labor market. Similarly, they responded that most of the nearby companies are labor intensive.

Concerning the technology transfer, the fair majority of the respondents agreed that the presence of FDIs is bringing new technology to the community. In addition, many of the respondents (mean score of 2.69) agreed that these companies are teaching the surrounding community how to use new technologies. The new technologies they referred to are both technologies installed in the stated factories. They added that once they are accustomed to the use of technology, they can be employed in other companies with better salary.

Another view about the technology transfer is that, due to the urban expansion and the presence of foreign workers, the local community and the labors in the stated factories are using the smart phones, cameras, light farming machineries, flower and fruit packing technologies and others. There were also farmers who changed their way of production taking example from the nearby companies.

Concerning access to the infrastructure, the vast majority of the respondents (with mean score of 3.31, 3.56, 3.03 and 3.1) agreed that the FDIs have improved the access to infrastructures such as access to road, electricity, telecom facilities, pure water, health centers and schools. This can be taken as the positive impacts of FDIs on the local communities in this area.

With regard to the market analysis, the majority of the respondents (mean score of 2.14 and 2.14) disagreed that the major products produced by the FDIs are demanded by the local community. They also disagreed when they are asked if they are the main distributors of the products produced by the FDIs. From this, we can conclude that the local communities are not active in marketing the products of the FDIs.

Coming to the rules and regulations of the government, the majority of the respondents (mean score of 1.79, 1.79 and 1.92) believe that the government's FDI policies and regulations don't favor the local community. In addition they responded that both local and federal governments are not regularly monitoring the FDIs and the concerns of the local community are generally overlooked

Corporate social responsibilities are important elements that link the companies with the society. In this regard, the majority of the respondents (mean score of 2.88, 2.87 and 2.66) agreed that FDIs are helping the poor people. In addition, the respondents said that the FDIs are also building schools, clinics and religious places for the local community. However, the respondents do not have sufficient information whether the FDIs have allocated a specific budget solve some of some of the economic problems of the society or not.

1.7. Analysis of Points raised in the Focus Group Discussion (FGD)

The researchers have made a focus group discussion with farmers displaced from their lands too. The discussion mainly focused on the impact of FDI on them. So many points were raised, but the major ones are summarized in the following three paragraphs:

Concerning the displacement from their lands, the majority of the farmers on all areas under the study

have similar complaints; they boldly discussed the insufficiency of the compensation the governments pays them. Some of them blame the government for not training them on cash management methods. Others blame the government for not providing alternative source of income for them. The participants regret their misuse of the compensation. The majority of the farmers divided the money to their family members in place of investing it together. This way, they dried up their cash very suddenly.

The participants have recognized both the positive and negative side effects of the FDI to the community. Some of the positive side effects raised were: a) job opportunity, b) access to different infrastructures and c) technology transfer are among the points raised repeatedly.

Another point mainly raised by the participants was a policy gap from the government side. They claim that the compensation is insufficient and the owners of the land don't have a say in deciding the price and fate of their land. In addition to this, the woreda and zonal investment offices are not taking the complaints of the farmers seriously. A farmer from Modjo and Bishoftu especially raised their continuous complain of the environmental impact of the FDI to the government with no significant response yet.

At the end of the discussion, the farmers recommended the government to make policy adjustment that enables the farmer get sufficient amount of compensation for their land. They also asked the government to give a portion of the compensation money on monthly basis like a salary rather than giving it at once.

1.8. Analysis of Interview with Investment Offices

This part includes the summary of interviews conducted at various investment offices in the selected woredas/towns.

Concerning the common Investments in the area, Manufacturing is common in Adama, Bishoftu and Modjo while Agriculture is the most common Investment in Asella and Ziway areas. Horticulture Investment is common in Bishoftu and Ziway too. Modjo is known for its leather investment according to the Town's investment office.

Each town's investment office is well-aware of the insufficiency of the compensation paid for farmers displaced from their lands. They insisted that the government is doing its best to amend the amount to be paid by the end of 2019 or the beginning of 2020. The investment offices also accepted that the farmers' say in determining the amount of compensation paid is insufficient. The owner of the land doesn't have the power to say NO to the displacements. However, they didn't shy away from the defects by the farmers' side too. The officials claim that the compensation was not that insignificant had they spend the money wisely or saved it.

The investment officers have accepted the policy gap in addressing the interest of the local community. For example, they came up with the idea of making the landowners the shareholders of the investment on their land. This, according to them, will be good for the sustainability of the investment in that area.

