Comparing the Role of FDI Policy in Post-Conflict Recovery in Rwanda and Ethiopia

Vitalii Hramotniev
Candidate of Economic Sciences, Docent,
Doctoral Candidate at the Department of International Trade and Marketing,
Kyiv National Economic University named after Vadym Hetman, Ukraine
E-mail: gramotnev.vitaliy@gmail.com
ORCID: https://orcid.org/0009-0009-2511-4649

Tetiana Obolenska
Doctor of Economic Sciences,
Professor at the Department of International Trade and Marketing,
Kyiv National Economic University named after Vadym Hetman, Ukraine
E-mail: knauobt@ukr.net
ORCID: https://orcid.org/0000-0002-8448-3622

DOI: https://doi.org/10.32782/2707-8019/2025-1-20

Abstract. *The present article explores the relationship between foreign direct investment (FDI) policy and post-conflict economic recovery in selected countries of Eastern Africa through a comparative analysis of Rwanda and Ethiopia. The objective of the present study is twofold: firstly, to identify the institutional and policy-related factors that determine the effectiveness of FDI in post-conflict contexts, and secondly, to explain why similar investment strategies can lead to divergent recovery outcomes. The pertinence of this subject is attributable to the mounting cognisance that sustainable recovery following armed conflict necessitates not solely financial inflows but also protracted structural transformation. FDI is frequently regarded as a pivotal mechanism for attracting resources, rebuilding infrastructure, and stimulating development. Nevertheless, the effectiveness of such policies is subject to variation depending on the socio-political context and the extent to which investment policy is aligned with the broader logic of post-conflict transformation. The present study employs a comparative qualitative methodology, with a focus on the analysis of institutional frameworks, policy implementation patterns, and social outcomes in two countries of similar development levels, but with divergent post-conflict trajectories. The research examined how the design and execution of FDI policy influenced the recovery process, with particular attention to issues of inclusiveness, regional equity, and institutional legitimacy. The findings demonstrate that the success or failure of FDI-driven recovery cannot be explained solely by the presence of incentives or the volume of investment attracted. In Ethiopia, investment policy remained disconnected from conflict resolution goals, thus reinforcing structural inequalities and ultimately contributing to renewed instability. Conversely, Rwanda's strategy entailed the incorporation of FDI policy into a comprehensive development strategy that prioritised institutional consolidation, inclusive growth, and social cohesion. This approach was adopted to ensure greater legitimacy, reduce perceived exclusion, and support long-term stabilisation. The practical value of this research lies in its contribution to understanding the conditions under which foreign investment can become a driver of peacebuilding rather than a source of renewed tension. The article provides evidence-based insights for policymakers in fragile and post-conflict settings, emphasising the significance of integrating investment policy within a comprehensive framework of structural transformation, equity, and institutional reform.*

Keywords: *FDI, intensification of foreign investment, post-conflict recovery, investment promotion policy, special economic zones, industrial parks.*

JEL Classification: *E22*

1 Introduction

In the aftermath of conflict, post-conflict societies are confronted with the pressing imperative of reconstruction, a process that is made particularly arduous by the prevailing conditions of institutional fragility and resource scarcity. In this context, foreign direct investment (FDI) is increasingly recognised not only as a potential source of capital for reconstruction, but also as a vehicle for modernisation and long-term development. In the aftermath of conflict, many governments adopt dedicated FDI promotion policies with a view to increasing capital inflows and enhancing their socio-economic impact. Nevertheless, the outcomes of such policies are contingent on the broader political and institutional context in which they are embedded.

The post-conflict nature of a national economy exerts a substantial influence on the parameters and outcomes of investment policy. The content, effectiveness and social consequences of such policies are influenced by a complex interplay of factors, most notably the degree to which structural drivers of conflict are addressed, the inclusiveness of resource distribution, and the institutional channels through which foreign capital is integrated.

A range of perspectives on these issues have been explored by scholars. Del Castillo (2012) emphasises the critical role of private capital in restoring economic functionality, employment, and investor confidence, while reducing aid dependency. Tschirgi (2004) issues a warning that in the absence of appropriate regulatory oversight and a socially balanced investment framework, FDI may deepen inequality and empower narrow elites. Ohiorhenuan and Kumar (2005) emphasise the significance of strategic coordination among state institutions, international donors, and private investors. They assert that in the absence of such alignment, investment tends to remain fragmented and recovery unstable. Notwithstanding these contributions, the extant literature remains deficient in comparative case-based research elucidating the reasons why analogous investment policies engender divergent outcomes in post-conflict settings characterised by analogous entry conditions.

The novelty of this research consists in its systematic comparison of post-conflict FDI policies as potential factors of stabilisation or renewed fragmentation. The present study contributes to narrowing this gap by offering a structured comparison of Ethiopia and Rwanda, two countries with broadly comparable post-conflict entry conditions but contrasting results in terms of inclusion, institutional legitimacy, and long-term recovery.

