DETERMINANTS OF DOMESTIC PRIVATE INVESTMENT IN MANUFACTURING SECTOR: THE CASE STUDY OF GURAHGE ZONE.

A Thesis submitted to Jimma University College of Business and Economics Department of Accounting and Finance for Partial Fulfillment of MSc in Accounting and Finance

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Declaration

I hereby declare that this thesis is entitled "Determinants of domestic private investment in manufacturing sector: The case of Gurage zone", has been Carried out by me under the guidance and supervision of My Main advisor Eshetu Yadecha (PhD) and Co-advisor Mr. Ganfure Tarekegn

This research is original and has not been submitted for the award of Degree or Diploma any university or instructions.

Researcher's Name   **Date**   **Signature**

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Certificate

This is to certify that the thesis is entitles "Determinants of domestic private investment in manufacturing sector: The case of Gurage zone submitted to Jimma University for the award of the degree of master of Accounting and Finance and is a work carried out by Mr. Worku Haile Getraga under our guidance and supervision.

Therefore we hereby declare that no part of this research has been submitted to any other university or institutions for the award of any degree of diploma.

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Abstract

This research paper aims to investigate the determinants of domestic private investment (manufacturing sector) in the Gurage zone. Objective of the study was to examine the factors that affect private domestic investors in manufacturing sectors in the study area. To address these objectives, the researcher used descriptive statistics, and explanatory research design was employed and 347 sampled respondents were selected for the study. The researcher adopted a stratified sampling technique and applied Yamane formula for sample size determination. The data were collected through primary source (qualitative data approach) collected from investors and industrial managers in the manufacturing sector. Descriptive statics results were reported using tables, figures, charts, frequency, percentage, standard deviation, mean and econometric results were analyzed by using in multiple linear regression models by using SPSS 20 software package. The main finding of this study indicates that acquiring a bank loan, technological factors, administrative challenges, Locational factors, domestic market challenges, foreign mark challenges, High energy cost, break down of power, shortage of raw materials, and low working capitals and high financing cost. The econometric results also show that eight variables have a statistically significant and positive correlation for domestic private investment, and political instability risk have a statistically significant and negative correlation, and access to land is statistically insignificant variable in this study. The study concludes that domestic private investor in the study area were affected by the above identified factors. The researcher recommended for all concerned bodies, to pay more attention attracting foreign investors to invest in Gurage zone and constructs industry park in the study area, solve these problems acquiring a bank loan, technological factors, administrative challenges, locational factors, domestic market challenges, foreign mark challenges, high energy cost, break down of power, shortage of raw materials, and low working capitals and high financing cost.

Key words: Determinants, Domestic private investors, Manufacturing sector, Gurage zone

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Acronyms

ASENS…………………………   The association of south East Asian nations

CSA…………………………   Central Statistical Agency

FDI…………………………..   Foreign Direct Investment

GDP………………………….   Gross Domestic Product

GTP…………………………..   Growth and Transformation plan

LDCs………………………….   Least Developed Countries

MOFED ………………………   Ministry of Finance and Economic Development

MSE……………………………   Micro and Small Enterprises

OECD………………………….   Organization for Economic Cooperation and Development

OLS……………………………   Ordinary least square

PSD…………………………..   Private Sector Development

PIMS…………………………   .Private Investment in Manufacturing Sector

SPSS …………………………...   Statistical software Package for Social Science

UNCTAD………………………   United Nations Commission for Trade and Development

UNICEF ……………………….   Unite Nations Children's Education Fund

MUDC...………………………   Ministry of Urban Development and Construction

UNDP ………………………….   United Nation Development Program

CAHPTER ONE

INTRODUCTION

1.1. Background of the study

Investment is the process of greatly increase on real capital goods or incremental changes in capital stock whereby an economic agent like individuals, firms, and governments put in its resources to acquire a capital asset to enhance the future stream of earning, increase productivity and efficiency, decrease unemployment rate and reducing poverty and improving the living standard of the peoples (Ekpo, 2016).

Frimpong and Marbuah (2010), United Nations (2002), and World Bank (2004) report, private investment also have an important role in job creation, growth expansion, and poverty reduction. However mobilization of private investment is essential for the development of a country and contributes directly to economic growth. The growth of private investment is low, the productive capacity of the economy become decrease and these results in lowering the growth rate of investment, increasing unemployment rate and less opportunity for the poor to improve their livelihoods.

Private investment in manufacturing is the most important for economic development because effective private investments utilize the economy in terms of employment, income generation, and for the extra investment, and private investment activity is powerful for the sake of economic growth. Depending on the importance of investment, the government updates the articles in order to encourage private investment. Whereas the encouragement and expansion of investment especially, in the manufacturing sector, has become necessary so as to strengthen the domestic production capacity and thereby accelerate the economic development of the country and improve the living standards of its people (Gebrewubet, 2017).

However, as impressive as the number of policies and measures is to encourage industrial development, the problems of the sector continue to generate much concern and debate among a variety of stakeholders. The concerns stem broadly from the major factors of high production cost, low-value addition, low capacity utilization, the high import content of industrial output, and low level of foreign investment in manufacturing. And most of these problems are derived

essentially from inadequate infrastructures, lack of executive capacity, poor utilization of available manpower, and absence of a sound technological base.

Ethiopia is one of the most developing countries which have taken measures to enhance the operation of private investment in the manufacturing industries' performance by considering its contribution to the overall development, employment, and poverty alleviation. In this regard, the Federal and Regional Micro and Small Enterprise Development Agencies were established by regulation to utilize the local raw materials, creation of production, job opportunity and the enhancement of the development of micro to large industries are some of the efforts done by the governments MUDC(2013). Besides, UNDP (2012) indicated that the development of micro to large industries is the key components of Ethiopia's industrial policy direction that contribute to the industrial development and economic transformation, and the growth and transformation plan (GTP) emphasizes the need of industries to create wealth, jobs and reduce poverty. Based on these efforts the government has tried to promote the development of the sector through workable laws and regulation (Geletu, 2015).

According to the latest International Monetary Fund (IMF) Economic Outlook for Africa, Ethiopia's economy is forecast to grow 8.5% this Ethiopian fiscal year, which ends on 7th July 2019. The report says Ethiopia will continue to be the fastest growing economy in Sub-Saharan Africa, followed by Rwanda with 7.8% and Senegal with 6.7% growth. Deputy Director of the IMF Africa Department, David Robinson said Ethiopia's growth was driven by the service sector and better domestic and foreign investment. In 2019, the share of agriculture in Ethiopia's gross domestic product was 33.88 percent, industry contributed approximately 24.77 percent and the services sector contributed about 36.87 percent (National bank report, 2019). Underpinning this notable growth track record in recent years has been a focus on infrastructure and capacity development, as put forward in Ethiopia's Growth and Transformation Plan (GTP I), which was implemented from 2010 to 2015. The second such plan, GTP II, was run from 2015 to 2020 and explicitly aims to increase the country's manufacturing and agricultural exports, focusing on strategies that promote a globally competitive private sector.

Ethiopian government provided investment incentives and investment areas reserve for domestic investors as well as income tax exemption for new enterprises through (Tax exemption Regulation No 270/2012). In addition to investors who are exporting products/services have

additional incentives if investors export at least 60% of their products/services, they can take up additional two years exempt from income tax (Tax exemption Regulation No 270/2012). Furthermore, manufacturing is one of the key sectors of economic development and the government also encourages this sector through different reforms. One of them is investment and investment areas reserved for domestic investors (Regulation No. 84/2003).

Based on the Ethiopian Investment Proclamation, the Gurage zone investment office was established and has been legally performed. After preparation, the office had begun the activities of legally registering and administering private investment projects and related activities, so the manufacturing sector is one of the sectors legally registering and administering in the study area. In spite of different investment incentives given by the government for the private sector, but, the Gurage zone has been identified as the low private investment activities in the development and growth of the economy because of high production cost, low capacity utilization, the high import content of industrial output, and low level of foreign investment in manufacturing. Most of these problems are derived essentially from inadequate infrastructures, lack of executive capacity, poor utilization of available manpower, and absence of a sound technological base. Therefore, this study aims to identify and analyze the determinants of domestic private investment in the manufacturing sector, in the Gurage zone.

1.2. Statement of the problem

Private investment in the manufacturing sector is the most important for economic development because effective private investment utilizes the economy in terms of employment, income generation, and extra investment (Yehuala, 2019).

According to Fietas& Sinha (2011), Yehuala (2019) Gebrewubet (2017) and Ethiopian Central Statistical Agency (CSA) reports that promoting private investment in the manufacturing sector has a contributes a significant benefit in enhancing innovation, accelerating economic growth, reducing poverty, creates more job opportunities, generates more revenue and providing a source of livelihood for the majority of low-income households in the country. However, their contribution is very low compared with that of other countries due to financial factors, shortage of raw materials, lack of working capital are some of the underlying factors that hinder the growth of private investment in the manufacturing sector'. Due to the fact that private

investment is below expectation, the government has recognized and paid due attention to the promotion and development of private investment which includes working a lot to attract private investors for investment in different sectors of the economy.

The literature recognizes that the factors that influence domestic private investment. Empirical studies conducted by (Attefah, 2016) on his study on an OLS approach to modeling the determinants of private investment in Ghana. He was revealed that factors that have a significant impact on private investment in the study area were public investment, credit supply According to Ekpo (2016) on his study he identified determinants of private investment in Nigeria to include domestic inflation rate, size and growth rate of market, availability and access to bank credit, interest rate, fiscal deficits, public investment rate, poor provision of infrastructure, political and economic stability, investment climate and institutional factors are significant effect on private investment by applying empirical exploration.to the private sector, external debt, openness of the economy, corporate tax and democracy.

According to Zechariah (2010) conduct on his study determinants of domestic private investments in Kenya using the estimated long-run regression the study used data covering the period 1970-2010.The estimated long-run regression shows that real GDP growth rate, real exchange rate and broad money supply have a positive and significant effect on private investment.

According to Bayai and Nyangara (2012) conducted their study on analysis of determinants of private investment in Zimbabwe by using regression and correlation (correlation matrix) analysis reveal that political risk, GDP, debt servicing, trade terms and interest rates as the determinants of private investment. Some empirical studies conducted by Ethiopian researchers highlight factors affecting private investment.

Empirical study by Ambachew (2017) on his study determinants of private investment in Ethiopia by applying a time series study, the study showed that private investment in Ethiopia is influenced positively by domestic market, return to capital, trade openness and liberalization measures, infrastructural facilities and FDI; but, negatively by government activities, macroeconomic uncertainty and political instability. Hence, enhancing demand augmenting and trade liberalization policies, improving infrastructural facilities and maintaining macroeconomic and political stabilities should be among the main ingredients of a policy package designed to promote private investment in Ethiopia.

According to Gizachew (2017) his study conducted on the major microeconomic determinants of private investment status in the State of Tigray Ethiopia by applying descriptive and economic model analysis showed that there are many factors that determine the private investment manufacturing sector like, investment areas, access to credit, infrastructure facilities, the judicial system, corruption, investment incentives and bureaucratic red tape. The econometric result revealed that infrastructure facilities, the judicial system, and investment areas negatively and significantly delayed the entire private investment status. Infrastructure facilities, investment incentives, and investment areas were negatively and significantly related to the started group of investors' progress.

A study by Tigist and Mekonnen (2018) conducted on their empirical study on determinants of growth of private investment in Jimma City, Ethiopia by using logistic regression mode their study the result reveals nine variables, which is, education, marital status, age, personal saving, inflation, public investment, investment incentive, raw materials and land are a statistically significant determinant of private investment in Ethiopia in Jimma city.

In Gurage Zone, there is a great potential for investment activity in most sectors like agricultural, construction, and manufacturing sectors and flower farm (Horticulture). However, it has not been benefited from this opportunity.

Most studies conducted on determinants of the private investment as indicated above in different countries, therefore, as per the knowledge of the researcher and those all studies focused on overdone variables and negotiating contradicting ideas on an empirical study conducted by the above researchers. However, the researcher has filled the gap of the previous studies done in different countries by added new variables (Administrative challenges, High Energy cost) together with existing variables and confirms the contradiction (political instability risk and infrastructure facilities)among the finding of those researchers listed above and other studies mentioned under the statement of the problem above. Therefore, this study was constructing an empirical study of the determinants of domestic private investment in the manufacturing sector in the Gurage zone.

1.3. Objective of the study

1.3.1. General objective of the study

The main objective of the study is to investigate the determinants of domestic private investment in the manufacturing sector in the Gurage zone.

1.3.2. Specific objectives of the study

❖ To examine the factors affecting domestic private investment in the manufacturing sector in Gurage zone.

❖ To identify what measures should be taken by the government in order to reduce (solve) the factors affect the domestic private investment in the manufacturing sector in the study area.

1.4. Significance of the study

This study helps to identify the determinants of domestic private investment in the manufacturing sector in the Gurage zone. The main objective of the study is to acquire knowledge by investigating the most important variables affecting domestic private investment in the manufacturing sector in the study area. Furthermore, it will invite other researchers to develop comprehensive work in this area for a long period and it helps to show those investors to know determinant factors to invest in the Gurage zone and it will give a feasible solution for the investors. The researcher acquires a good experience and helps him/ her to do good works in the future and also this study will be used for reference for other researchers.

1.5. Scope of the study

The study was geographically scoped in southern nation nationalities peoples of regional state in the Gurage zone. The study is focused on the determinants of domestic private investment in the manufacturing sector in the Gurage zone and the study not included Micro and Small Enterprise (MSE), public investment, endowment fund investments, non-governmental organizations (NGOs), foreign direct investment (FDI). The main limitation of this study is that it does not consider the determinants of all private investment sectors other than the manufacturing sector.

1.6. Limitation of the study

The main limitation of this study is that it does not consider the determinants of all private investment sectors other than the manufacturing sector due to time and cost constraints. Besides,

the study limited only primary data to due lack of organized financial and non- financial data. The other limitation is the reluctant of respondents in order to answer the questioner's.

1.7. Organization of the Study

This research paper consists of five chapters organized as follows; Chapter One presents the introduction and a brief background of the investment as private and domestic, the problem statement, research objectives, and research questions, significance of the study, scope, and organization of the study. Chapter Two focuses on the literature review, both theoretical and empirical, on investment behavior in a bid to tailor the study on the world, Africa, and Ethiopia. Chapter Three research methodology, Chapter Four results and discussion and Chapter Five summary, conclusions and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Introduction

This chapter discusses to investigate the theoretical framework and literature related to the study of investment in general and private investment in particular.

2.2. Definition of investment

Investment is the current commitment of dollar (birr) for period of time in order to drive further payments that will compensate the investors: the time the funds are committed, the expected rate of inflation and the uncertainty of the future payment. From this we can answer the question about why people invest and what they want from their investments. They invest to earn a return either income or capital appreciation from saving due to their deferred consumption. Investment emphasis to the capital to be used for investment as well as the risk associated with investment in two ways. The first one is Investment is the commitment of funds with the view to minimize risk and safeguarding capital while earning return (investment constructed with speculation (UNCTAD, 2005&2008).

Private investment is an investment which is invested by individuals or group of individuals and it plays its own role in the economic growth within a state. Here, there are different factors applied for the purpose of economic growth which is act by the government but the performance of the government is very limited and it cannot achieve the growth independently. According to this point the government gives the opportunity for the private sector as well. So, Private investment can get the opportunity in order to play its own role in the economic growth. In addition to the government economic activities, the contribution of the private sector is high and this helps the economy by creating employment opportunities, income generation, market stability and in general on poverty reduction. Sustained economic growth and in terms of employment opportunities and income generation is necessary for poverty reduction and require enhanced private sector investment resulting in economic growth, reduction in poverty and improved quality of life for the majority of the population (Yehuala, 2019).

Private domestic investment refers to gross fixed capital formation plus net changes in the level of inventories whereas public investment includes investments made by the government and

public enterprises on social and economic infrastructures, real estate and tangible assets. The combination of private investment and public investment is normally referred to as gross fixed capital formation and this is distinctive from their counterpart – foreign investment. When foreign investment is on a tangible asset, it is referred to as a direct foreign investment; when it is in shares, bonds, securities, etc. it is called portfolio investment (Gebrewubet, 2017).