As a recommendation they raised the importance of encouraging saving by depositing a portion of the money to a block account that bears good interest rate. In addition to this, the investment officers have advised the local community to change their way of life and get accustomed to the new 'urban' culture. A farmer who used to plough two hectares of land can no longer get the same benefit it used to get

with its land halved. Therefore, they said, starting additional business is a must.

VI. Conclusions and Recommendations

1.9. Conclusions

In this paper the impact of foreign direct investments (FDIs) on local communities in the selected towns of Arsi and East Shewa Zones is investigated. The impacts studied are classified into economic and other impacts.

Among the economic impacts addressed by this study are: raw material supply, employment opportunity, family income, technology transfer, market analysis and the amount of compensation paid. Other impacts addressed are government rules and regulations, corporate social responsibility of the companies and other cultural impacts.

In order to address the community questionnaires, structured interview and Focus group discussion were applied as primary data gathering tools. The data gathered from the community and investment offices were analyzed using descriptive statistics.

In its investigation of the impact of FDIs on the local community, the researcher investigates the local community's perception towards the FDI projects. The majority of the local community believes that foreign direct investment is vital for the development of the country and the society in general. This shows that the local community has good perception about the idea of foreign investments. However, to the surprise of the researchers, they do not believe the foreign direct investments in their area are practically beneficiary to the society. From this we can conclude that the problem is not with the idea of foreign direct investments. It is rather the way it is applied in the studied areas.

Another major area of this study was a compensation paid by the government. In the focus group discussion, the majority of the farmers claim that they were forced to leave their land for only 124,000 ETB per hectare. The researchers have also confirmed their claims and this is not only insufficient but also unfair given the economic value of the land in the studied area. Apart from the insufficiency of the compensation, the farmers used to be paid the money in cash without proper training or awareness creation on the utilization of it. Moreover, they complained about exclusion from the decision made by the government and the investors about their land, which is their only means of income.

Coming to the economic impact addressed by this study, the majority of the respondents claim that their income doesn't increase since they left their land. They were even claiming that their family income is significantly decreased both in real and nominal terms. Even the respondents who responded their income has increased were referring to the nominal income. From this we can conclude that the income of the farmers displaced from their land with compensation is not increased and even decreased due to the foreign direct investment projects.

The local community also addressed that the FDIs in their area do not intensively consume the raw materials available in their area. They responded that the major suppliers of the raw materials are not from the displaced community.

Another point addressed by this study is employment opportunity. The majority of the respondents claimed that the FDIs are creating employment opportunity to the local community. However the setback here is the amount of salary/wage, even though fair compared to the labor market, is not enough to lead their life. They said in the group discussion that it would be better for them to have their land than being employed as a labor giving up their farmland.

In similar way, the local community responded that FDIs are benefitting the society through technology transfer and access to basic infrastructures. However, the marketing system of the company and the product they produce doesn't necessary take the nature of the local community into account.

Coming to the government rules and regulations, the respondents claim that both Federal and the Regional government rules largely favor the investors rather than the community. This claim is also accepted by the woreda investment offices of the studied towns. In this regard, the investment officers in the woreda claim that governments are working on new regulations that address the societal questions.

Finally, the majority of the respondents testify that the foreign investors are fulfilling their corporate social responsibility. This is seen as a good sign that need to be improved.

1.10. Recommendations

Based on the findings of the study, the researchers have forwarded the following general recommendations for the concerned bodies in this area.

First, the local communities' perception for Foreign Direct Investment (FDI) is good. However, they do not believe they are practically getting the expected benefit out of it. Therefore, we recommend the government to amend Investment Laws so that both the owners of the land and the investors can work together. This would help the local community improved and helps the sustainability of the foreign direct investments too.

Second, the government has to amend the amount and kinds of the compensation paid to the displaced farmers. For example, instead of paying three million birr in cash, it is better to buy a tractor or combine harvester and provide it to the farmer or the local community. This way, they can get continuous income from the compensation. In addition to this, it is possible to make the farmers the shareholders of the investments on their land. Otherwise, the cash will be unwisely consumed putting the farmers in big problems.

Third, since the majority of the displaced are farmers with little or no educational background, it is a must to train them on cash management. In addition, forming displaced farmers' cooperatives that engage in joint investment or business would empower them too. For example, they can be the major dealers/wholesalers of the products of the investments in their area.

Fourth, the woreda/zonal investments offices have to frequently contact the displaced community and other neighbors of the company so that their problem can be addressed in time.

Finally, an investment which is not environmental and societal friendly cannot be a sustainable one. Therefore, the government and the investing companies have to find a way that enables them integrate the society. A community would not hurt an investment in which they have invested some shares; rather they tirelessly work for its improvement.

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