The objective of this study is to ascertain the pivotal factors that determine the efficacy of foreign direct investment policy in post-conflict contexts. This will be achieved through a comparative analysis of Ethiopia and Rwanda, whilst also taking into account the broader process of socio-economic transformation, resolution of structural tensions, and the construction of long-term stability. In order to achieve this aim, the research addresses the following tasks: to generalise the conditions for the termination of armed conflict and the commencement of recovery in both countries; to trace the evolution of FDI policy and its institutional mechanisms; to assess the degree of integration of investment policy into the broader recovery agenda; to evaluate the social and economic effects of FDI; and to establish causal links between policy design and its impact on social cohesion or renewed instability.

Methodologically, the study is grounded in a combination of comparative analysis, case study, and elements of interdisciplinary synthesis. The case study method facilitates the reconstruction of investment policy evolution and the identification of critical differences in design and implementation. The structural-functional analysis is employed to examine the relationship between investment policy and processes of stabilisation, integration, or renewed fragmentation. The present study employs institutional analysis to assess the role of governance mechanisms, regulatory frameworks, and compensatory instruments in shaping the developmental effects of FDI in post-conflict conditions.

The article proceeds as follows. First, it outlines the empirical context of both countries. Second, it examines the institutional and policy dimensions of their investment strategies. Third, it compares the social and developmental outcomes of FDI-driven recovery. Finally, it formulates general conclusions relevant to theory and policy in the field of post-conflict economic reconstruction.

2 Post-conflict Starting Points, Institutional Trajectories, and Formal Outcomes of FDI Policy in Ethiopia and Rwanda

The choice of Ethiopia and Rwanda for comparative analysis is based on a number of relevant factors. Both countries are located in East Africa, have experienced large-scale ethno-political conflicts with devastating humanitarian consequences, and required profound institutional restructuring in their aftermath. In both cases, foreign investment was declared a key tool for stimulating economic transformation. However, the results of these policies diverged sharply:

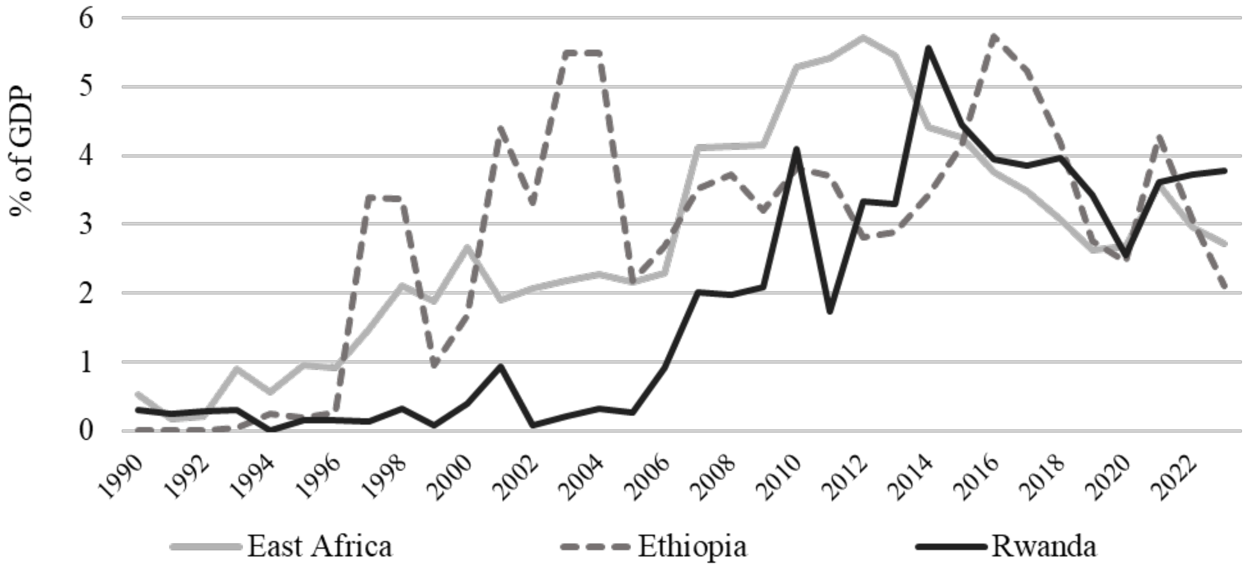

Figure 1 FDI as a percentage of GDP in selected East African countries

Source: (UNCTAD, 2025)

Ethiopia eventually plunged back into violence, while Rwanda steadily strengthened its position as a stable state.

In Ethiopia, the civil war (1974–1991) concluded with the triumph of the Ethiopian People's Revolutionary Democratic Front (EPRDF), a coalition spearheaded by the preeminent Tigray People's Liberation Front (TPLF) (Habtu, 2003; UCDP, 2025a). Despite the formal adoption of an ethnic federal system, real power was concentrated in the hands of the TPLF, leading to long-term institutional imbalance and persistent internal tension. In Rwanda, the post-conflict period commenced following the Rwandan Patriotic Front (RPF) seizure of power in July 1994, subsequent to a genocide that resulted in the loss of hundreds of thousands of lives (UCDP, 2025b). The new government was confronted with a tripartite challenge: namely, the imperative to ensure security, to facilitate the reintegration of refugees, and to effect the revitalisation of an economy that had been effectively destroyed.