2.3. Theoretical framework determinants of domestic private investment

2.3.1. Finance factors and acquiring bank loan:

The financial constraints like, lack of capital or financial resources was a major barrier for business that usually have to mobilize their own capital or their own resources to establish or expand their business. In addition, business in developing countries have difficulties in accessing bank loan as a consequence to the high risk for failing loan, low profitability and lack of collateral required by banks (Amdemicale, 2018). For many businesses, access to finance and capital appear to be difficult. This comes as a consequence of weak banking institutions, lack of capital market and inefficient legal framework regarding credit and collateral assessment. Financing of business enterprise and access to finance plays a crucial role in the growth process and development of the enterprises (WB, 2011).

According to Fatoki and Garwe (2010), the lack of capital seems to be the primary reason for business failure and is considered to be the greatest problem facing in the business owners. This refers to the possibility that individuals or enterprises can access financial services like credit, deposit and other related services. Access to loans by financial institutions (availability of bank credit to private investors) significantly affects the operation of private investors in all statuses. The investors consider collateral requirements, bureaucracy, interest rate, officials' corruption, credit amount, etc. as being important factors. This is the user cost of capital, and it helps to analyze the feelings of the investors towards the interest rate of bank loan. The investors express their feeling on the interest rate level impact on the investment status by comparing the cost and benefits of the credit. Macroeconomic Stability(Low inflation, low interest rates and a realistic exchange rate, continuing trade reforms and relatively decreasing role for the state through privatization and deregulation helped to redress the imbalances of the 1980s and created conducive environment for sustained macroeconomic stability).

Trade, exchange rate and other structural reforms resulted in about 6.3% average annual growth in real exports. However, despite this trend, Ethiopia's participation in the global economy is still minimal. Finance deals Cost – benefit analysis whether to invest or not works only in enterprises that have no credit constraint (WB, 2003).

Health financial sector improves access to finance and by then allows expanding production as per the expected potential (Mahmood, 2006). The major problems associated with the external sources; information asymmetry between lenders and borrowers, managerial agency problem, and high transaction costs. Binks and Ennew (1996) highlight the importance of collateral as a means of mitigating the information asymmetry to credit access at bank, collateral values and interest rates are very high and loan approval processes are inefficient.

2.3.2. Access to land

Land access is broadly defined as the processes by which people individually or collectively gain rights and opportunities to occupy and utilize land. The use is primarily for productive purposes but also for other economic and social purposes and can be of a temporary or permanent nature (Quan, 2006). The private investors were asked whether they experienced a delay due to access to land for their investment activities or not by considering the land tenure system, bureaucratic procedures, lease prices and the size of land. In consideration of these constraints, the Government is taking steps to considerably reduce the minimum lease rate and increase the supply of land to minimize escalation of prices during auction, streamline the bureaucracy involved in the identification and delivery of land, and prepare/develop infrastructure on plots to be offered for lease. Moreover, the Government plans to improve governance in all major towns and put in place a transparent and investor friendly system to minimize the bureaucratic impediments in the delivery of land. The government and the private sector was continue to be engaged in consultations to reach an understanding on how to further improve the land lease system. Issues for future consultation was relate to lease policy collateralization of land held under lease and assisting investors in large-scale commercial farms to have access to agricultural land with basic infrastructure (Gebrewubet, 2017).

2.3.3. Political instability

Political instability is defined as the presence of conflict among objectives of investors and governments. Political instability measures competitiveness and the regulation of political participation, regulation, competitiveness, openness of recruitment, and the legal and operational independence of the chief executive (Busari & Amaghionyeodiwe, 2007). The political instability includes border conflict, security system, unnecessary interference, and trade restrictions in the state as factors impacting their investment status. Investors need free and fair conditions to be able to pursue productive activity. They also need to have conditions where contracts and property rights are respected and corruption is kept at its lowest possible level. The federal democratic republic of Ethiopia (FDRE) constitutes a federal system of government where both economic and political responsibilities have been considerably decentralized giving more autonomy to regional and Woreda administrations with the objective of deepening the democratization process and bringing about improved governance. In order to deepen the decentralization process, implementing powers and responsibilities for resources allocation are being designed for Woreda and Kebelle level administrations. The civil service reform program, which includes the judicial system, is being implemented. Overall, the democratization process has helped to create peace and stability in Ethiopia.

Government policies and political factors are the importance of private investments to the economy of the country indicates how it is to have important the government policies that support the investment, including regulations that enable them to operate efficiently and regulations that reduce their administrative costs Harvie and Lee, (2005). According to World Bank research, complex tax systems, low level of trust in the judicial system, and the need to pay bribes to access public services, represent major barriers, especially in South East Europe (WB, 2000).

2.3.4. Investment incentives

According to Barbour (2005) defines an incentive as being 'any measurable advantage given to specific enterprises or categories of enterprises by (or at the direction of) government. Incentives given to private investors in the form of duty-free import of machinery and equipment, income tax holidays, access to the bank loans and low lease price of land, and market incentives were measured. Investment Incentives are despite due focus given to the large, medium, and small

scale manufacturing industries in government development plan, the performance registered so far is unsatisfactory suggesting that the dire need for examining the sector's growth constraining factors that hamper it from playing a leading role. Towards this end, the government has provided attractive incentives packages for investment in the manufacturing sector.

The Ethiopian tax law allows for a duty free importation of raw materials and machinery, equipment for manufacturers. Temporary incentives may be provided if they are necessary to trigger private sector responses that may generate positive externalities; but they should be phased out when there is evidence that the private sector does not respond as expected, or when market development takes off and generates sufficient response. In order to take these decisions, close monitoring and evaluation of policy performance is needed, and stakeholders should be invited to provide their feedback. Hence good industrial policies build on an evidence-based, participatory and transparent institutional learning process. Moreover, policymakers should make use of private service providers whenever possible, providing incentives if necessary, and encourage competition among service providers, rather than implementing each and every service through government channels (Industrial Policy in Ethiopia Tilmann Altenburg Bonn, 2010).

2.3.5. Access to infrastructure facility

This refers to whether the investor experienced a delay because of the lack of access to infrastructure facilities or not. If there are adequate infrastructure facilities like road, water, electric, telephone, etc., more investors would be attracted to invest and so this positively contributes to promoting investment status. Infrastructure is one of the major factors for industrial development. Power, transport and communication are its key elements. It matters a lot for competitiveness of firms. Acquiring information, input procurement and getting market require more resources of the firm in countries of poor infrastructures (WB, 2003). According to Hulten, Bennathan and Srinivasan (2006) found a strong link between physical infrastructure and manufacturing productivity in India.

2.3.6. Application of information technology (Technological factors)

According to Apulu and Latham (2011) found that the competitiveness of private investment will be increased through adopting information and communication technology.

Subrahmanya, Mathirajan, and Krishnaswamy (2010) summed up that those private investments which have technological innovation have a higher growth compared to the business which are not creative in the sales turnover, investment and job. High dependency on imported raw materials and intermediate goods has remained the distinguishing feature of the Ethiopian manufacturing sector. The main reasons for high dependency on imported raw materials were unavailability of raw materials in the local market and lack of sufficient local supply. Inadequate and poor quality imported raw materials and technologies, along with low level of technical skills, top the lists of the problems facing the sector. Series of surveys conducted by the Central Statistical Agency (CSA) on the manufacturing sector consistently reported that more than 50% of firms claim that their first major reason for their low capacity utilization is inadequate and poor quality raw materials. This calls for a concerted effort both by government and other stakeholders to seek ways and means of enhancing domestic production of manufacturing raw materials thus reducing the outflow of the scarce foreign currency.

2.3.7. Administrative challenges

According to Samuel et.la (2010) Administrative issues range from macro level (policy dimension) to micro level (firm-specific administrative conditions). In the policy arena, it is argued that manufacturing is hindered by ineffective policies and, in particular, by poor enforcement of rules and regulations, rent-seeking and other weaknesses. Administration in the industrial firms was another problem area and it has been said administrative issues have been a reason for the high staff turnover and weaker firm loyalty. This undermines preservation of the skills and knowledge that have been acquired through experience and learning-by-doing. We focus on six main issues highlighted on the administrative front. Poor enforcement of laws, rules and regulations, Complex legal and institutional framework, Negative attitude against consumption of locally produced goods, Employees compensation and work morale, Poor customer service and Management challenges. Administrative challenges: issues range from the macro level (policy dimension) to the micro level (firm-specific administrative conditions). With regard to the policy arena, manufacturing is constrained by ineffective policies, particularly because of poor enforcement of laws, complex legal and institutional frameworks, as well as a disapproving attitude towards the use of locally produced goods which has led to overconsumption of foreign products

2.3.8. Marketing Factors

To have a good chance of survival, a business firm needs to answer the basic strategic questions: "what markets are we targeting, with what products?" A common weakness in the business owner/ managers lies in their failure to understand key marketing issues Stokes and Wilson (2006). According to those authors stated above believed that product or service concepts and standards often reflect only the perceptions of the owner, which may not be mirrored in the market place.

2.3.9. Domestic and Foreign market challenges

In the importance of industrial policy in addressing distortions that constrain structural change, the first distortion relates to the presence of market failures; the second to coordination failures; and the third to technological accumulation and the acquisition of knowledge. The traditional view in economics was that markets are efficient and state interventions should not influence the allocation of resources across sectors. However, there is a growing consensus that markets do not necessarily lead to efficient or desirable outcomes and the state has a role to play in this regard. One of the well-known market failures that industrial policy can address is information and cost discovery externalities (UNCTAD and UNIDO, 2011).

According to Hausmann and Rodrik (2003), information externalities deter firms from exploring new economic activities, especially in developing countries where property rights are not enforced. This arises because the first firm to invest in cost discovery bears all the costs, while rival firms learn from the outcome of the first entrant. Industrial policy can thus be used to promote entrepreneurial entry, survival and compensation for innovation through patent rights and copyright laws (Lin and Chang, 2009). Another type of market failure relates to environmental externalities. These arise because firms, motivated by profits, do not incorporate pollution and environmental degradation costs in their investment decisions. The second need for market policy arises due to the presence of coordination failures (Pack and Saggi, 2006). Coordination failures occur because the feasibility and profitability of most economic activities is contingent on the existence of complementary investments. In an analysis of manufacturing firms in Ethiopia, Gebreeyesus and Mohnen (2013) provide evidence that supports the importance of firm coordination and networks in promoting technological innovation.

2.3. Empirical studies on the determinants of domestic private investment

2.3.1. Empirical studies in rest of the world

According to Alman and Ahmad (2014) conducted a study on determining factors of private investment: empirical study in Pakistan. By using ordinary least square (OLS) regression method using econometric software E-views to they examine the determinants of private investment the finding revealed that credit availability, infrastructural public investments are positively related to private investment. And also in their study, GDP, exchange rate and public investment, interest rate and inflation are the major factors affected as these variables are significant effect on private investment. The results gathered from estimation, private sector credit, debt servicing to exports ratio and workers' remittances respectively are rejected as these variables appear to be statistically insignificant.

According to Attefah (2016) on his study on an OLS approach to modeling the determinants of private investment in Ghana By using a time series data from 1980 to 2010 with the help of multiple linear regression models. His study was show that factors that have a significant impact on private investment in Ghana were public investment, credit supply to the private sector, external debt, and openness of the economy, corporate tax and democracy. However, the study reveals that GDP growth, real interest rate, inflation and real exchange rate were statistically insignificant. Therefore, the study recommends that a tighter fiscal policy to reduce the crowding out effect on private investment. Foreign trade and trade liberalization must be better to encouraged private investment in Ghana.

Ekpo (2016) conducted a study he identified that determinants of private investment in Nigeria to include domestic inflation rate, size and growth rate of market, availability and access to bank credit, interest rate, fiscal deficits, public investment rate, poor provision of infrastructure, political and economic stability, investment climate and institutional factors are statically significant impact on private investment by applying empirical exploration.

According to Zechariah (2010) conduct on his study determinants of domestic private investments in Kenya using the estimated long-run regression the study used data covering the period 1970-2010. On this study informed that the estimated long-run regression shows that real GDP growth rate, real exchange rate and broad money supply have a positive and significant

effect on private investment. Others like trade policy, domestic savings, lending rates and foreign aid have a positive but insignificantly to influence on private investments. And Markets has played a major role when it comes to new investments. On his study shows that private sector credit and political regimes have a negative and significant influence on private investments. And also, public investment, real deposit rates, public debt, inflation, foreign exchange reserves and financial liberalization have a negative but insignificant impact on private investments.

According to Bayai and Nyangara (2012) conducted their study on analysis of determinants of private investment in Zimbabwe by using regression and correlation (correlation matrix) analysis reveal that political risk, GDP, debt servicing, trade terms and interest rates as the determinants of private investment. The effect of each variable as shown are: GDP has a positive contribution to private investment as expected by theory, Debt servicing showed a significant positive relationship with private investment though contrary to the study's expectations, Trade terms also contribute positively to private investment, Political risk relates negatively to private investment though its coefficient is insignificant, and Interest rates, though they're Not significant effect relates negatively to private investment.

A study by Esubalew (2014) on his study conducted on the macroeconomic determinants of domestic private investment in the east Africa by using (OLS) outcome reveal that instability of macroeconomic environment; like inflationary pressure, high external debt, fluctuation in terms of trade, real exchange rate movements; and public investment, real interest rate, and the level of freedom index exhibits not favorable effect on the domestic private investment performance in the region.

According to Lesotlho (2006) conducted a study on an investigation of the determinants of private investment: The Case of Botswana by using regression analysis based on the co-integration and Error Correction Model (ECM) of Engle and Granger (1987) and Econometric model results showed that Public investment, bank credit to the private sector and the real interest rate affect private investment level in the short run, while GDP growth and real exchange rate affect private investment in the long run.

According to Oshikoya (2019) conducted a study on macroeconomic determinants of domestic private investment in Africa: An Empirical Analysis: the analysis in different African country he postulated that real output growth and change in bank credit to the private sector would have a

positive effect on the private investment rate. In contrast, an increase in the degree of economic instability/uncertainty proxies by an in- crease in the debt service ratio, an increase in inflation, or an adverse terms of trade shock would exert a negative influence on the private investment rate. On the other hand, the effects of the public investment rate and real exchange rate are, on an a priori basis, ambiguous.

2.3.2. Empirical studies in Ethiopia on determinants of private investment.

According to Ambachew (2011) on his study determinants of private investment in Ethiopia by applying a time series study, the study showed that private investment in Ethiopia is influenced positively by domestic market, return to capital, trade openness and liberalization measures, infrastructural facilities and FDI; but, negatively by government activities, macroeconomic uncertainty and political instability. On his study shows, increasing demand augment and trade liberalization policies, facilitating adequate infrastructures and keeping the macroeconomic and political stabilities should be among the main because of the benefits of a policy package designed to encourage private investment in Ethiopia.

According to Gebrewubet (2017) his study conducted on the major microeconomic determinants of private investment status in the State of Tigray Ethiopia by applying descriptive and economic model analysis showed that there are many factors that determine the private investment manufacturing sector like, investment areas, access to credit, infrastructure facilities, the judicial system, corruption, investment incentives and bureaucratic red tape. On his study reveals that infrastructure facilities, the judicial system, and investment areas negatively and statically significantly affect the private investment status. On his study area infrastructure facilities, investment incentives, and investment areas were negatively and statically significant related to the started group of investors 'operation. However, investment location was related positively and statistically significant to the started group and the ability of the implementation and operation statuses of private investors to proceed to operation status. In the case of the non-started group, infrastructure facilities and investment areas are related significantly and negatively to investment status delay. By comparison, interest rates and investment location statically significant and positively affect private investment status of the progress. On his finding shows, that investor's level of education, access to land and political instability risks in the survey were statically insignificant. In addition, the study of private investors for those who

have already started production shows that infrastructural, technological, and economic and financial factors have the factors that affect investment activity.