In Ethiopia, the promotion of foreign capital became a central element of post-conflict economic recovery. As early as 1992, the government instigated market liberalisation, thereby formally recognising the role of both private and foreign capital. Proclamation No. 15/1992 led to the opening of most sectors to private investment (excluding strategic ones), the establishment of a guarantee of protection from expropriation, and the creation of the Ethiopian Investment Authority as a one-stop agency (UNCTAD, 2002). Concurrently, the Agricultural Development Led Industrialisation (ADLI) strategy was initiated.

Between 1992 and 1996, the country developed a basic investment policy infrastructure, introducing measures such as tax holidays of 2–3 years, preferential customs duties, and full profit repatriation. Furthermore, currency reform and debt restructuring were implemented. Proclamation No. 37/1996 saw the minimum capital requirements being eased and incentives being extended to additional sectors (Federal Democratic Republic of Ethiopia, 1996).

From 1997 to 2010, sector-specific incentives were introduced. Proclamation No. 116/1998 and Regulation No. 36/1998 resulted in the expansion of rights for the diaspora, the introduction of private property ownership, and the removal of restrictions on the hiring of foreign professionals. Selective fiscal incentives were introduced by way of amendments in 2003 (U.S. Department of State, 2015). Tax holidays of up to five years were granted, with bonuses for export orientation, modernization, and regional investment. Concurrently, the export of raw materials was being discouraged in favour of the manufacturing, agro-processing, pharmaceuticals, and mining sectors (U.S. Department of State, 2019).

Since 2011, there has been a discernible shift in policy focus towards industrial parks (UNIDO, 2017). These zones were granted tax holidays of up to 10 years, customs and foreign exchange incentives, and dedicated administrative support. Firms were required to export a minimum of 80%

of their output and to invest in less developed regions. The management system was either public or private.

In summary, Ethiopia has transitioned from the provision of general incentives to a structurally targeted approach. There was a gradual shift in policy priorities from agriculture to value-added industries and technology, while incentive instruments became more selective by region, sector, and expected outcomes (Getinet, 2005).

In Rwanda, the initial measures towards formulating an investment policy were initiated during the early phase of post-conflict economic reforms, when the government commenced the establishment of the institutional infrastructure to support investors, in conjunction with the restoration of fundamental state functions. The Investment Promotion Act was enacted in February 1998, thereby establishing the Rwanda Investment Promotion Agency (RIPA) (U.S. Department of State, 2005).

The adoption of Law No. 26/2005 on investment and export promotion marked the onset of a new phase, which witnessed a substantial expansion of the legal framework for FDI. This legislation encompassed the delineation of pivotal terms, registration procedures, incentives, guarantees, and dispute resolution mechanisms (Rwanda, Official Gazette, 2005). This development signified a more precise articulation of the government's vision concerning the role of foreign capital and the mechanisms for attracting it.

Institutional capacity was further strengthened in 2008 through administrative reform: RIPA and seven other agencies were merged into the Rwanda Development Board (RDB), a unified body designed to streamline investment services through a more efficient one-stop-shop model (Japan International Cooperation Agency, 2017). Concurrently, the conceptual framework and legal infrastructure for Special Economic Zones (SEZs) were introduced and institutionalised.

Subsequent milestones in Rwanda's FDI policy were marked by new editions of the Investment Law, adopted in 2015 and 2021. These legislative reforms reflected progressive structuring and refinement of national investment policy. Each new version brought more sophisticated regulatory instruments, a shift in policy priorities, and stricter investor quality criteria, with the aim of enhancing the strategic effectiveness of investment incentives.

A notable illustration of Rwanda's evolving approach to foreign investment incentives is evident in the transformation of its corporate income tax (CIT) policy across the 2005, 2015, and 2021 investment laws. In 2005, the structure of tax incentives was founded upon general encouragement: CIT reductions were linked to quantitative performance indicators, and international headquarters could qualify for full exemption without any operational presence (Rwanda, Official Gazette, 2005).

The 2015 legislation established a more discerning framework, correlating tax preferences with qualitative criteria such as involvement in priority sectors and heightened functional integration into the domestic economy (Rwanda, Official Gazette, 2015). By 2021, the legal framework had formalised a three-tiered CIT regime (0%, 3%, 15%) with defined requirements related to company structure, operational scale, management activity, and local presence.

This progression reflects a shift towards more complex and conditional access to tax benefits, based on a principle of reverse selection. Whereas earlier policies rewarded formal registration, later frameworks require demonstrated institutional quality. Consequently, Rwanda's tax incentives have evolved from serving as a rudimentary capital attraction instrument to a mechanism that firmly anchors long-term, entrenched foreign business activity within the national development strategy.

Another illustration of Rwanda's evolving approach to foreign capital and its redefined role in the economy is evident in the transformation of sectoral incentive policy. Since 2005, Rwanda has transitioned from a general list of eligible sectors to a selective system with the objective of enhancing investment quality. Initial priority was allocated to sectors such as ICT and financial services, while extractive industries were never regarded as strategic.

In 2005, sector-specific incentives were limited in scope, with the primary instrument being accelerated depreciation, accompanied by some fragmented benefits in sectors such as construction and tourism. The 2015 legislation established a more systematic model, whereby tax holidays or reduced CIT rates were granted to priority sectors, conditional upon investors attaining specified capital volume and equity ratio thresholds. Sectors that had previously been treated through case-by-case exemptions were incorporated into a unified scheme.

The 2021 reform introduced a level of detail that was hitherto unparalleled, distinguishing not only sectors but also sub-sectors and specific activities. To illustrate this, one may consider the manufacturing sector, which is divided into textiles, pharmaceuticals and agri-machinery; the ICT sector, which encompasses software development, innovation parks and training centres; as well as the creative industries, logistics, electric transport and research. The regulations pertaining to accelerated depreciation have undergone revisions, with a shift in focus from sector to asset value and project type. Consequently, Rwanda's sectoral policy evolved from a formal eligibility mechanism into a strategic selection tool fully embedded within the broader framework of post-conflict economic recovery.

When evaluated in isolation from its integration within the broader framework of post-conflict recovery architecture, Ethiopia's foreign investment policy appears to be largely analogous to that of Rwanda in terms of quantitative outcomes. At certain points, Ethiopia even outperformed its regional peers, including Rwanda, in terms of FDI-to-GDP ratios (see Fig. 1).

During the period 1992–1996, Ethiopia's FDI inflows remained negligible, as the basic legal and institutional foundations were still in the process of development. A significant increase was observed in the aftermath of the 1996 reform, which resulted in the reduction of entry barriers, the expansion of fiscal incentives, and the streamlining of procedures. A subsequent shift occurred after 2003, when the government initiated a policy of active support for foreign investors, through measures including improvements to infrastructure and the strengthening of institutions. From 2012 to 2016, the FDI-to-GDP ratio exhibited a consistent upward trend, consistently exceeding 3%. This ratio reached its peak in 2017 at 5.23%, surpassing both Rwanda (3.85%) and the East African average (3.49%).

In Rwanda, foreign direct investment (FDI) remained minimal during the initial stabilisation phase (1994–2000). It was not until the enactment of Law No. 26/2005 and the launch of Special Economic Zones in 2006–2007 that a sustained growth trend emerged. The FDI-to-GDP ratio reached 2.02% in 2008 and 4.09% in 2011, with net inflows exceeding 250 million USD. The 2015–2021 phase of administrative harmonisation demonstrated ongoing stability, with foreign direct investment (FDI) fluctuating between 3.3% and 3.9% of gross domestic product (GDP) and inflows ranging from 340 to 380 million USD, despite global shocks and domestic challenges. A drop to 2.55% in 2020 was attributed to the pandemic, but a new wave of investment recovery began thereafter, with FDI rising to 3.78% of GDP by 2023 (UNCTAD, 2025).

3 The Distorted Role of FDI Policy in Ethiopia: From Development Tool to Tension Amplifier

However, if foreign investment policy is viewed as an integral part of post-conflict economic recovery rather than a separate economic agenda, the social and economic effects of its implementation in Ethiopia and Rwanda appear fundamentally different. These differences can be primarily explained by the actual role that foreign capital played in the two countries' economies—not in terms of official discourse, but in practical terms.

In Ethiopia, the effectiveness of foreign capital as a recovery instrument was severely constrained by prevailing political conditions. Since 1991, the country has been operating under an ethnic federalist system, whereby the major ruling parties have established their own economic conglomerates. Of these, the most significant was EFFORT, a holding with close ties to the TPLF, which controlled dozens of companies in strategic sectors with total assets estimated at 3 billion USD (Yirga, 2025).

Affiliated enterprises were granted preferential access to financing, licensing, and public procurement, a privilege that was facilitated by their backing from political influence. This created a structural advantage for domestic capital, while foreign investors not aligned with EFFORT were effectively excluded from key market segments. It has been demonstrated that these groups were largely confined to areas that held little interest for dominant groups (Milkias, 2001).

Consequently, Ethiopia's economy did not function as an open market, but rather as a system of selective access, whereby foreign capital could only operate through integration into existing political and corporate alliances. This mode of selection had the effect of limiting the developmental impact of FDI, whilst also reinforcing its adverse socio-economic consequences.

A notable example of this phenomenon is the Saudi-owned company MIDROC, which was awarded a concession to develop the Laga Dambi gold mine in 1997. The company's affiliation with the ruling coalition facilitated its access to administrative privileges, as well as to resources and a certain degree of immunity from social and environmental obligations (Regassa, 2022). The project involved the expropriation of land without proper compensation, restricted access to water for local communities and limited employment opportunities for residents. Despite growing public discontent and protests since 2014 — including documented cases of arrests, intimidation and fatalities — the government extended the concession in 2018. This sparked renewed demonstrations, which became part of a wider wave of protests. These protests eventually contributed to the political shift in spring 2018, laying the groundwork for the armed conflict that broke out in 2020.