According to Fujaw (2018) conducted on his investigation on the determinants of private investment in Ethiopia by using the regression analysis (OLS) model results showed that public investment, real GDP, external debt servicing, and access to bank credit have statically significant and positive influence on private investment, while lending interest rate and foreign direct investment have statically significant and negatively influence on the performance of private investment on his study period. On his study also, conclude that in order to encourage the performance of private sector in the country, it is the most important to take measures that can increased real income of people, and make public investment and institutions that are most important to attract private investment. On this study he examine the trending behavior of real GDP, external debt servicing, lending interest rate, foreign direct investment, public investment, bank credit availability, national monetary reserve and inflation. The coefficients of Real GDP, external debt servicing ,foreign direct investment, access to bank credit, interest rate and public investment found to be statistically significant, the variables explain changes in private investment in the study period. However, the study identified that coefficients of inflation and national reserve is insignificant therefore, the variables cannot be effect on private investment in the study period in Ethiopia.

Waktole and Bogale (2018) conducted on their empirical study on determinants of growth of private investment in Jimma City, Ethiopia by using logistic regression mode their study the finding reveals that the variables like, education, marital status, age, personal saving, inflation, public investment, investment incentive, raw materials and land are a statistically significant factors affect private investment in Ethiopia in Jimma city. But, in the study area personal saving is insignificant.

According to Gebreslassie et al.(2015) on their study assessment of domestic private investment in Wolaita Zone: Case of Sodo, Areka and Bodity Cities by using descriptive statistic, and also linear regression analysis that found that the success story, good government bureaucracy, investment potential of the zone and good investment environment are significant contribution to the domestic private investment activities of the zone and other variables such as infrastructure,

availability of finance and the feasibility of the business shown that statistically insignificant on their study.

A study by Gofe (2018) on his study assessments of the determinants of investment activities in nekemte town by using descriptive analysis identified that difficulties of finance, lack of credit and low encouragements from investment offices are the major finding.

2.4. Conceptual Framework

Figure 1 Conceptual Framework

<u>**Independent Variables**</u>

- ➢ Acquiring bank loan
- ➢ Access To Land
- ➢ Investment Incentives
- ➢ Political Instability Risk
- ➢ Infrastructure Facilities
- ➢ Financial factors
- ➢ Technological factors
- ➢ Administrative Challenges
- ➢ Locational factors
- ➢ Domestic Marketing Factors
- ➢ Foreign market challenges

<u>**Dependent Variable**</u>

Domestic private investment
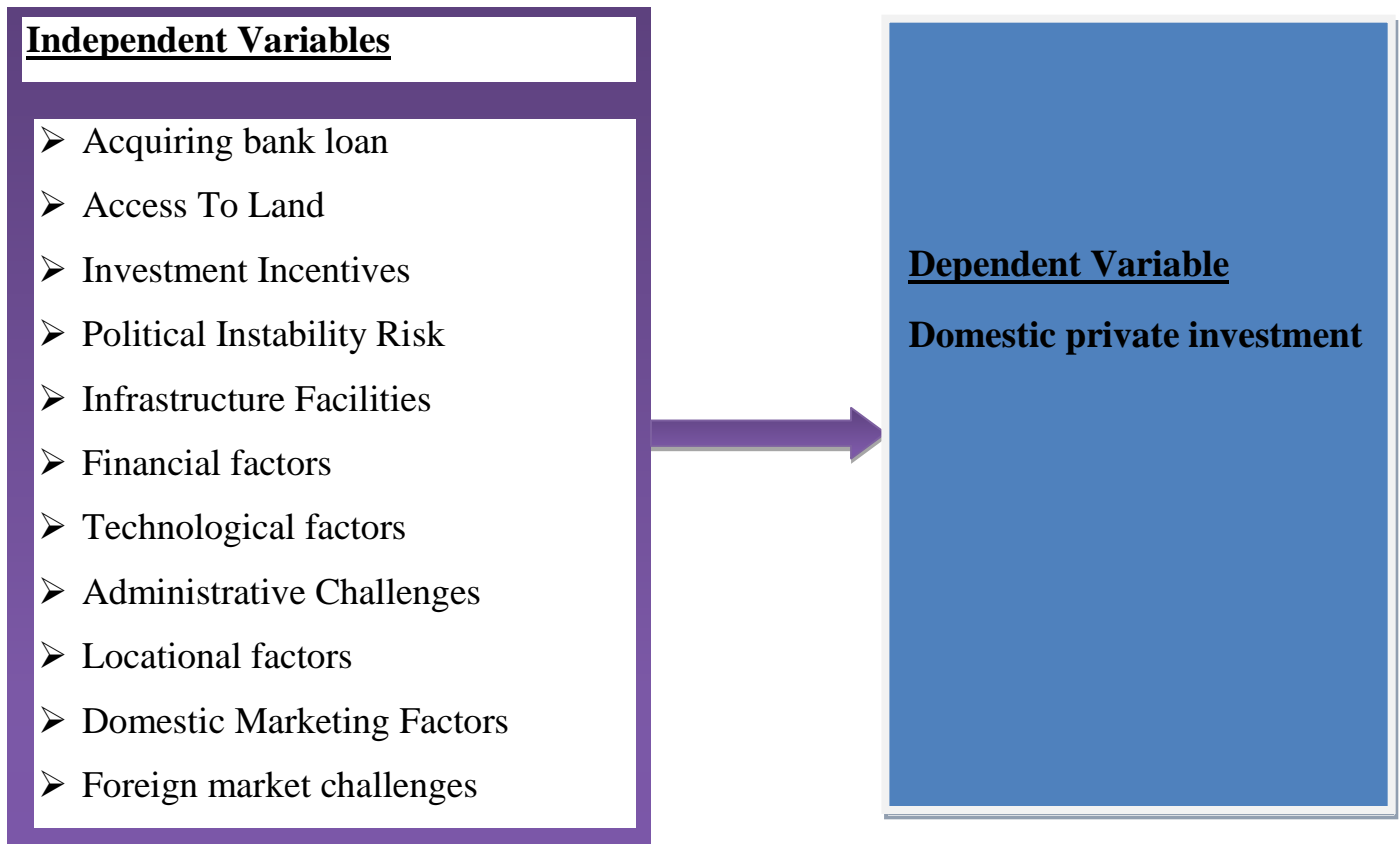
Source: Own compilation from (theoretical and empirical review)

3.8. Operational definition of variables

The study hypothesizes that there are multiple variables factors affect private investors' operations in the study area. The major variables expected to have an influence on the growth of private investors in the manufacturing sector in the study are presented and explained below,

together with the direction of their effect and measurement following the definition of the dependent variable.

Dependent variable: Domestic Private Investment (DPI) is the purchase of a capital asset that is expected to produce income, appreciate in value, or both generate income and appreciate in value. A capital asset is simply property that is not easily sold and is generally purchased to help an investor to generate a profit. It is measured as the amount of private investment equity, loan and equity + loan. Equity is the value of the business left to its owners after the business has paid all liabilities. Loan is the original principal on a new loan or principal remaining on an existing loan, the annual nominal interest rate or stated rate of the loan, the number of payments required to repay the loan and the amount to be paid toward the loan at each monthly payment due date. Total assets equal the sum of liabilities and total equity. But domestic private investments are mainly affected by listed below. The independent variables are hypothesized to affect domestic private investment in Gurage zone is described below.

Acquiring bank loan (AC1): this refers to the possibility that individuals or enterprises can access financial services like credit, deposit, and other related services. Access to loans by financial institutions (availability of bank credit to private investors) significantly affects the operation of private investors in all statuses. The study investigates whether the investor has affected their investment operations due to the actual access to credit facilities the investors consider collateral requirements, bureaucracy, interest rate and credit amount, etc. as being important factors (Gebrewubet, 2017).

H1: Access to the bank loan is a positive and significant influence on domestic private investment in the manufacturing sector.

Access to land (LA): It is a process of the people individuals or groups to acquire rights and opportunities to gain and utilize the land. It is used for productive purposes but also for other economic and social purposes and can be of a temporary or permanent nature. The private investors were asked whether they experienced a delay due to access to land for their investment activities or not by considering the land tenure system, bureaucratic procedures, lease prices, and the size of land (Gebrewubet, 2017). On his study land access is statically insignificant i.e. it is determinant factors for private investment.

H2: Access to land is a positive and significant influence on domestic private investment in the manufacturing sector.

Investment incentive (IN): According to Gebrewubet (2017) defines an incentive as being any measurable advantage given to specific enterprises or categories of enterprises by (at the direction) of the government. The fiscal investment incentives are direct cash benefits or tax exemption; non- fiscal incentives include fast-track approval processes or exemption from certain regulations. Putting in place various incentives would promote investment status by attracting more investors to invest in the manufacturing sector. Incentives given to private investors in the form of duty-free of import of machinery and equipment, income tax holidays, access to a bank loan, and low lease price of land and market incentives were measured.

H3: Investment incentives a positive and significant influence on domestic private investment in the manufacturing sector.

Political Risk (PR): is defined as the presence of conflict between objectives of investors and governments summarized the different measures of socio-political instability into two categories, those that stress regular and irregular government transfers and those that are much harsher, such as revolution civil wars and political homicides. Political instability measures competitiveness and the regulation of political participation, regulation, the openness of recruitment, and the legal and operational independence of the chief executive (Gebrewubet, 2017).

H4: Political instability risk has a negative and significant influence on domestic private investment in the manufacturing sector.

Infrastructure facility (IF): This refers to whether the investor experienced a delay because of the lack of access to infrastructure facilities or not. There is a lack of access to infrastructure facilities like road, water, electric, telephone, etc. this influence investors would be to invest and significant effect and positive contribution to promoting investment status (Yehuala, 2019), (Ambachew.2010) and (Gebrewubet, 2017).

H5: Infrastructure facilities positive and significant influence on domestic private investment in the manufacturing sector.

Financial factors (FF): The financial factors like, lack of capital or financial resources was a major problem for a business that usually has to mobilize their own capital or their own resources to establish or expand for their business. In addition, businesses in developing countries have difficulties in accessing bank loans as a consequence of the high challenges for acquiring a bank loan, low profitability, and lack of collateral required by banks (Amdemicale, 2018).

H6: Financial factors are a positive and significant influence on domestic private investment in the manufacturing sector.

Technological factors (TF): An empirical study shows that inadequate and poor quality imported materials and technologies along with a low level of technical skills, top the lists of the problems facing the sector. The study conducted by the Central Statistical Agency (CSA) shown that the manufacturing sector consistently reported that more than 50% of firms claim that their first major reason for their low capacity utilization is inadequate utilization of technology (Yehuala, 2019).

H7: A technological factor has a positive and significant influence on domestic private investment in the manufacturing sector.

Administrative challenges (AD): Empirical study reveals that issues are administrative challenges range from a higher level (policy dimension) to a smaller level (firm-specific administrative conditions).some policy issuer argued that investors invest in manufacturing is challenged by weak policies and, in particular, by poor enforcement of rules and regulations, rent-seeking and other weaknesses.

The administration was another problem area and it has been said administrative issues have been a reason for the high staff turnover and weaker firm loyalty. (Samuel-et-al, 2017).

H8: An administrative challenge has a positive and significant influence on domestic private investment in the manufacturing sector.

Locational factors (LF): According to Gebrewubet (2017) shows appropriate to include investment location-specific dummy variables when observations from different socioeconomic or ecological/environmental areas are included in the sample. These identified area-specific factors affecting investment decisions such as access to the market, access to infrastructure, and distance to raw materials, and costs incurred specifically due to the location of the enterprise

H9: A locational factor has a positive and significant influence on domestic private investment in the manufacturing sector.

Domestic and foreign market challenges (DM & FM): In an analysis of manufacturing firm Ethiopia provide evidence that supports the importance of firm coordination and network in promoting technological innovation. The empirical studies showed that the local business relations constitute the key channel through which firms acquire knowledge on market opportunities, new products, new competitors, and production techniques (Yehuala, 2019).

H10: Domestic and foreign market challenge has a positive and significant influence on domestic private investment in the manufacturing sector.

Table 1: Operationalization (Measurement) of study variables

Variables	Measurement
Acquiring banks loan related problems	Collateral Requirements Of Banks/Financial Institutions Bank Paper Work/Bureaucracy/ Loan Delivery? High Interest Rate? Corruption Of Bank Officials? Inadequate Credit/Finance? Banks Require Detailed Feasibility Study
Land access	Existing Land Tenure System Bureaucratic Procedure Getting Land High Lease Price
Investment incentive structure	Incentives Income Tax Holidays Custom Duty Access To Bank Loan Market Incentives
Political stability	Border Conflict Weak Security System Public Offices Unnecessary Interference
Administrative challenges	Poor Enforcement Of Laws, Rules And Regulations Tax Rates And Administration Complex Legal And Institutional Framework Negative Attitude Against Consumption Of Locally Produced Goods
Financial Factors	Financial Institutions High Cost Of Raw Material And Other Inputs High Interest Rate On Bank Loan Low Credit Facility To Get Bank Loan Macroeconomic Uncertainty (Inflation, Exchange Rate) High Cost Of Working Capital High Energy Cost
Technological factors	Research And Development Works Appropriate Technology Supply Information And Communication Technology
Infrastructural factors	Road Construction/Transport Electric Power

	Water Supply
	Air Transport
	Port Facilities
Domestic market challenges	Lack Of Access To Market
	High Cost Of Imported Goods(Raw Materials)
	Shortage Of Raw Inputs
	Imperfect Market
	Quality Problem
	Demand For Your Product
	Promotion Medias For Your Product
Location factors	Skilled and customer attractive labor Force
	Raw materials needed
	Location to sell your product
Foreign market challenges	uncompetitive global market
	Lack of knowledge about foreign market
	Inefficient production
	Logistic challenge
	Finance
	High transportation cost
	Uncompetitive global market?
Domestic private investment	Equity or income
	Loan
	Equity + Loan

CHAPTER THREE

Research design and methodology

This chapter outlines the framework for the analysis of determinants of private investment in Gurage zone. Dawson (2002) wrote that, a research methodology provides a framework or a blueprint for conducting a research. Various techniques and methods were used in analyzing the determinants of private investment gurage zone. The aim of the chapter is therefore to provide arguments for the approaches that the researcher adopted in gathering and in the treatment of the data in order to answer the research questions and objectives. This chapter also formulation of the private investment model, with the proper justification of the variables included therein.

3.1. Description of the study area

The study was conducted in the southern nation of nationalities of people of the region in the Gurage zone. Gurage is a zone in the Ethiopian southern nations, nationalities, and peoples' region (SNNPR). This zone is named for the Gurage people, whose homeland lies in this zone. Gurage is bordered on the southeast by Hadiya and Yem special woreda, on the west, north and east by the Oromia Region, and on the southeast by Silt'e. Its highest point is Mount Gurage. Wolkite is the administrative center of the Zone; Butajira is the largest city in this zone and the former administrative center. This Gurage zone has 158 km from Addis Ababa on the main road of Jimma and 430 km through southern nation's nationalities and peoples, regional state (SNNPRS) Hawassa. This means that it could be reached from Addis Ababa to or via Hawassa. Gurage zone works the intention of examining the contribution of private investment strategy to poverty reduction, job creation, and business development interims of entrepreneurship development and unemployment reduction perspective. In the Gurage zone Trade and Industry Development Bureau registered to manufacture, construction, service, trade, and urban agriculture sectors, hotel and tourism, saving, technology, marketing but not all are activities and not the intention to the reduction of unemployment.

3.2. Research design

The research design is the master plan of specifying the methods and procedures for collecting and analyzing the needed information and ensures that the study would be relevant to the problem and that it uses economical procedures (Creswell, 2009). To achieve the objectives of

this study the researcher was adopted descriptive and explanatory research design. The main purpose of the descriptive research design is a description of the state of affairs as it exists at present, then this study was trying to describe and critically assesses determinants of domestic private investment in the manufacturing sector in the Gurage zone. In addition to this, the study adopted an explanatory research design to show the relationship between the variables.

3.3. Source of data and data types

This study was conducted using primary data and secondary data sources. The primary source of data was collected through a semi-structured questionnaire and interview, the structured questionnaire was administered to the sample of private investors engaged in the manufacturing sector in the Gurage zone. The interview method is used to collect data form the investors, and managers of the manufacturing sector, aimed to strengthen the data collected from questionnaires and to elicit information on the implementation of investment, other related investment policies, and decisions in the manufacturing sector. The secondary data was used like, journals, books, Ethiopian investment proclamation, zonal investment office documents, zonal trade, and industry office documents (manuals) and polices from manufacturing companies. But secondary data cannot be used data analysis purpose on this study.