Though on a smaller scale, similar adverse social effects have been observed in connection with other FDI projects in Ethiopia, particularly in the floriculture sector, which since the early 2000s has emerged as a key target for foreign investment. These projects were frequently associated with land expropriation without adequate compensation, limited access for local communities to newly created opportunities, deteriorating labor conditions, and environmental risks. Consequently, these actions contributed to the escalation of social tension in rural regions (Amensisa, 2018).

A notable illustration of the discord between investment policy and local interests was the series of protests that occurred in response to the expansion of Addis Ababa into the Oromia region (2014–2018). Despite the project's lack of direct linkage to foreign investors, it was widely perceived as a harbinger of external capital inflows, characterised by substantial land expropriations without compensation. Local communities perceived this as a continuation of displacement in favour of investment and real estate projects. The protests, which continued for several years, resulted in a total of 6,000 deaths and more than 20,000 arrests (Ethiopia Insight, 2025). These events directly triggered the political shift of 2018, when the TPLF was removed from power and Ethiopia's first Oromo prime minister took office, laying the groundwork for renewed armed conflict with TPLF forces.

These examples, along with others, point to the existence of an institutionally entrenched system of unequal access to socio-economic benefits. Within this system, certain communities are systematically excluded from the advantages of foreign direct investment (FDI) and lack effective mechanisms to protect their rights or seek compensation for losses. Consequently, during the post-conflict period since 1991, Ethiopia's FDI promotion policy has not only been unsuccessful in reducing social tensions, but has frequently served to exacerbate them.

This structural injustice contributed to growing socio-political tensions, which eventually evolved into open confrontation between the central government and certain regional elites. This trajectory is reflected in Ethiopia’s Fragile States Index, particularly in the indicators for Factionalised Elites, Group Grievance, and Refugees and Internally Displaced Persons (IDPs), which capture political polarisation, social marginalisation, and displacement-related instability (Fund for Peace, 2024). These indicators have remained persistently high since the mid-2000s and deteriorated further amid mass protests and intensifying interethnic tensions during 2015–2017 (see Fig. 2).

The prevailing social tensions ultimately led to widespread protests in 2018, which resulted in the ascension of Prime Minister Abiy Ahmed to power. In the subsequent year, he initiated the transformation of the ruling EPRDF coalition into the newly formed Prosperity Party, from which the TPLF was excluded. Concurrently, the economic foundation of the TPLF, its affiliated conglomerate EFFORT, was dismantled (Ethiopian Tribune, 2025). This sequence of events acted as the catalyst for the armed conflict that erupted on November 4, 2020, and lasted for a period exceeding two years.

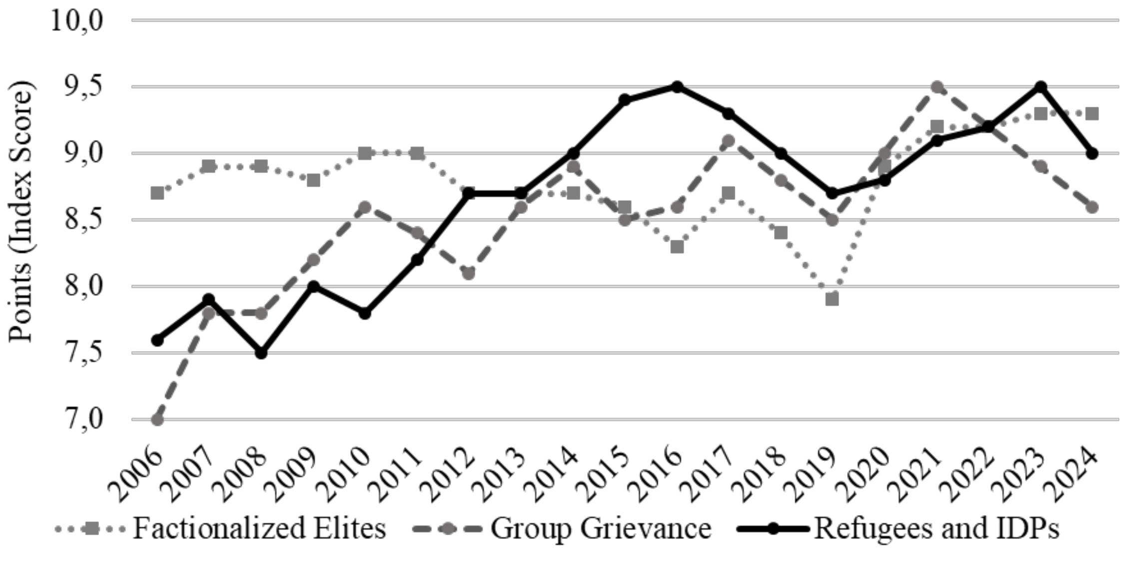

Figure 2 Dynamics of political and social instability indicators in Ethiopia

Source: (Fund for Peace, 2024)

According to the 2024 Fragile States Index, Ethiopia was ranked 12th in the world, placing it in the category of countries experiencing a critical level of fragility (Fund for Peace, 2024).

4 Enabling Role of FDI in Rwanda: From Capital Inflows to Inclusive Stability

In contrast to Ethiopia, where the institutional framework of ethnic federalism distorted foreign investment policy, Rwanda's strategy for attracting external capital was not encumbered by such destructive factors. Consequently, foreign investment – specifically during the third, fourth, and current stages of Rwanda's investment policy evolution – has contributed to the more balanced development of priority sectors, the creation of productive employment, and broader access to economic opportunities. Collectively, these changes established the foundation for the development of a more inclusive and equitable economy, which is essential for minimising the structural roots of conflict and ensuring long-term internal stability.

From the outset of the post-conflict period, Rwanda directed its investment policy towards the development of information and communication technologies and the financial sector, which became the leading areas for FDI inflows during the 2000s and 2010s (UNCTAD, 2019). It is evident that, over time, there has been a gradual diversification of investment structures, which has been precipitated by an increase in capital flows into manufacturing, energy, agriculture, and other sectors. A distinctive feature of this trajectory was the limited role of the mining industry, setting Rwanda apart from most other African countries. This transition towards a multisectoral model has been demonstrated to enhance the efficacy of FDI, whilst concomitantly facilitating active job creation, thereby reinforcing the inclusiveness of the economy.

The number of new jobs created per one million dollars of FDI is a key indicator of the intensity and effectiveness of foreign capital integration into the national economy. In this regard, Rwanda has been observed to demonstrate one of the highest levels of FDI intensification in East Africa. According to data from 2022: The analysis revealed that for every USD 1 million of FDI, 1.9 jobs were created in the manufacturing sector, 0.4 in the construction sector, and 0.5 in the services sector. This indicates that a total of 2.8 jobs were created overall. This figure is considerably higher than the regional average (2.2), as well as the corresponding figures in Uganda (1.4), South Sudan (1.2), Burundi (2.0), and Tanzania (2.1). Although Kenya formally exhibits an even higher result (3.1), a significant proportion of its job creation is concentrated in construction, whereas in Rwanda it is primarily in manufacturing, which generates more sustainable long-term returns. This investment structure is indicative of two key phenomena. Firstly, it reflects the scaling of capital. Secondly, it reflects its deeper integration into the economy. Furthermore, it has the potential to foster an inclusive labour market (OECD, 2024).

One of the typical negative effects of FDI, as previously examined using Ethiopia as a case, is social tension caused by land expropriation from local communities to implement investment projects. In Rwanda, this risk was mitigated to a large extent by the introduction of a compensation mechanism that was organised, transparent, and relatively fair. According to a study conducted by the Rwanda Civil Society Platform in partnership with Norwegian People's Aid, in eight administrative districts of the country, 69% of surveyed individuals received compensation in a timely manner, and 56% were granted an additional 5% bonus due to payment delays (Norwegian People's Aid & Rwanda Civil Society Platform, 2017). The expropriation process was met with a largely favourable response. The data indicates that 74.4% of respondents expressed approval of the prevailing laws and policies governing land acquisition, 72.2% demonstrated support for the asset valuation process, and 55% reported satisfaction with the quality of compensation. This approach has been demonstrated to be effective in preventing the radicalisation of local communities and reinforcing the overall legitimacy of Rwanda's investment policy in the eyes of its citizens.

The investment policy in Rwanda, which combines the intensification of foreign direct investment (FDI) inflows, inclusive economic growth, and the containment of potentially conflict-inducing externalities, has contributed to a gradual reduction in internal tensions and strengthened political legitimacy. Since the mid-2000s, when foreign investment began to have a significant impact on the national economy, the Fragile States Index has shown a clear downward trend in key social and political vulnerability indicators (see Fig. 3).

The temporary fluctuations observed in 2019–2020 were driven by the severe disruptions to public health and access to basic services caused by the pandemic. However, in the medium term, fragility indicators have been declining steadily, reflecting a structural trend of institutional consolidation. In 2006, Rwanda scored 92.9 on the index, placing it in the "Alert" category. By 2024, the score had decreased to 81.8, placing it in the "High Warning" group (Fund for Peace, n.d.).