3.4. Target population

The target population of the study was individual domestic investors registered in the Gurage zone invests in manufacturing sectors and managers. There are 13 woreda and 2 towns are in gurage zone with in this 5 woreda and 2 towns exist manufacturing sectors, therefore, the researcher was selected 2 woreda and 1 town by using purposive sampling because there are more experience than others. For sample size determination the researcher was applied Stratified sampling technique because of thus target population were significantly Heterogeneous; because of heterogeneity of the manufacturing sectors. Therefore an individual investor were the basic sample unit or unit of analysis and by considering the types of their products and their investment location, the stratified random sampling (i.e. first stratification and then simple random sampling) was used to select the items from each stratum to constitute a sample.

3.5. Sample frame and sample size

Key participants of the study comprised of respondents from the investors invest in manufacturing sectors (owners) and the managers (top management) in the study area. This was selected using purposive sampling techniques. Using the purposive sampling technique, the researcher has selected 347 respondents who are invested in 7 manufacturing sectors in Gurage zone.

Table 2: The Sample frame of the study

Investment Areas	No of population	Kinds manufacturing	Sample size	Status of companies
Wolkite Town	1104 investors	Beer, food Oil and flour mill factory's	104	Fully operational
Cheha Woreda	5 investors	2 Bottled water factory's	1	Fully operational
Eiza Woreda	2742 investors	2 Bottled water factory's	257	Fully operational
Total	3851 investors	7 Manufacturing Company	362	Fully operational

Source: Zonal investment office (2010)

4.6. Sampling technique and sample size

In this study the researcher was used stratified random sampling technique from domestic private investors in manufacturing sector. In the study area has 3851 investors who are investing permanently in the study area out of those investors the researcher was selected 362 respondents (investors) and managers who represents the other else and to fill the questionnaires for data collection purpose by using Yamane formula $n = N/1+N (e)^2$. Out of the total 362 questionnaires, 15 questionnaires were not collected and 347 useable questionnaires were obtained to enable a meaningful analysis of the data with 96% response rate.

Where

N= the total population (investors)   =3851

n= number of required sample size = 362

e= error term   = (5%)

$n = N/1+N (e)^2$ n= $3851/1+3851(0.05)^2$ = 362 Respondent's

Therefore 362 respondents were selected

RR= ratio sample size to total population

Therefore sample size from each investment area can be determined proportionally as follow:

RR = n/N   362/3851 = 9.40%

Wolkite town = 1104*9.40/100 = 104

Cheha Woreda= 5*9.40/100 = 1

Eiza Woreda =2742*9.40/100 = 257

The designed questionnaires were distributed based on the calculated sample size in order to gather the needed information and since investors of the town are not homogeneous, stratified sampling techniques were used for the selection of sample out of the target population of the study area. After collected necessary data the researcher was classified, analyzed, and summarized the data to give meaningful results.

3.7. Data analysis and presentation

After collecting all the required, data the researcher can be analyzed and interpret the data on their nature. In this study to establish a clear picture of the characteristics of the sample unit, the researcher used descriptive statistics for analysis like frequency, percentages, mean, tabulation, standard deviation, and pie chart. The data was collected from questionnaires were summarized, edited, coded, tabulated, and analyzed by using qualitative analysis used together with other appropriate econometric techniques to analyze determinants of domestic private investment in the manufacturing sector in the study area. The model applied to this study was a linear regression model to be developed under the empirical model section used to fits the analysis and used to examine the relationship between the independent and dependent variables in the determinants of domestic private investment in the manufacturing sector.

3.9. The model specification

The researcher was adopted multiple linear regression models. This model helped in determining whether independent variables predict the given dependent variable hence increasing the accuracy of the estimate. The independent variables in this case were acquiring banks loan, Access to land, Investment incentive, Political instability, Financial Factors, Technological factors, Infrastructural factors, Administrative challenges, Locational factors, Domestic market challenges and foreign market challenges. The multiple linear regression models for dependent variable (Y) for Domestic private investment, Independent variables X1- (Acquiring banks loan), X2- (Access to land), X3- (Investment incentive), X4- (Political

instability) and X5- (Financial Factors) X6-(Technological factors) X7 (Infrastructural factors) X8- (Administrative challenges) X9- Locational factors X10- (Domestic market challenges) and X11- (foreign market challenges). The study applied   multiple linear regression model as follows.

$$Y = \beta 0 + \beta 1 x 1 + \beta 2 x 2 + \beta 3 x 3 + \beta x 4 x 4 + \beta 5 x 5 + \beta 6 x 6 + \beta 7 x 7 + \beta 8 x 8 + \beta 9 x 9 + \beta 10 x 10 + \beta 11 x 11 + \varepsilon$$

Y= Dependent variable (Domestic private investment in Gurage zone)

β0 = Constant

X1 – X11 Shown above Independent variables

β1 = regression coefficient of variable X1

β2 = regression coefficient of variable X2

β3 = regression coefficient of variable X3

β4 = regression coefficient of variable X4

β 5= regression coefficient of variable X5

β6= regression coefficient of variable X6

β7 = regression coefficient of variable X7

β8 = regression coefficient of variable X8

β9 = regression coefficient of variable X9

β 10= regression coefficient of variable X10

β11 = regression coefficient of variable X11

ε =Error term

3.10. Ethical consideration

According to Leedy and Ormrod, (2013), in doing any research, there is an ethical responsibility to do the work honestly and with integrity. The basic principle of ethical research is to preserve and protect the human dignity and rights of all subjects involved in a research project. In this regard, the researcher assured that the respondent's information was confidential and used only for the academic purpose. Before the data collection, the ethical issues were taken in to consideration when the study is conducted.

Appropriate communication was undertaken with the investors and the mangers. Moreover, a formal letter was obtained from Jimma University to inform them about the study. During data collection respondents was informed the objective of the research is for the academician purpose. Participants were told that participation in the study is based on their free will (voluntary), and there is no obligation to do so. Furthermore, responses of respondents have been kept with strict confidentiality and are not going to be informing to any outside party.

RESULTS AND DISCUSSIONS

4.1. Introduction

This chapter focused on the results, data analysis and interpretation of the data collected. The researcher distributed a total of 362 questionnaires to each investors and industrial manager. Out of the total 362 questionnaires, 15 (4%) questionnaires were not collected and 347 useable questionnaires were obtained to enable a meaningful analysis of the data with 96% response rate. Statistical Package for the Social Sciences (SPSS 20) software was used to analyze the research findings. In this section, the study presents the empirical findings and discussions from the data was obtained and analyzed by using descriptive and econometric analyses. The first section of this chapter discusses the descriptive statistical results of the study and the second discusses the results of the econometric model used.

The last section focuses on the assumption of multiple linear regressions. All these show the pattern of relationships between domestic private investment in manufacturing sector and its determinants in the Gurage zone.

4.2. Back ground of Respondents

Figure 2: Gender of the respondent
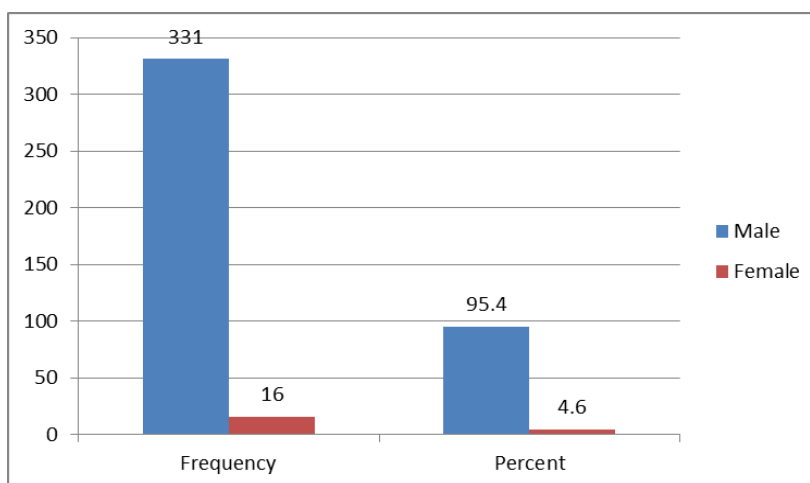
Source: Field survey data, 2020

Figure 2 indicates that the majorities 331(95%) of respondents of the domestic private investors in the study area were males and 16(5%) of the respondents were females. This percentage can be concluding that the domestic private investor in the manufacturing sector in the Gurage zone are owned and dominated by males. This implies that there is less women empowerment or women's participation in investment in study area.

Figure 3: Age of the respondent
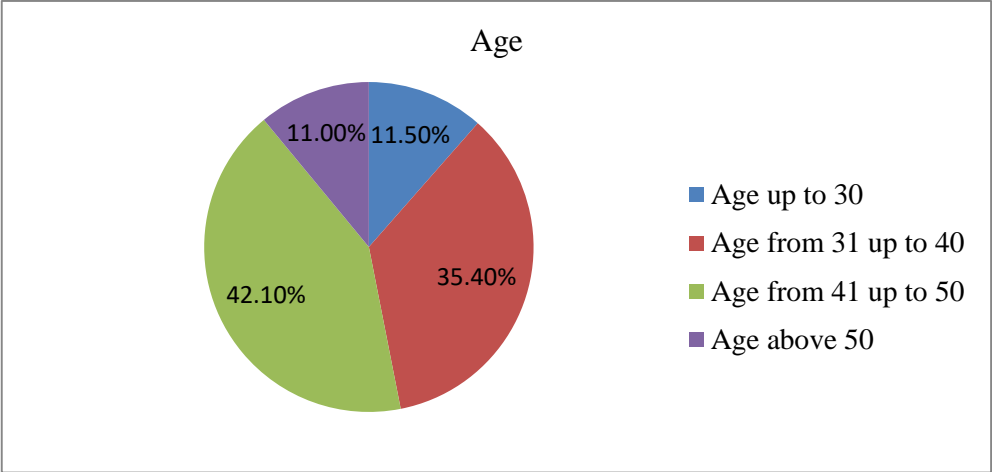
Source: Field survey data, 2020

As indicates in the figure 3 regarding age of the respondents, the survey shows that around 44.2% of the respondents were above the age from 41 up to 40 years old and 34.5% the respondents were age from 31 up to 40 years old. This percentage one can concludes that the majorities of the investors were adults and most were adults to own and manage their investments.

Figure 4: Educational level of the respondent
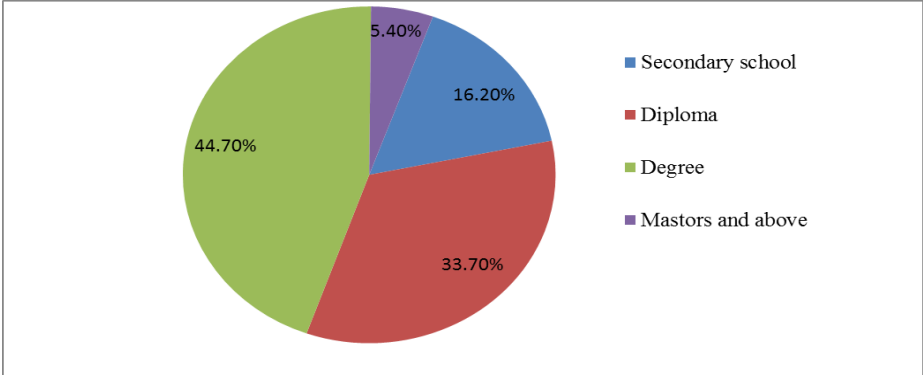
According to figure 4, reveals in the above about 155(44.7%) and 117(33.7%) of the domestic private investors had degree and diploma educational level but the 16.2% of the domestic private investors had secondary school educational level. The highest ratio of educational level was in the degree and diploma educational levels, next was the secondary school and Masters and above educational level. In general, investors with more than a secondary school level of education were proceeding with their investment operation on time and managing as well.

Figure 5: Educational level affects your investment?
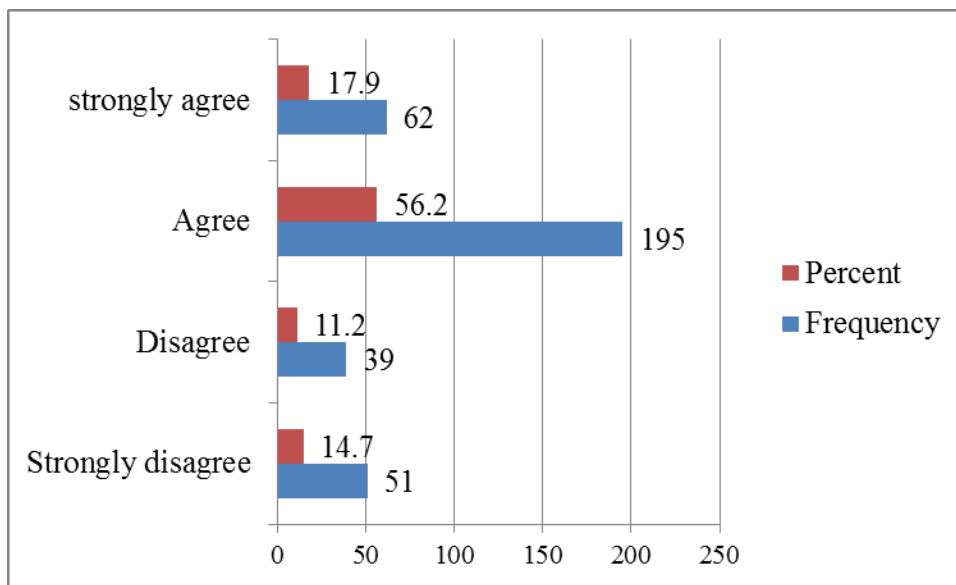
As shows in the above figure 5 195(56.2%) and 62(17.9%) respondents response that agree and strongly agree the level of education for investors and its impact on their investments in manufacturing sector in the study area. The educational level of respondents about 117(33.7) and 155(44.7 %) of the domestic private investors had degree and diploma educational level but the 15.5% of those investors had secondary school educational level. The remaining 20% had at least a diploma. This shows the educational level effect on those investors who are invest in manufacturing sector in the study area. This finding in line with the study conducted by Waktole and Bogale (2018) shows that investor's educational level affects the ability to choose between different investment types and overall it affects the investment decision. This is to conclude that an increase in educational level of investors may leads to an increase better decision to be made

on how to produce, whom to produce and what to produce this help to proceeding with their investment operation on time(increasing their production because who are invest in manufacturing sector) and managing as well their production capacity.

Figure 6: Position of the respondents
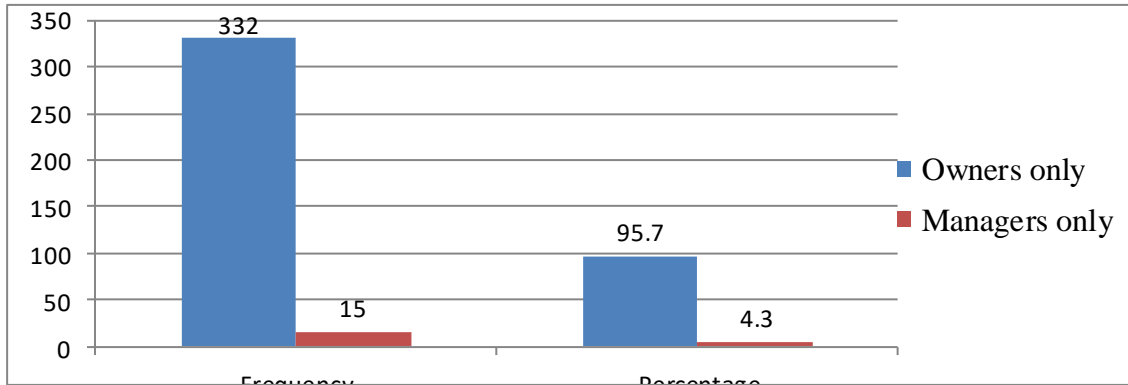
Figure 6 reveals that 332(95.7%) respondents were owner of the firm or investors that invest in manufacturing sectors in study areas and the remaining 15(4.3%) of the respondents were the top managers of those investors invest in manufacturing sector in the study area.

4.3. Descriptive statistics determinants domestic private investment

Figure 7: What is the legal form of your investment?
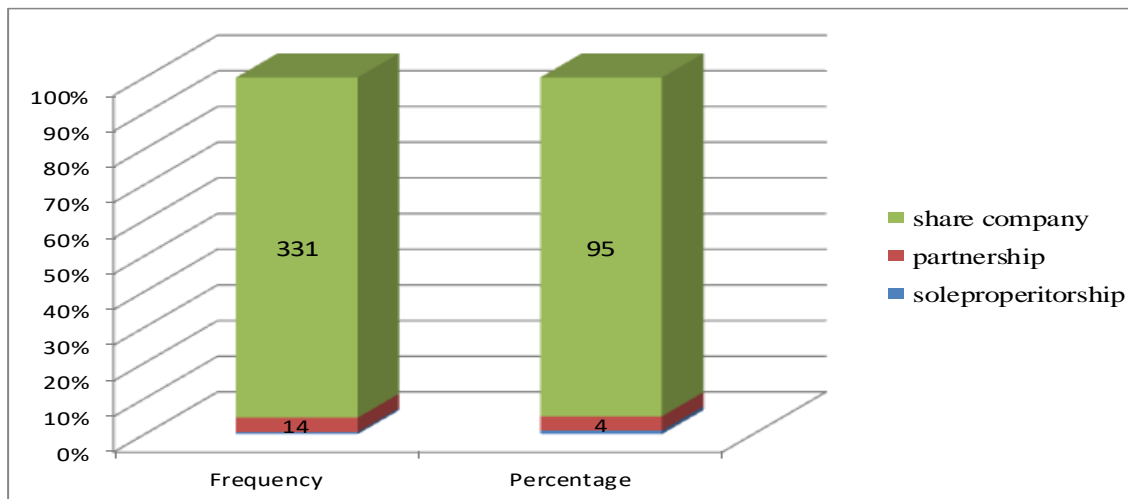
Figure 7 reveals that the respondent's response about 331(95.4%) the legal forms the investments was share company and 14(4%) of the respondents response that the legal forms of their investment were partnership form and the remaining 2(0.6%) is sole proprietorship forms of investment in the study area.

Figure 8: What is your source of finance for your private investment?
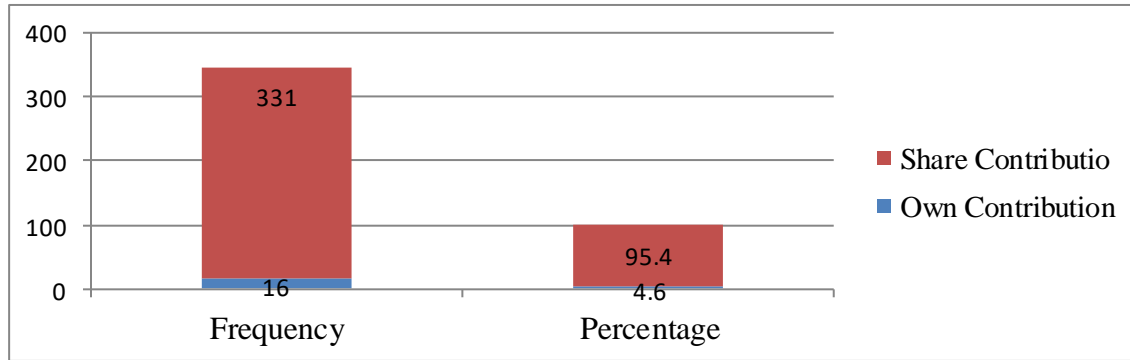
Source: Field survey data, 2020

The financial source of investors who are invest in manufacturing sector in the study area were presents in the figure 8 above the 331(95.6%) of the respondents explained that the source of finance for their investment was from share contribution those investors are invest in share company and own contribution those investors who are invest in sole proprietorship and partnership. This implies that the source of finance for those investors are share contribution and own contribution means there is no other source of finance for their investment in the study area.

Figure 9: Asking financial institutions like bank and microfinance for loan?
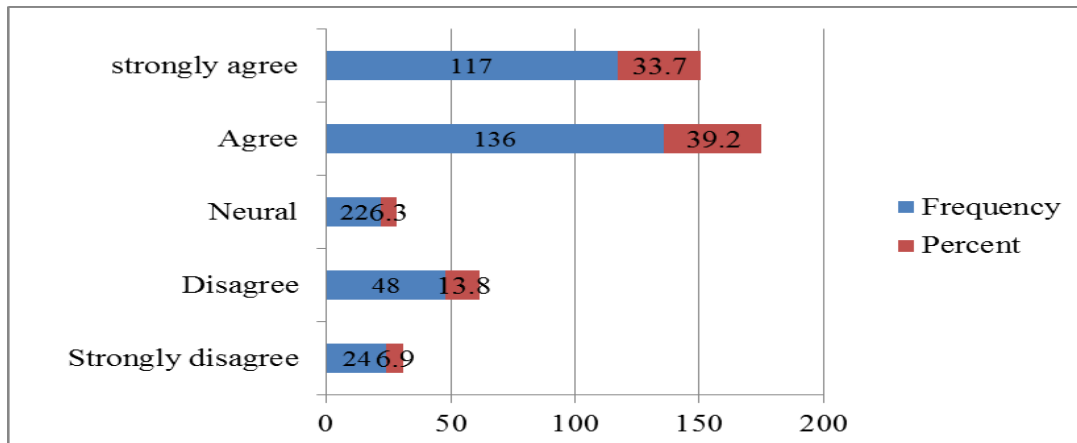
Source: Field survey data, 2020

According to Figure 9 indicates that out of the respondents 136 (39.2%) and 117(33.7%) investors who are asked financial institutions as other sources of finance but the source of is very difficult to get the finance. However, the respondents replies that sources of finance for their investment (share contribution and own contributions, excluding bank loans) were difficult to obtain. Therefore, the researcher conclude that those investors did not have enough collateral and because of high interest rate bank loan, and financial institution needs detail feasibility study difficult to fulfill all the requirements of bank loan processes.

Figure 10: Difficulties of source of finance from financial institutions microfinance?
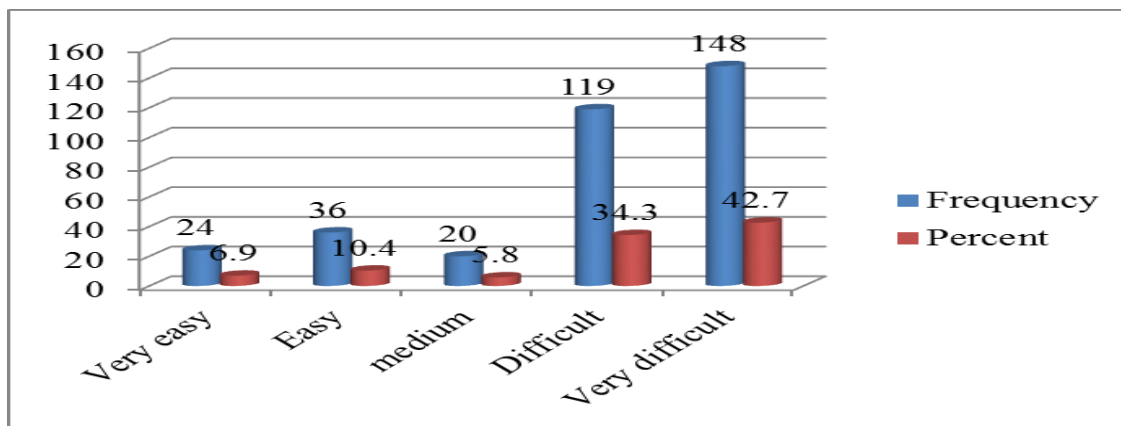
Source: Field survey data, 2020

As indicates in figure 10, above presents that out of the respondents response that 267(77.9%) very difficult and difficult response as the source of finance in financial institutions like bank and microfinance high collateral requirements of financial institutions, the investment areas limited number of financial institutions, high interest rate on loan, financial institutions require detailed feasibility study information on investors and bank paper work/bureaucracy/delay in loan delivery. The major source of finance for private investors is their share contribution and own contributions. Some private investors did not have enough collateral to get a bank loan, and it was difficult to fulfill all the requirements of bank loan processes. In this study the researcher forward that those investors invest in the study area did not allow for the borrowing of money from a bank and paying of interest on loans to financial institutions.

4.4. Domestic private investment

Table 3: Responses on domestic private investment

The researcher used parameters where: 1= strongly disagree 2= disagree 3= Neutral 4= Agree =5= strongly agree

Domestic private investment	SD	DA	N	A	SA	M	SD
Increasing income or Equity year to year	21	88	88	116	34	3.16	1.09
Increasing loan or liabilities	69	174	61	32	11	3.74	0.99
Increasing total asset of investment	6	38	66	195	42	3.66	0.89

Source: Field survey data, 2020

As indicates in above table 3 income or equity of investors increased year to year indicated by a mean of 3.16 and standard deviation 1.096 or 150(43%) agree and strongly agree response, informs in above table 3 loan liabilities of investors decreased indicates in a mean of 3.74 and standard deviation of 0.99 or 234 (70%) disagreed and strongly response of respondents. And shows in the above table 3 increasing total asset of investors year to year a mean of 3.66 and standard deviation 0.890 or 237(68.3%) of the respondents agreed and strongly agree response of respondents. All this variables are used the way to operationalized and measured domestic private investment by equity (asset - liabilities), loan (asset- equity) and total asset (loan + equity) of investors in the study area.

4.5. Descriptive Statistics of Study Variables.

This section provides the research findings as presented in tables and the number of respondents per each test item for each variable. The main purpose of the study was to investigate the influence of independent variables (predicted variables) on domestic private investment on manufacturing sector in Gurage zone. The researcher analyses the following variables for the study; Acquiring bank loan problems, Investment incentives structure, Political instability risk, Infrastructural factors, financial factors, Technological factors, Administrative challenges, Locational factors, Domestic market challenges and foreign market challenges.

4.5.1 Descriptive Statistics of acquiring banks loan in the study area

According to table 4, indicates the mean and standard deviation for the Acquiring banks loan related problems were calculated. As shown the table below that high collateral requirement from banks a mean of 3.71 and standard deviation of 1.073, bank paper work/bureaucracy/ in loan delivery a mean of 3.92 and standard deviation of 0.945 and high interest rate about a mean of 3.63 and standard deviation of 1.001, inadequate credit/finance about a mean of 3.43 and standard deviation of 1.030 and financial institution require detailed feasibility study information on customer a mean of 3.59 and standard deviation of 0.965 with agree and strongly agree respondents response the problems which are the major determinant factors affecting domestic private investors in manufacturing sector in the study area. Therefore, the researcher concludes that the main problems acquiring bank loan has bank paper work/bureaucracy/ in loan delivery, high collateral requirement, high interest rate on bank loan, and financial institution require detailed feasibility study information on customer as the respondent's response in the study area. This finding in line with Gebrewubet (2017) this stated that they experience problems getting adequate and timely bank loans for their investment from financial institutions. Because of, banks request high collateral requirements and do not treat investors equally when assessing loan applications. In addition to this, increasing inflation in the market, a lack of knowledge (traditional investors) and insufficient information during assessments by bank experts were the major reasons for inadequate credit being available to private investors.

A study by Ekpo (2016) stated that bank credit is the most important source of investment financing for private enterprises in developing countries. And also on his study shows that access to bank credit available for private sector borrowers have direct influence on private investment activity and high interest rate prevalence during market-based monetary policy.

Table 4: Descriptive Statistics Acquiring banks loan problems in the study area.

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

Acquiring banks	High collateral requirements of financial institutions	10	50	55	149	83	3.71	1.073
	Bank paper work/ bureaucracy	4	36	37	176	94	3.92	0.945

	/delay in loan delivery							
	High interest rate	2	68	44	174	59	3.63	1.001
	Corruption of bank officials	15	26	76	187	43	3.63	0.945
	Inadequate credit/finance	10	72	63	163	39	3.43	1.030
	Banks require detailed feasibility study information on customer	3	63	55	179	47	3.59	0.965
Mean of mean for Acquiring bank loan problems							**3.65**	**.993**

Source: Filed survey, 2020

Formula to compute mean value of AC1 = v1+v2+v3+v4+v5+v6/total variables 6

4.5.2. Descriptive Statistics of land access in the study area

In the below table 5, informs that mean and standard deviation for the land access were calculated. As indicates in the table, Existing land tenure system about a mean of 3.70 and standard deviation of 1.021, Bureaucratic procedure getting land indicates about a mean of 3.87and standard deviation of 0.879, and Lease price a mean of 3.53 and standard deviation of 1.049 with disagree and strongly disagree as respondents response in the study area. Therefore, the researcher concluded that based on the result that Existing land tenure system Bureaucratic procedure getting land and Lease price the land access not determinant factors that affect private investors as per the respondents response in the study area. This finding supported by Gebrewubet (2017) his finding show that land access is not the main determinant factor for private investment.

Table 5: Descriptive Statistics of land access in the study area

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

	Existing land tenure system	**76**	**154**	**61**	**50**	**6**	**3.70**	**1.021**
Land access	Bureaucratic procedure getting land	67	212	27	38	3	3.87	0.879
	Lease price	37	186	52	59	12	3.53	1.049
	Mean of mean for land access						3.70	0.983

4.5.3. Descriptive Statistics of on investment incentives in the study area

In the below table 6, informs that mean and standard deviation for the Investment incentive structures were calculated. As indicates in the table below problems of investment incentives as per respondents response, income tax holidays indicates about a mean of 3.35, customs duty indicates about a mean of 3.85and standard deviation of 0.902, access to bank loan indicates about a mean of 3.88 and standard deviation of 0.889 and market incentives a mean of 3.68 and standard deviation of 0.937 with agree and strongly agree as respondents response in the study area. Therefore, the researcher concluded that based on the result that customs duty, access to bank loan and market incentives the investment incentives that promote for private investors as per the respondents response in the study area.

The interviewees are pointed out the investment incentives the investors the most encouraged by customs duty, access to bank loan and market incentives like bazar promote by the government is the main investment incentive chosen by those investors invest in manufacturing sector in study area. This finding supported by Gebrewubet (2017) his finding show that the investment incentive has helped to promote private investment is access to a low lease of land and customs duty was the second most important investment incentive that promoted the private investment in the state.

Table 6: Descriptive Statistics on investment incentive structure in the study area

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

Investment incentive structure	Investment incentives income tax holidays	15	87	53	145	47	3.35	1.124
	Investment incentives custom duty	4	32	50	186	75	3.85	0.902
	Investment incentives difficulty of access to bank loan	8	18	59	186	76	3.88	0.889
	Investment incentives access to low lease price of land	21	52	91	118	65	3.44	1.135
	Investment incentives market incentives	6	33	90	155	63	3.68	0.937

Mean of mean for investment incentives	3.63	1.00

Source: Field survey data, 2020

Formula to compute mean value of IN = v1+v2+v3+v4+v5/5

4.5.3. Descriptive Statistics Analysis on Political instability/risk in the study area

As indicates table 7 below shows that the mean and standard deviation for the political instability/ risk factors were calculated. According to study findings in table; shows that the respondents response Border conflict indicates a mean of 3.23 and standard deviation of 1.060, Weak security system indicates a mean of 3.11 and standard deviation of 1.011, and Public offices unnecessary interference indicates a mean of 3.06 and standard deviation of 1.039 agree and strongly agree response of respondents. Therefore the researcher be conclude that based on the descriptive result border conflict, weak security system and public office unnecessary interference most factors affecting domestic private investors in manufacturing sectors in the study area but, there is no high trade restriction in study area based on the respondent response. According to the interviewee with investors and top management of industries pointed out the political instability risk the investors the most sever one is Border conflict, High trade restriction and public office unnecessary interference are the most risky to those investors invest in manufacturing sector in the study area. This implies that political instability risk discourage investors invest freely or to proceed with their status. This result is inconsistent with (Gebrewubet, 2017) political instability risks did not affect their investment status in the State of Tigray. This study consistent with the study by Ambachew (2010) government expenditure and political instabilities are among the main culprits of private investment in Ethiopia. A study by Ekpo (2016) stated that a stable political system accompanied by consistent economic policies is not just a requirement but also a necessary condition for private investment to thrive in an economy. It is important to note that civil strife, political conflict and macroeconomic instability does not ensure a favorable investment environment.