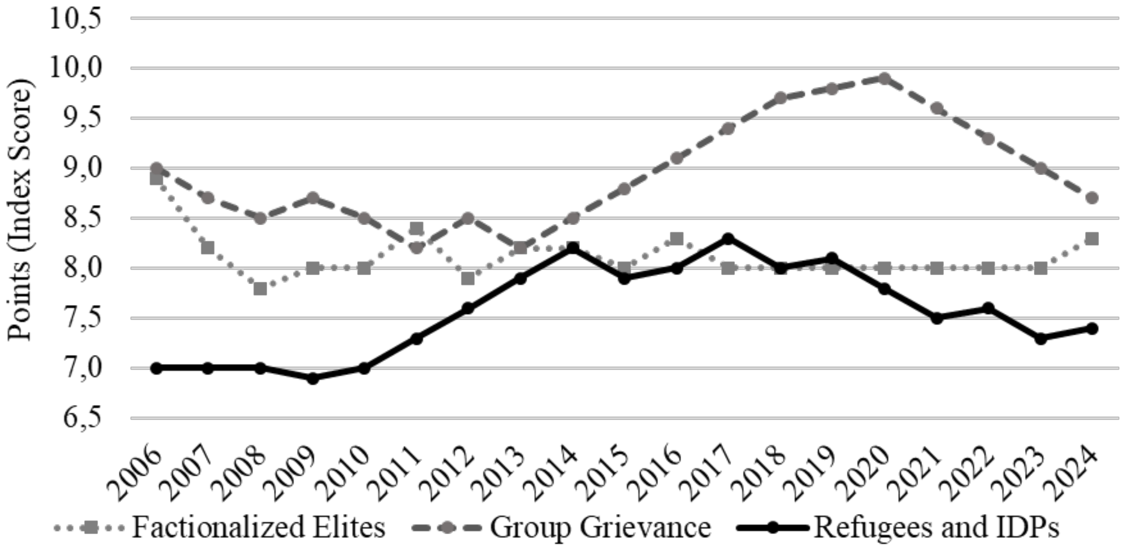

Figure 3 Dynamics of political and social instability indicators in Rwanda

Source: (Fund for Peace, 2024)

This improvement indicates increased institutional capacity, greater resilience to fragmentation and a growing ability to manage the legacies of conflict and promote socio-economic integration.

5 Conclusions

A comparative analysis of FDI attraction and stimulation policies in selected post-conflict countries of East Africa demonstrates that their effectiveness cannot be assessed in isolation from the broader socio-political context of recovery. It is evident that formal indicators, such as the presence of special economic regimes, the development of investment support institutions, or even record-high FDI inflows, do not guarantee positive outcomes for post-conflict economic transformation in and of themselves. The pivotal element in this regard is the effective incorporation of FDI policy into the broader framework of recovery strategies, which must encompass not only economic stabilisation but also the underlying structural factors contributing to conflict.

The post-conflict trajectories of Ethiopia and Rwanda reflected fundamentally different starting points. In Ethiopia, the absence of profound institutional reform in the aftermath of the conflict enabled structural tensions to endure in a latent state. In contrast, Rwanda's early political consolidation and large-scale institutional overhaul enabled a more coherent framework for economic transformation. While both countries pursued analogous formal pathways – the establishment of investment promotion agencies, the introduction of tax incentives, and the inauguration of industrial zones – the underlying political and normative foundations of these policies diverged. Rwanda has gradually transformed its FDI strategy into a tool of inclusive development, emphasising transparency and balanced growth. However, Ethiopia has been criticised for its concentration of investment benefits within a narrow ethnopolitical elite, a practice which has been argued to reinforce division and mistrust.

Despite the formal incorporation of FDI policies within the national recovery strategies of both countries, their substance proved to be of paramount importance. In Ethiopia, the policy has been shown to perpetuate inequities rooted in the ethno-federal model, thus contributing to increased tension. In Rwanda, FDI policy was aligned with broader institutional rebuilding, thereby helping to mitigate social risks and enhance institutional legitimacy. The socio-economic effects of FDI also diverged. In Ethiopia, investment benefits remained confined to privileged groups, thereby exacerbating exclusion and distrust. Conversely, Rwanda experienced a surge in FDI-driven job creation, an uptick in skilled local employment, and the implementation of more equitable land compensation mechanisms. These developments fostered inclusive growth and mitigated existing tensions.

This analysis leads to the broader conclusion that post-conflict foreign direct investment (FDI) policy should not be treated as a purely technocratic tool for attracting capital. Rather, it should form part of a transformative development strategy that addresses the structural causes of conflict, such as unequal access to resources, the unfair distribution of benefits and political marginalisation. If built on distorted normative foundations, FDI policy can become a conflict-exacerbating force. Conversely, a transparent, inclusive and balanced framework for FDI can play a transformative role in not only fostering growth, but also in restoring trust, strengthening legitimacy and promoting long-term societal cohesion.

It is recommended that future research explore the interaction between FDI policies and the concepts of justice, equity, and governance in fragile states further. In addition, the identification of institutional configurations that allow foreign capital to become a genuine driver of peace rather than a hidden source of instability is advised.

References

del Castillo, G. (2012). Rebuilding war-torn states: Tomorrow's challenges for post-conflict reconstruction. Australian Civil-Military Centre, p. 7. Available at: https://nla.gov.au/nla.obj-747514977/view

Ethiopia Insight. (2025, April 16). Ethiopia's capital problem. Available at: https://web.archive.org/web/20250416161803/https://www.ethiopia-insight.com/2025/04/16/ethiopias-capital-problem/

Ethiopian Tribune. (2025, May). Special report: TPLF's fall from grace — The economics of power redistribution in post-EPRDF Ethiopia. Available at: https://ethiopiantribune.com/2025/05/special-report-tplfs-fall-from-grace-the-economics-of-power-redistribution-in-post-eprdf-ethiopia/

Federal Democratic Republic of Ethiopia. (1996). Investment Proclamation No. 37/1996. Federal Negarit Gazeta, Year 2, No. 25, 18 June 1996, pp. 175–183. Available at: https://www.fsc.gov.et/Digital-Law-Library/Federal-Laws/investment-proclamation-proclamation-no-37-1996…