Table 7: Descriptive Statistics on political instability/risk in the study area

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

P ol it	Border conflict	14	88	84	127	34	3.23	1.060

Weak security system	13	99	94	119	22	3.11	1.011
High trade restriction	16	118	93	93	27	2.99	1.052
Public offices unnecessary interference	14	111	84	112	24	3.06	1.039
Mean of mean for political instability/risk						**3.097**	**1.041**

Source: Field survey data, 2020

Formula to compute mean value of POR =v1+v2+v3+v4/4

4.5.4. Descriptive Statistics of on infrastructural factors in the study area

Table 8 below reveals that the mean and standard deviation for the infrastructure factors influence that of domestic private investors in manufacturing sector were calculated. Table below shows as respondents response road construction/ transportation a mean of 3.48 and standard deviation of 0.916, electric power a mean of 3.45 and standard deviation of 1.003, and insufficient water supply a mean of 3.83 and standard deviation of 0.797 with high limit and very high limit respondents response in the study area. Therefore, the researcher concludes that based on the result road construction/ transportation, electric power, insufficient water supply are the factors that influence domestic private investors in manufacturing sectors in the study area but, insufficient water supply the variable that cannot influence water bottling company only factor that influence beer factory, flour mill factory and oil ratifying factory in the study area. The interviewees are pointed out the infrastructure factors the investors the most sever one is road construction/ transportation, electric power, insufficient water supply are the most risky to those investors invest in manufacturing sector in the study area. But, insufficient water supply cannot influence water bottling company it's the main challenges of those investors invest in beer factory and oil ratifying factory in the study area. A study by Ambachew (2010) on his study reveals that improving the availability   and   reliability   of   infrastructural facilities   and investment friendly government interventions should be among the main ingredients of a policy package designed to promote private investment in Ethiopia. A study by Ekpo (2016) on his study also reveals that, inadequate public provision of infrastructures makes private investment results costly and highly unprofitable because firms have to accommodate these through private provisions. Gebrewubet (2017) on his empirical study shown that the availability and quality of utilities such as electricity, water, and telecommunications is important to decrease

the factors that affect status of private sectors and access to port and dry port services and the facilitating of the construction of train services will make a big difference.

Table 8: Descriptive Statistics on infrastructural factors in the study area

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

Infrastructural factors	Road construction/transport	12	37	99	170	29	3.48	0.916
	Electric power	6	71	73	155	42	3.45	1.003
	Water supply	2	18	79	187	61	3.83	0.797
	Air transport	14	47	97	154	35	3.43	0.981
	Port facilities	35	33	72	165	42	3.42	1.134
Mean of mean for Infrastructural factors							**3.52**	**0.966**

Source: Field survey data, 2020

Formula to compute mean value of IF =v1+v2+v3+v4+v5/5

4.5.5 Descriptive Statistics on Financial factors in the study area

As indicates in the table 9, below the mean and standard deviation for the financial factors were calculated. According to table below the respondents response shows that limited number of financial institutions about a mean of 3.78 and standard deviation of 0.842 , high cost of raw material and other inputs about a mean of 3.71 and standard deviation of 0.948, interest rate on bank loan indicates that a mean of 4.12 and standard deviation of 0.803, credit facility to get bank loan about a mean of 4.45 and standard deviation of 0.790, and high energy cost about a mean of 3.81 and standard deviation of 0.738 high limit and very high limit as respondents response in the study area. Therefore, the researcher concludes that by comparing the mean the main financial factors affects domestic private investment in the study area were credit facility to get bank loan, high interest rate on bank loan, high cost of working capital and high cost of energy and limited number of financial institutions the major financial factors that influence domestic private investors in manufacturing sectors in the study area. The interviewees are pointed out the financial factors the investors the most sever one is credit facility to get bank loan, interest rate on bank loan, number of financial institutions and high energy cost (this cost incurred because of shortage of electric city) and are the most financial challenges those investors invest in manufacturing sector in the study area.

Table 9: Descriptive Statistics of financial factors in the study area

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

Financial Factors	Number of financial institutions	7	17	76	192	55	3.78	.842
	High cost of raw material and other inputs	10	25	84	163	65	3.71	.948
	Interest rate on bank loan	0	20	33	179	115	4.12	.803
	Credit facility to get bank loan	2	6	35	94	210	4.45	.790
	Macroeconomic uncertainty(inflation, exchange rate)	0	23	79	206	39	3.75	.738
	High cost of working capital	2	29	35	193	88	3.97	.861
	High energy cost	12	23	62	172	78	3.81	.973
Mean of mean for financial factors							**3.941**	**0.851**

Source: Field survey data, 2020

Formula to compute mean value of FF = v1+v2+v3+v4+v5

4.5.6. Descriptive Statistics of Technological factors in the study area

As indicates in the table 10 below, the mean and standard deviation for the technological factors were calculated. According to in table 8 below respondents response shows that research and development work a mean of 4.03 and standard deviation of 0.893, information and communication technology a mean of 3.80 and standard deviation of 0.862 and latest technology supply about a mean of 3.91, standard deviation of 0.845 high limit and very high limit respondents response in the study area. Therefore, the researcher concludes that based on the result research and development works, information and communication technology and latest technology supply are technological factors that influence domestic private investors in manufacturing sectors in the study area but, research and ICT technology are the major one that determine their investment in the study area. The interviewees are pointed out the technological factors the investors the most technological factors faced by the investors are Research and development works and Latest technology supply (because of the government impose higher tax imported machineries and lack of money acquires new technology) the most and are the most technological

factors those investors invest in manufacturing sector in the study area. This finding is also supported by Amdemicheal (2018) on determinants of the success of small and medium scale enterprise in gurage zone including manufacturing sectors revealed that the presence of these machines, tools and equipment's has given to the operators to produce products. According to Samuel et.al (2015) their studies shows that only technology improvement can enhance output without necessarily increasing the amounts of other inputs. And also, the problems are related to the lack of unreliable power supply, old machines and equipment, skills and knowledge, information and communication technology.

Table 10: Descriptive Statistics on technological factors in the study area

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

Technological factors		Research and development works	6	18	43	173	107	4.03	.893
		Information and communication technology	2	37	40	203	58	3.80	.862
		Latest technology supply	3	15	78	166	85	3.91	.845
Mean of mean for Technological factors								**3.913**	**0.866**

Source: Field survey data, 2020

Formula to compute mean value of TF =v1+v2+v3/3

4.5.7. Descriptive Statistics on administrative challenges in the study area

Table 11 reveals that, the mean and standard deviation for the administrative challenges were calculated. According to table below shows that poor enforcement of laws, rules and regulations indicates a mean of 3.82 and standard deviation of 0.927, tax rates and administration informed a mean of 3.40 and standard deviation of 0.964, complex legal and institutional framework shows a mean of 3.67 and standard deviation of 0.891, negative attitude against consumption of locally produced goods reveals a mean of 3.18 and standard deviation of 1.015 agree and strongly agree as per respondents response. Therefore it may be concluded based on the result that poor enforcement of laws, rules and regulations, complex legal and institutional framework and high tax rates and weak administration, are the main factors that affect domestic private investors in manufacturing sectors in the study area but Poor enforcement of law, rules and regulations and

complex legal and institutional framework are the major administrative challenges influenced the private investors in the study area. This study supported by Samuel, Donald, Jehovanes, Neema, Thadeus, and Abel (2015) their studies on the performance of the manufacturing sector. On their study according to policy issuer argue that private investors in manufacturing sectors are challenged by ineffective policies and, in particular, by poor enforcement of rules and regulations, rent-seeking and other weaknesses are factors affect private investment.

Table 11: Descriptive Statistics on Administrative challenges in the study area.

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

Administrative challenges	Poor enforcement of laws, rules and regulations	10	22	60	184	71	3.82	.927
	Tax rates and administration	12	49	107	145	34	3.40	.964
	Complex legal and institutional framework	6	37	67	193	44	3.67	.891
	Negative attitude against consumption of locally produced goods	12	46	72	163	54	3.58	1.015
Mean of mean for Administrative challenges							**3.6**	**0.95**

Source: Field survey data, 2020

4.5.8. Descriptive Statistics locational factors in study area.

As it is indicate in the above table 12, the mean and standard deviation for the location factors that influence domestic private investment in manufacturing sector were calculated. The above table shows skilled and customer attractive labor force indicates a mean of 4.03, raw materials needed indicates a mean of 3.80 and standard deviation of 0.862 and location to sell your product indicates a mean of 3.91 and standard deviation of 0.845 high limit and very high limit respondents response affects domestic private investment in manufacturing sector in the study area. Therefore the researcher can be concluded that based on the result skilled and customer attractive labor force, raw materials needed and location to sell your product factors that affect the domestic private investors who are invest in manufacturing sectors in the study area. These results supported by (Gebrewubet, 2017) stated that the investment location of private investors relates

positively to investment status delay in the manufacturing sector. Problems associated with investment location delay the investment activities of private investors.

Table 12: Descriptive Statistics on locational factors in the study area

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

Locational factors	Skilled and customer attractive labor force	6	18	43	173	107	4.03	0.893
	Raw materials needed	2	37	47	203	58	3.80	0.862
	Locational to sell your product	3	15	78	166	85	3.91	0.845
Mean of mean for locational factors							**3.91**	**0.87**

Source: Field survey data, 2020

4.5.9. Descriptive Statistics on domestic marketing factors in the study area

As indicates in table 13, the mean and standard deviation for the domestic marketing factors were calculated. In this table shows based on respondents response lack of access to market a mean of 3.63 and standard deviation of 0.927, shortage of raw inputs a mean of 3.56 and standard deviation of 0.979, imperfect market a mean of 3.69 and standard deviation of 0.988, demand of product a mean of 3.73 and standard deviation of 0.937, of the respondents influenced by domestic market high limit and very high limit respondents response. Therefore this may concludes that based on the result demand for products, imperfect market, and lack of access to market and shortage of raw inputs, factors that affect domestic private investors in manufacturing sectors in the study area. This finding supported by Yehuala (2019) and Aisha (2016) they found out problems of high production cost as compared to imported goods, problem imperfect market, and shortage of raw materials, and lack of access to market. Aisha (2016) on her study point out that the domestic market challenges for the factory is that the unavailability of sufficient and reliable spare parts, and dye staff suppliers in the local market makes the factory not to meet its objective, because the spare part is either very expensive or not easily found.

Table 13: Descriptive Statistics on domestic marketing factors in the study area

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

Domestic market challenges	**Lack of Access to market**	**13**	**25**	**84**	**181**	**44**	**3.63**	**0.927**
	High cost of Imported goods(raw materials)	18	58	69	161	41	3.43	1.063
	Shortage of Raw inputs	13	66	61	169	48	3.56	0.979
	Imperfect market	5	47	68	157	70	3.69	0.988
	Demand for your product	6	42	49	192	58	3.73	0.937
	Promotion medias for your product	19	52	59	178	39	3.48	1.052
	Pricing for your product	10	79	58	146	54	3.45	1.091
Mean of mean for Domestic market challenges							**3.57**	

Source: Field survey data, 2020

4.5.10. Descriptive Statistics on Foreign marketing factors in the study area.

As indicates in the above table 14 reveals, the mean and standard deviation for the foreign marketing factors affects domestic private investors in manufacturing sector were calculated. As show as per respondent's response quality problem mean of 3.89 and standard deviation of 0.846, uncompetitive global market a mean of 3.86, and standard deviation of 0.891 and logistic challenges a mean of 3.67 the major foreign market challenges the study area. Therefore the researcher concluded that based on the result quality problem, uncompetitive global market, inefficient production, logistic challenge are the factors that influence domestic private investment in manufacturing sectors as in the study area. This finding is supported by Yehuala (2019) Quality problem, uncompetitive globally, uncompetitive global market, have lack of knowledge about foreign market, inefficient problem, logistic challenge, and high transportation cost.

Table 14: Descriptive Statistics on foreign marketing factors in the study area

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

Foreign market challenges	Quality problem?	1	29	52	190	75	3.89	0.846
	Uncompetitive global market	8	19	59	187	74	3.86	0.891
	Inefficient production	21	52	91	119	64	3.44	1.132
	Logistic challenge	6	34	90	155	62	3.67	0.938
	Finance	8	79	90	130	40	3.33	1.024
	High transportation cost	7	72	95	141	32	3.34	0.974
Mean of mean for Foreign market challenges							**3.59**	

Source: Field survey data, 2020

Table 15: Producing at full capacity and Underutilization of capacity?

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree.

Do you agree that producing in full capacity at the moment?		Frequency	Percent	Cumulative Percent
	Strongly disagree	55	15.2	15.2
	Disagree	244	71.5	86.7
	Agree	28	7.7	94.5
	strongly agree	20	5.5	100.0
	Total	347	100.0	
What makes your firm unable to operate at full capacity/ Reason for underutilization of capacity?		Frequency	Percent	Cumulative Percent
	Insufficient domestic demand	10	3.9	3.9
	Shortage of raw materials	68	18.8	22.7
	Limited export market	17	6.1	28.7
	Old plant and poor productivity of plant capacity	15	5.8	34.5
	Low labor productivity	29	8.0	42.5

	Break down of power	123	33.7	76.2
	Low working capital and high financing cost	86	23.8	100.0
	Total	**347**	**100.0**	

Source: Field survey data, 2020

Table 15, shows that among close ended questions distributed to sample investors and industrial managers ―do you agree that producing at full capacity at the monument 86.7% of the respondents replied that they are not producing at full capacity at the moment i.e. the response is disagree and strongly disagree while about 13.2% of them are producing in their full capacity i.e. strongly agree and agree response. And from the above sub-construct table respondents who do not produce at full capacity were asked to state the reasons for under production capacity. They state that break down of power, Shortage of raw materials, low working capital, limited export market and old plant technology are the major factors affecting for their under capacity production. This finding is supported by the findings of Yehuala (2019) He state that break down of power, low working capital and high financing cost and old plant technology are the major factors affecting full production capacity.

4.6. Key assumption of the multiple linear regression models

This part state that test of multiple linear regression model like, Multicolinrearity assumption test, test of autocorrelation assumption, homoscedasticity, linearity, and normality tests are made for identifying and correcting when there are miss specifications of data so as to augment research quality and between the dependent variables against the dependent variable.

As shows regression coefficients and model summary table 19 below stated that test of autocorrelation assumption also used Durbin Watson (DW) to ascertain that the residuals of the model were not auto correlated since the residuals influences the regression analysis. The study found a DW statistic of 1.712 which is between 1.5 and 2.5 indicating that there was no autocorrelation.

Table 16, shows that Multicolinrearity test on tolerance and variance inflation factor (VIF). On tolerance there were no less than 0.1 values whereas on VIF there were no values greater than 10 implying no Multicolinrearity was detected. Collinearity (or Multicolinrearity) is the undesirable situation where the correlations among the independent variables are strong. Tolerance is a

statistics used to determine how much the independent variable are linearly related to one another. Tolerance is the proportion of variables variance not accounted for by other independent variables in the model. A variance with a very; low tolerance contributes little information in to a model, and can cause computational problems. As the variance inflation factor increases, so does the variance of the regression coefficient, making it an unstable estimate. Large VIF values are an indicator of Multicolinrearity. When there is a perfect linear relationship among the predictors, the estimates for a regression model cannot be uniquely computed.

Table 16: Multicolinrearity Assumption test

	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Acquiring banks loan related problems	.467	2.140
Investment incentive structure	.274	3.653
Political instability/Risk	.773	1.294
Administrative challenges	.788	1.269
Financial Factors	.635	1.574
Technological factors	.470	2.129
Infrastructural factors	.473	2.113
Domestic market challenges	.308	3.244
Foreign market challenges	.266	3.764
Location factors	.499	2.004

Source: SPSS OUTPUT, 2020

As indicates figure 11 below, shows test of normality of residuals one of the assumptions of linear regression analysis is that the residual are normally distributed, at the mean of zero and standard deviation of one. All of the results from the examine command suggest that the residual or the error term are normally distributed .The skewness and kurtosis are near to 0. As the researcher seen from the histogram and p-p plot it looks normal. Based on these results, the residuals from this regression appear too accepted to the assumption of being normally distributed.

Figure 11: Assumption of normality test

Histogram
Dependent Variable: Domestic private investment in manufacturing sector

Mean = -3.66E-15
Std. Dev. = 0.984
N = 347
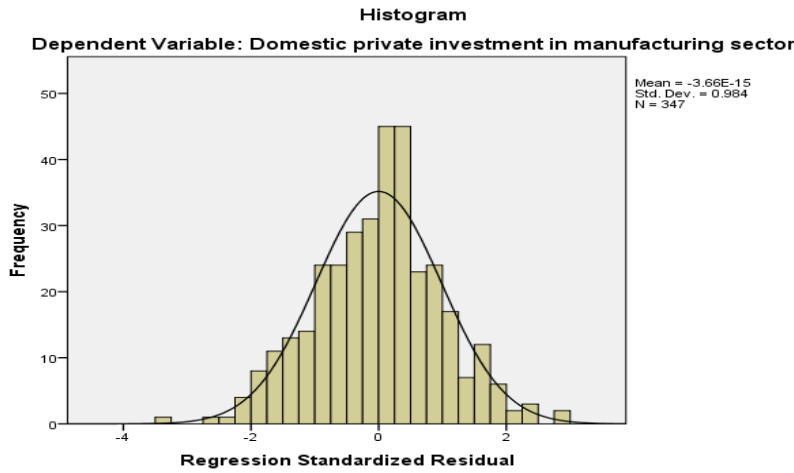
Source: SPSS output, 2020

As indicates figure 12 below, shows whether the data are normally distributed or not. The error term should be normally distributed at the mean of 0 and standard devotion 1, here in this model the mean is approximately 0 and the standard devotion is 0.985 approximately 1, so the model is normally distributed. The researcher watched from the histogram and from the p- p plot too.

When we do linear regression, assume that the relationship between the response variable and the predictors is linear. If this assumption is violated, the linear regression will try to fit a straight line to data that do not follows a straight line. Assuring the linearity assumption in the case of simple regression is straightforward, since we only have one predictor. All we have to do is a scatter plot between the response variable and the predictor to see if nonlinearity is present, such as a curved band or a big wave – shaped curve. We can see the relationship between two variable by adding a regression line to the chart by double clicking on scatter plot and choosing ―chart, then ― option and the ― fit line total‖ and we can see how poorly or goodly the line fit the data.

Figure 12: Assumption of normality test

Normal P-P Plot of Regression Standardized Residual
Dependent Variable: Domestic private investment in manufacturing sector
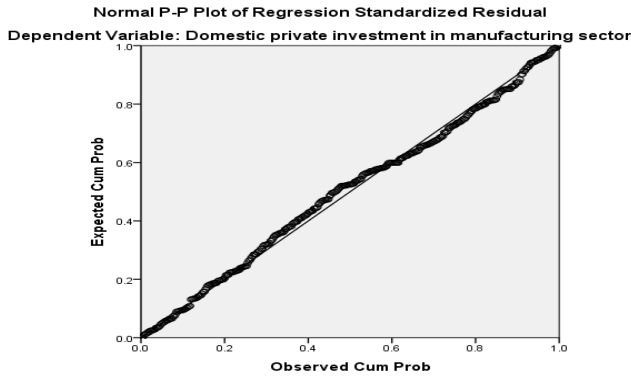
Source: SPSS output, 2020

As indicates in the figure 13 below, reveal that another assumption test of Heteroskedasticity assumptions that the variance of the residuals is homogeneous across levels of the predicted values, also known as homoscedasticity. If the Variance of the residuals is non – constant then the residual variance is said to be Heteroskedasticity. Bellow we see the / scatter plot sub command to plot standard residuals by the predicted values. One can see that the pattern of the data points is getting together towards the write; this is an indication of the mild Heteroskedasticity.

Figure 13: Test of Heteroskedasticity assumptions

Scatterplot
Dependent Variable: Domestic private investment in manufacturing sector
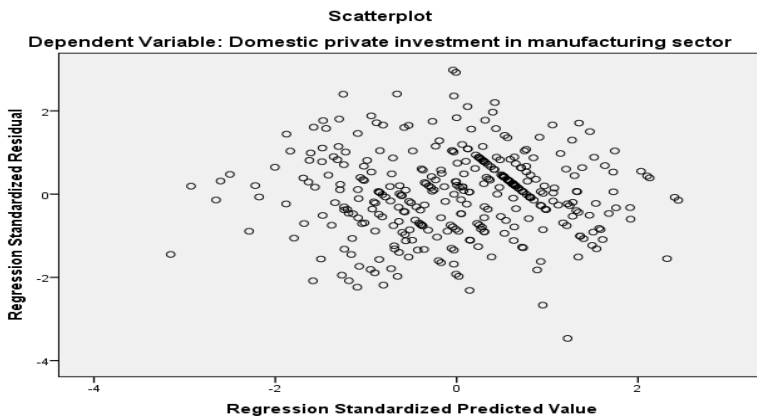
Source: SPSS output, 2020

4.6. Regressions analysis

Linear Regression estimates the coefficients of the linear equation, involving one or more independent variables, which best predict the value of the dependent variable. For the purposes of determining the extent to which the explanatory variables explain the variance in the explained variable, regression analysis was employed. Regress domestic private investment (as dependent variable) on the selected variables (as independent variables) using multiple regressions based on regression coefficients and model summary table. The model depicts that holding the independent variables constants (acquiring banks loan related problems, Investment incentive structure, political instability/risk, infrastructural factors, financial Factors, technological factors, administrative challenges, locational factors, domestic market challenges and foreign market challenges).

4.7. Reliability and Validity of Instrument

Different studies, founds, it was not enough to simply collect and analyze data for research to ensure quality. In order to reduce the possibility of getting the wrong answers, the researcher has to aware of two particular emphases on research design namely: reliability and validity

4.7.1. Reliability

Reliability analysis had shown you to study the properties of measurement scales and the items that compose the scales. The Reliability Analysis procedure calculates a number of commonly used measures of scale reliability and also provides information about the relationships between individual items in the scale. For identifying consistency among multiple measurements of a variable, Cronbach"s alpha coefficients were calculated. As indicated in Table 17, below the coefficients for all other variables are greater than or equal to 0.70, which is good for scale reliability.

Table 17: Summary of variables in the study with reliability coefficients

Name of Variables	N of Items	Cronbach"s Alpha
Dependent variable(DPI)	6	.787
Acquiring bank loan problems	6	.856
Investment incentive	5	.794

Political instability risk	4	.872
Financial factors	7	.818
Technological factors	3	.786
Infrastructural factors	5	.854
Administrative challenges	4	.821
Locational factors	3	.786
Domestic market challenges	7	.834
Foreign market challenges	6	.798

Source: SPSS output, 2020

4.7.2. Validity

Different theories reveals that validity is an indicator of soundness or rationality; whether the findings are really about what they appear to be or the degree to which results collected from the analysis of the data actually represents the phenomena under study. The validity of data gathering instrument is confirmed by the ability & willingness of the respondents to provide the information requested. In order to make the questionnaire valid, relevant & objective to problem, it was properly commented by the advisor, and it also tested on available respondents, and based on the issues which were not properly clear by the respondents were corrected and refined.

4.8. Results of inferential Statistics

In this part, the results of inferential statistics are interpreted. For the purpose of assessing the objectives of the study, Pearson's correlation coefficient and regression analyses were performed. With the help of the statistical techniques, conclusions are shown with regard to the sample and decisions are made with respect to the research hypothesis. The table below indicates that the correlation coefficients for the relationships between domestic private investment in manufacturing sector and its mean of independent variables are linear and positive ranging from substantial to strong correlation coefficients.

4.8.1. Pearson correlations analysis

The results of correlation analysis are as shown in Table 18, The findings indicates that there was strong a positive and significant relationship between the mean of acquiring bank loan and domestic private investment in manufacturing sector in Gurage zone. With a Pearson correlation coefficient r = 0.056, p-value 0.000 which was significant at 0.05 level of significance.

This implies that domestic private investment in manufacturing sector and acquiring bank loan considerably better for motivating investors. The access to bank loan is positive and significant impact on domestic private investment in manufacturing sector.

The mean of Access to land (LA) indicated a correlation coefficient of -0.001 with GD at a p-value of 0.185 implying existing relationship which was insignificant.

According to Pearson correlations table 18 indicates in the above there was positive and significant relationship between investment incentives and domestic private investment. With a Pearson correlation coefficient r = 0.026, p value 0.000 which was significant at 0.05 level of significance. This implies that increasing the mean of investment incentives a result to encourage domestic private investors in manufacturing sector in the study area.

Pearson correlations table 18 indicates there was negative and significant relationship between the mean of political instability/risk and domestic private investment. With a Pearson correlation coefficient r = -0.023, p value 0.008 which was significant at 0.05 level of significance. This implies that the mean of political instability has negative influence on domestic private investors in manufacturing sector in the study area.

According to Pearson correlations table 18 there was positive and significant relationship between the mean of infrastructural factors and domestic private investment in manufacturing sector. With a Pearson correlation coefficient r = 0.338, p value 0.027 which was significant at 0.05 level of significance. This implies that the more infrastructures facility the better to encourage domestic private investors in manufacturing sector in the study area.

According to table 18 there was positive and significant relationship between the mean of financial factors and domestic private investment in manufacturing sector. With a Pearson correlation coefficient r = 0.332, p value 0.008 which was significant at 0.05 level of

significance. This implies that the mean of financial factors are influence on domestic private investment manufacturing sector encouragement in the study area.

Pearson correlations table 18 below shows that there was positive and significant relationship between the mean of technological factors and domestic private investment in manufacturing sector. With a Pearson correlation coefficient r = 0.654, p value 0.027 which was significant at 0.05 level of significance. This implies that the mean of technological factor has its own influence on domestic private investment in manufacturing sector in the study area.

As informs in Pearson correlations table 18 below shows that, there was positive and significant relationship between the mean of administrative challenges and domestic private investment in manufacturing sector. With a Pearson correlation coefficient r = 0.330, p value 0.000 which was significant at 0.05 level of significance. This implies that the mean of administrative challenge has its own impact on domestic private investment in manufacturing sector in the study area.

The results of Pearson correlations table 18 there was positive and significant relationship between the mean of location factors stated a correlation of 0.361 with domestic private investment in manufacturing sector at p value 0.000 indicating significant relationship with domestic private investment in manufacturing sector in the study area. This implies that the mean of location factors has its influence on domestic private investment in manufacturing sector in the study area.

The results of a Pearson correlations table 18 there was positive and significant relationship between the mean of domestic market challenges and domestic private investment in manufacturing sector. With a Pearson correlation coefficient r = 0.720, p value =0.000 which was significant at 0.05 level of significance. This implies that the mean of domestic market challenges has its influence on domestic private investment in manufacturing sector in the study area.

The results of Pearson correlations table 18 there was positive and significant relationship between the mean of foreign market challenges and domestic private investment in manufacturing sector. With a Pearson correlation coefficient r = 0.696, p value 0.000 which was significant at 0.05 level of significance. This implies that a foreign market challenge has its own impact on domestic private investment in manufacturing sector Gurage zone.

Table 18: Pearson correlations analysis

	DPI	AC1	LA	IN	PO	AD	FF	TF	IF	LF	DM	FM
DPI	1											
AC1	.506	1										
LA	-.001	.303	1									
IN	.026	.347	.810	1								
PR	-.023	.206	.372	.447	1							
AD	.330	.124	.221	.253	.059	1						
FF	.332	.451	.299	.419	.209	.361	1					
TF	.654	.488	.165	.231	.103	.205	.254	1				
IF	.338	.609	.363	.330	.184	.096	.248	.465	1			
LF	.361	.440	.161	.237	.047	.064	.207	.555	.433	1		
DM	.720	.297	-.104	-.003	.053	.209	.181	.531	.123	.663	1	
FM	.696	.304	-.100	-.021	.039	.212	.225	.497	.050	.580	.795	1

Source: SPSS regression output, 2020

Correlation is significant at the 0.01 level (2-tailed). ∗∗ Correlation is significant at the 0.05 level (2-tailed). ∗

4.8.2. Regression coefficients and Model summary

The model depicts that holding the independent variables constants (acquiring banks loan related problems, Investment incentive structure, and political instability/risk, financial Factors, infrastructural factors, technological factors, administrative challenges, locational factors, domestic market challenges and foreign market challenges).

As indicates in the table 19 shows that, all the mean of explanatory variables included in this study can be significantly explain at 95% confidence level to the variation on the dependent variable except the variable Access to land because these variable is insignificant at p value greater than 0.05. The standardized beta coefficient column reveals the contribution that an individual variable makes to the model.

Table 19 illustrates that the strength of the relationship between domestic private investment and its determinants variables (mean of acquiring banks loan related problems, land access, Investment incentive structure, political instability/risk, administrative challenges, financial

Factors, technological factors, infrastructural factors, location factors, domestic market challenges and foreign market challenges) in the Wolkite town, Cheha woreda and Eiza woreda for the sample of 347 investors and top managers.

The correlation results depicted a strong linear relationship with R value of .858 R-squared this indicates that 74% of dependent variable (domestic private investment) is explained by the (the mean Acquiring banks loan related problems, Investment incentive structure, Political instability/risk, Administrative challenges, financial factors, Technological factors, Infrastructural factors, locational factors, Domestic market challenges and Foreign market challenges. The remaining 26 % of the variance is explained by other variables not included in this study.

Table 19, the study reveals that acquiring bank loan had a significant influence domestic private investment in manufacturing sector in Gurage zone (t-statistic= 4.993, p value=0.000<0.05). Therefore at 5% level of significance the Hypothesis 1 was not rejected, indicating that acquiring bank loan had a positive influence on domestic private investment in manufacturing sector in the study area. This again revealed that for every the mean of increase in bank loan there was a corresponding impact on domestic private investment in manufacturing sector by 0.169. This finding goes in line with the study conducted by Zechariah (2010) and Alman and Ahmad (2014) conduct on their study private sector credit have a negative but significant influence on private investments.

H1: Acquiring to bank loan problems is positive and significantly impact on domestic private investment in manufacturing sector.

From table 19; the study reveals that mean of Investment Incentives had a significant influence on domestic private investment in manufacturing sector in Gurage zone (t statistic=-3.919, p-value=.000<0.05). Therefore at 5% level of significance the **H2** was not rejected, indicating that Investment Incentives had a positive influence on domestic private investment in manufacturing sector in Gurage zone. Likewise for every mean of increase in investment incentive there was a corresponding domestic private investment influenced by -0.205. This finding goes in line with the study conducted by Gebrewubet (2017) and Gofe (2018) stated that the more government expenditure on infrastructure and the more investment incentives prepared by the government the more private investment encouraged.

H2: Investment incentives a positive and significantly impact on domestic private investment in manufacturing sector.

Above table 19; informs that the mean of political instability/risk has a significant impact on domestic private investment in manufacturing sector in the study area (t statistic=-2.653, p value = .008<0.05). Therefore at 5% level of significance the **H3** was not rejected, indicating that political instability risk had a negative influence on performance of domestic private investment in manufacturing sector in Gurage zone. Likewise for every corresponding mean of increase in political instability risk there was a corresponding domestic private investment influenced by -0.071. This finding supported by the study conducted by Zechariah (2010), Bayai & Nyangara (2012), Ekpo (2016) and Ambachew (2011) political regimes have a negative but significant influence on private investments. But there is contradicting idea by Gebrewubet (2017) on his study political instability risks were not determinants of private investment status.

H3: Political instability has a negative and significantly impact on domestic private investors in manufacturing sector.

Table 19; the study reveals that infrastructural factors had a significant influence on domestic private investment in manufacturing sector in the study area (t statistic=2.220, p-value=0.027<0.05). Therefore at 5% level of significance the **H4** was not rejected, indicating that infrastructural factors had a positive influence on domestic private investment in manufacturing sector in the study area. Again for every mean of increase infrastructural factors there were a corresponding influence on domestic private investment in manufacturing sector by 0.074. Almost all empirical studies listed empirical literature review stated that or different studies reveal that the more government expenditures on infrastructure prepared by the government the more private investment encouraged.

H4: Infrastructure facilities had positive and significantly impact on domestic private investment in manufacturing sector in the study area.

Table 19; the study reveals that financial factors had a significant influence on domestic private investment in manufacturing sector in the study area (t statistic=2.648, p-value=.008<0.05). Therefore at 5% level of significance the **H5** was not rejected, indicating that financial factors had a positive influence on domestic private investment in manufacturing sector in the study

area. Again for every mean of increase financial factors there were a corresponding influence on domestic private investment in manufacturing sector by 0. 093.