Fund for Peace. (2024). Fragile States Index 2024: A world adrift. Available at: https://fragilestatesindex.org/wp-content/uploads/2025/02/FSI-2024-Report-A-World-Adrift-2.pdf

Fund for Peace. (2025). Fragile States Index – Data and Rankings. Available at: https://fragilestatesindex.org/

Fund for Peace. (2025). Methodology – Fragile States Index. Available at: https://fragilestatesindex.org/methodology/

Getinet, H. A. (2005). Determinants of foreign direct investment in Ethiopia: A time series analysis. University of Westminster. Available at: https://eea-et.org/wp-content/uploads/2023/03/Getnet-And-Hirut_Determinants-of-foreign-direct-Investment-in-Ethiopia.pdf

Habtu, A. (2003). Ethnic federalism in Ethiopia: Background, present conditions and future prospects. International Conference on African Development Archives, paper 57, p. 30. Available at: https://scholarworks.wmich.edu/africancenter_icad_archive/57

Japan International Cooperation Agency. (2017, June). Data collection survey on investment promotion in the Republic of Rwanda (Project on Supporting Investment Promotion in Africa). KRI International Corp.; Ernst & Young Sustainability Co. Ltd. Available at: https://www.jica.go.jp/Resource/rwanda/english/activities/c8h0vm00004cf0b8-att/data_collection_survey_rw.pdf

Milkias, P. (2001). Ethiopia, the TPLF and roots of the 2001 political tremor. International Conference on African Development Archives, paper 4, p. 18–19. Available at: https://scholarworks.wmich.edu/africancenter_icad_archive/4

Norwegian People's Aid & Rwanda Civil Society Platform. (2017). Analysis of land expropriation and transfer process in Rwanda: Final report (42 pp.). Available at: http://www.rcsprwanda.org/IMG/pdf/report_on_land.pdf

Ohiorhenuan, J., Kumar, C. (2005). Sustaining Post-conflict Economic Recovery: Lessons and Challenges. BCPR Occasional Paper, p. 18

Organisation for Economic Co-operation and Development. (2024). Sustainable investment policy perspectives of the East African Community. OECD Publishing. DOI://doi.org/10.1787/169f3378-en

Regassa, A. (2022). Frontiers of extraction and contestation: Dispossession, exclusion and local resistance against MIDROC Laga-Dambi Gold Mine, southern Ethiopia. The Extractive Industries and Society, 11, 100980. Available at: DOI://doi.org/10.1016/j.exis.2021.100980

Rwanda. (2005, December 17). Law No. 26/2005 of 17 December 2005 relating to investment and export promotion and facilitation. Official Gazette of the Republic of Rwanda, gazette issue dated 15 March 2006 (No. 6). Available at: https://archive.gazettes.africa/archive/rw/2006/rw-government-gazette-dated-2006-03-15-no-6.pdf

Rwanda. (2015). Law No. 06/2015 of 28/03/2015 relating to investment promotion and facilitation: Official Gazette, No. Special of 27/05/2015. Available at: https://rdb.rw/wp-content/uploads/publications/Investment%20Promotion%20Law%202015%20(Investment%20code)).pdf

Tschirgi, N. (2004). Post-Conflict Peacebuilding Revisited: Achievements, Limitations, Challenges. International Peace Academy, p. 33. Available at: https://nisat.prio.org/misc/download.ashx?file=63514

U.S. Department of State. (2005). 2005 Investment Climate Statement – Rwanda. Available at: https://2001-2009.state.gov/e/eeb/ifd/2005/42425.htm

U.S. Department of State. (2015). Investment Climate Statement – Ethiopia. Available at: https://2009-2017.state.gov/documents/organization/241767.pdf

U.S. Department of State. (2019). 2019 Investment Climate Statements: Ethiopia. Available at: https://2021-2025.state.gov/reports/2019-investment-climate-statements/ethiopia

UNCTAD. (2002). Investment Policy Review: Ethiopia. Available at: https://unctad.org/system/files/official-document/poiteipcm4.en.pdf

UNCTAD. (2025). Foreign direct investment: Inward and outward flows and stock, annual. UNCTADstat. Available at: https://unctadstat.unctad.org/datacentre/dataviewer/US.FdiFlowsStock

UNIDO. (2017). Industrial Parks Incentives. Available at: https://www.unido.org/sites/default/files/files/2018-05/2.%20Industial%20Parks%20Incentives.pdf

Uppsala Conflict Data Program (UCDP). (2025). Ethiopia – Government vs. EPLF (267). Uppsala University. Available at: https://ucdp.uu.se/conflict/267

Uppsala Conflict Data Program (UCDP). (2025). The Rwandan Civil War and Genocide (517). Uppsala University. Available at: https://ucdp.uu.se/conflict/517

Yirga, A. (2025, May 15). Special report: TPLF's fall from grace – The economics of power redistribution in post EPRDF Ethiopia. Ethiopian Tribune. Available at: https://ethiopiantribune.com/2025/05/special-report-tplfs-fall-from-grace-the-economics-of-power-redistribution-in-post-eprdf-ethiopia