H5: Financial factors had positive and significantly impact on domestic private investment in manufacturing sector in the study area.

Table 19; the study reveals that technological factors had a significant influence on domestic private investment in manufacturing sector in the study area (t statistic=5.881, p-value=0.000<0.05). Therefore at 5% level of significance the **H6** was not rejected, indicating that technological factors had a positive influence on domestic private investment in manufacturing sector in the study area. Again for every mean of increase a technological factor there was a corresponding influence on domestic private investment in manufacturing sector by 0. 232. This finding goes in line with the study conducted by Gebrewubet (2017) technological challenges have the highest absolute value of the loading factors that hinders investment activity.

H7: A Technological factor has a positive and significantly impact on domestic private investment in manufacturing sector in the study area.

From Table 19; the study reveals that administrative challenges had positive and a significant influence on domestic private investment in manufacturing sector in the study area (t statistic=4.649, p-value=0.000<0.05). Therefore at 5% level of significance the **H9** was not rejected, indicating that administrative challenge had a positive influence on domestic private investment in manufacturing sector. Again for every mean of influence administrative challenge there was a corresponding impact on domestic private investment in manufacturing sector by 0.143.

H8: An Administrative challenge has a positive and significantly impact domestic private investment in manufacturing sector.

Table 19; the study reveals that locational factors had a significant influence on domestic private investment in manufacturing sector in the study area (t statistic= -3.986, p-value=0.000<0.05). Therefore at 5% level of significance the **H9** was not rejected, indicating that locational factors had a positive influence on domestic private investment in manufacturing sector in the study area. Again for every mean of increase locational factors there were a corresponding influence on domestic private investment in manufacturing sector by -0.0155. Gebrewubet (2017) on his

finding stated that problem associated with investment location do not delay the investment activities of private investors. The investment location was shown to have a significant and positive impact on the progress of the investment status. Finally, the study concludes that the type of status group found significantly influences the progress of private investors.

H9: A locational factor has a positive and significant influence on domestic private investment in the manufacturing sector.

Table 19; the study reveals that domestic market challenges had a significant influence on domestic private investment in manufacturing sector in the study area (t statistic=5.879, p-value=.000<0.05). Therefore at 5% level of significance the **H10** was not rejected, indicating that domestic market challenges had a positive influence on domestic private investment in manufacturing sector in the study area. Again for every mean of increase domestic market challenges there were a corresponding influence on domestic private investment in manufacturing sector by 0.327. This finding in line with the study conducted by Ambachew, (2011) private investment in Ethiopia is influenced positively by domestic market.

H10: Domestic has a positive and significant impact on domestic private investment in manufacturing sector in the study area.

Table 17; the study reveals that foreign market challenges had a significant influence on domestic private investment in manufacturing sector in the study area (t statistic=4.395, p-value=.000<0.05). Therefore at 5% level of significance the **H11** was not rejected, indicating that foreign market challenges had a positive influence on domestic private investment in manufacturing sector in the study area. Again for every mean of increase foreign market challenges there were a corresponding influence on domestic private investment in manufacturing sector by 0.210.

H11: A foreign market challenge has a positive and significant impact on domestic private investment in manufacturing sector in the study area.

The established regression equation for the study the unstandardized coefficients β column, gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below.

DPIN=-0.324 +0.169AC1 -0.205INC -0.071POR + 0.143AD+ 0.048FM + 0.093FF + 0.232TF + 0.074INF + 0.327DM – 0.155LF+ ε

The standardized β coefficient column shows the contribution that an individual variable makes to the model. The β weight is the average amount the dependent variable increases when the independent variable increases by one standard deviation (all other independent variables are held constant). As these are standardized as the researcher can compare them. Thus, the largest influence on domestic private investment in manufacturing sector has from the Technological factors (.234), foreign market challenges (.216) domestic market challenges (.307), acquiring bank loan (.182) and administrative challenges (.146). On the other hand investment incentives with the beta value of -.207 and political instability with the beta value of -.085 and locational factors with the beta value of -0.155 are the poorest predictor of the domestic private investment in manufacturing sector when it is compared with the other explanatory variables under study.

Table 19: Regression Coefficients and Model Summary

Model summary	R	R Square	Adjusted R Square	Std.Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	f Change	df1	df2	Sig. f Change	
1	.858	.736	.727	.37967	.736	84.712	11	335	.000	1.721

Regression Coefficients	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity statics'	
	B	Std. Error	Beta			Tolerance	VIF
(CONs)	-.324	.172		-1.882	.061		
AC1	.169	.038	.182	4.399	.000	.460	. 2.174
LA	.059	.044	.067	1.327	.185	.313	3.193
IN	-.205	.052	-.207	-3.919	.000	.282	3.540
PR	-.071	.027	-.085	-2.653	.008	.775	1.291
AD	.143	.031	.146	4.649	.000	.801	1.249
FF	.093	.035	.094	2.648	.008	.633	1.580
TF	.232	.040	.234	5.881	.000	.500	2.001

IF	.074	.033	.087	2.220	.027	.510	1.961
LF	-.155	.035	-.155	-3.986	.000	.467	2.140
DM	.327	.056	.307	5.879	.000	.289	3.464
FM	.210	.048	.216	4.395	.000	.328	3.047

Source: SPSS regression output, 2020

(a) Predictors: (Constant), AC, LA, IN, PO, IF, FF, TF, AD , LF, DM, FM

(b) Dependent Variable: Domestic private investment

4.9. Summary of descriptive and inferential results

The major objective of the study was to identify the determinants of domestic private investment in manufacturing sector in the Gurage zone. The study results have mainly focused on the influence of independent variables on the dependent variables. The dependent variables were respondent's domestic private investors. The independent variables were acquiring bank loan, access to land, investment incentives, political instability risk, infrastructure facilities, infrastructural factors, financial factors, technological factors, administrative challenges, domestic market challenges, foraging market challenges, and locational factors. The data was collected from 347 private investors that are invested in the manufacturing sector. For the descriptive analysis, SPSS software 20 was used to analyses the data. For the econometric analysis of the study, multiple linear regression model was used to identify the impact of independent variables on the dependent variables.

According to the descriptive analysis, most of the private investors were affected by high collateral requirement from banks, high interest rate, corruption of bank officials bank paper work/bureaucracy and high collateral requirements of financial institutions, customs duty, access to bank loan and market incentives border conflict, weak security system and public office unnecessary interference water supply, road and electric power, credit facility to get bank loan, high interest rate on bank loan, high cost of working capital and high cost of energy and limited number of financial institutions, research and development work and latest technology supply, poor enforcement of laws, rules and regulations, complex legal and institutional framework and high tax rates, skilled and customer attractive labor force, location to sell your product and raw materials needed, demand for products, imperfect market, lack of access to market and shortage of raw inputs, quality problem, uncompetitive global market and logistic

challenges, break down of power, shortage of raw materials, low working capital, limited export market and old plant technology

The result of multiple regression model showed that acquiring banks loan related problems, investment incentive structure, political instability/risk, infrastructural factors, financial Factors, technological factors, administrative challenges, locational factors, domestic market challenges and foreign market challenges are significant, indicating the effect on domestic private investor in the manufacturing sector. However, land access, is insignificant or not determinant for private investment.

According to the model, political instability risk had a significant and negative influence on the domestic private investment in manufacturing sector. However, banks loan related problems, investment incentive structure, infrastructural factors, financial Factors, technological factors, administrative challenges, locational factors, domestic market challenges and foreign market challenges had a significant and positive influence on the domestic private investment in manufacturing sector.

According to the descriptive analysis results, on computed mean of variables reveals that the financial factors, technological factors, locational factors, acquiring bank loan and investment incentives, administrative factor and foreign market challenges has the main determinants that influence domestic private investment, followed by domestic marketing challenges, infrastructural factors, political factors. In another words, the result shows that financial and technological factors, investment incentives and locational factors has the highest mean value the major factors that affect domestic private investment in manufacturing sectors in the study area.

CHAPTER FIVE
CONCLUSION AND RECOMMENDATION

5.1. Introduction

This is the final chapter that includes the findings of the study, a summary of the study conclusion of the study results, and recommendations based on the study results. The researcher provides in the conclusion section of the study; the researcher was tried to show the findings of the study and recommendation according to the study result.

5.2. Summary of discussions

In this study, the researcher has summarized the research findings in the order of study objectives. The main aim of this study was to identify the determinants of domestic private investment in the manufacturing sector in the Gurage zone. Accordingly, the study has identified the main determinants of all respondents (investors), which invest in domestic private investors using an econometric model analysis in the Gurage zone, Ethiopia.

The result of all respondent investors shows that political instability risk has a significant and negative impact on domestic private investment in the manufacturing sector. And the result shows that variables like access to infrastructure facilities, financial factors, and locational factors interest rate and investment incentives, technological factors, access to bank loan problems; locational factors, domestic market challenges, and foreign market challenges have statistically significant positive influences on the domestic private investment. Nevertheless, the remaining variable of the study was not statistically significant based on the methodology adopted. In addition to the above conclusions, the descriptive statistical analysis shows that high energy costs break down of power, shortage of raw materials and low working capitals, lack of business plan, lack of industrialization mind and strategy policy issue and high financing costs that impact domestic private investors.

The main finding of this study was that acquiring a bank loan, technological factors, administrative challenges, locational factors, domestic market challenges, foreign mark challenges, high energy cost, break down of power, shortage of raw materials, and low working capitals and high financing cost, lack of business plan, lack of industrialization mined and strategy an policy issue.

5.3. Conclusion

This study aimed to identify the major determinants of private investment in the manufacturing sector. This required understanding the factors that influence domestic private investment in the manufacturing sector in the Gurage zone. After the proper analysis of the questions distributed to the respondents, the researcher summarizes the following.

The reasons that firms do not able to get a loan are, high collateral requirements of banks, the high-interest rate on the bank loan in a financial institution, inadequate credit/finance, and banks require detailed feasibility study information on customers. There is the difficulty of access to financial resources and the high cost of capital, which can be explained by the fact that firms operate largely on borrowed capital acquired at high-interest rates on bank loan; shortage of raw material and other inputs; deflation of the nominal exchange rate that adversely affects the cost of imported inputs; and unbearable cost of energy.

Inadequate information and communication technology were the most important issues and limited research and development works, are the main technological factors affecting domestic private investment in manufacturing sector in the study area.

Poor enforcement of laws, complex legal and institutional frameworks, lower attitude towards the use of locally manufactured products are administrative factors emanated from weak policies in manufacturing sectors are range from the higher level (policy dimension) to the lower level (firm-specific administrative conditions).

Market challenges: competition from products produced abroad. Some imported goods, which are more price-competitive than those made in Ethiopian specifically in gurage zone, are low-quality counterfeits, high production cost as compared to imported goods, quality problem, and lack of knowledge about foreign market are the major domestic and foreign market challenges. Company level of competence to utilize free trade agreement and overseas duty-free market access is good.

Locational factors influenced by location to sell the product of investors and long distances of travel for raw materials needed in the study area. The locational factor was shown to have a significant and positive impact on the domestic private investment in the study area.

As result of descriptive analysis break down of power, low working capital and high financing cost and old plant technology are the main reasons for their under capacity production for the manufacturing sector in the study area

According to the interview with investors and managers lack of industrialization mind, policy and strategy issues policy difficulty include tax laws, local government bylaws, environmental legislation requirements, etc. Among other concerns is the waste removal question which has not been addressed adequately.

5.4. Recommendation

The overall objective of the study was to identify the major determinants of the domestic private manufacturing sector. According to the research objectives and based on the data analysis, the researcher provides the following recommendations to the concerned bodies.

In order to solve acquiring bank loan problems and limited access to finance to fund manufacturing projects and shortage of foreign currency to import raw material and intermediary goods are the main problems of the investors. Therefore, the government should solve this problem by working with financial service supporters found both within Ethiopia and foreign in order to make available funds for new investment in manufacturing sector in addition to giving an attention to reserve foreign currency that useful for importing raw materials and capital goods. Domestic private investors are they should first identify sources of finance for the required building construction and installation of machinery. Clear and open discussions with the banks must take place to establish the investment areas allocated for loan access set by government policy.

Know a day political instability risk in our country in Ethiopia is high. The area near the border with kebena, mareko and meskan woreda is a place where internal insecurity, therefore, those domestic private investors are not willing to make a large investment, and existed investors are faced with their domestic market challenges. Private investors should also be able to set the price of their products according to the principles of a free market economy where a fair profit margin can be applied and which does not affect the purchasing power of customers.

In order to solve developing technological capability requires adequate and continuous investment not only on equipment, machinery, and related assets but also on information, labor educations, and technological know-how.

The governments enhance the industry park development program in the Gurage zone in order to solve technological factors and increase investment in science and technology because this should be given greater weight to stimulate industrial development. This will promote knowledge and skills development as well as a wider application of information communication technology. The government attracts foreign investors to invest in Ethiopia specifically in the Gurage zone, because they do not only invest their capital but also promote new technology.

As new technology emerged to the country expanded by domestic investors, it is easy to transfer from one firm to another so that possible way of expansion of new technology, without incurring high costs. This technological level is developed either by carried out of research and development works by firms or research institutions in addition by providing on-the-job learning and training to works and by information and communication technology.

Domestic and foreign market challenges: in order to reduce these problems the government and private investors create to start export their products mostly of scant technological content, to create global and regional markets. Increasing integration into global value chains, promote product and process innovation, as well as research and development improve global competitiveness for investors in manufacturing sectors and the government and private investors create market incentive (Bazaar) in the study area. Company level of competence to utilize free trade agreement and overseas duty-free market access is good to increase domestic and foreign market.

The government should take a measures in order to solve the factors affect investors in the study area to promote the consumption of domestic goods so as to build a tradition of consuming local people-made products and thus expand the market for local articles, reduce imported products and support the investors by supplying capital goods, facilitates training and promoting incentives, and facilitating fast and sufficient loan system.

The zonal, regional and the federal investment office revising investment policy and restructuring investment institution to lower the level and by collaborating Wolkite University

undertake investment-related study, and then commented by responsible body take a measure to ward all problems in the study area.

The government should fully support an industry especially electric power interruption and decline or deduction in the tax rate, investors identify the key problem of industries and solve by planning, organizing, controlling and leading management function in order to give immediate solution and by preparing a business plan to solve our market problems because they don't have a business plan in the study area.

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APPENDIX

Jimma University

College Of Business and Economics

Department of Accounting and Finance

Dear respondents

My name is Worku Haile. I am a graduate student of MSc in Accounting and Finance in Jimma University. Currently, I am undertaking a research entitled '**Determinants of Domestic private investment in manufacturing sector in Gurage zone.** The objective of the research is for academic purpose to achieve my partial fulfillment of Master's degree in the field of MSc in Accounting and Finance. Please assist me in giving correct and complete information to present a representative finding on the current status of manufacturing sector in Gurage zone. I promise that your information will not be forwarded to any other third parties without your permission.

Thank you in advance for your kind cooperation!!

1. Background Information for respondents

1.1.   Gender of the respondent (Please circle one): 1) Male 2) Female

1.2.   Age of the respondent: _____ years

1.3.   Educational level of the respondent: _____ grade

1.4.   Does your educational level affect to delay your status?

1 Strongly disagree 2 Disagree 3 Neutral   4 Agree   5 Strongly agree

2.1. What is the legal form of your investment? _____

1. Basic business information

1.1. What is your source of finance for your private investment? (Please circle one or more)

1. Own contributions

2. Share contributions

3. Formal financial institutions (banks and Micro finance)

4. Informal financial sources (e.g. money lenders, family/friends)

5. Others (specify) _____

1.2. After getting your investment permit, have you ever asked financial institutions like bank for loan as source finance?

1 Strongly disagree 2 Disagree 3 Neutral   4 Agree   5 Strongly agree

1.3. Can you judge difficulties of source of finance?

 1 Very easy   2 Easy 3 Medium   4 Difficult   5 Very difficult

1.1. Basic information related to study variables

1 Strongly disagree 2 Disagree 3 Neutral   4 Agree   strongly agree

Q1	Acquiring banks loan related problems					
1	Do you agree with any difficulty in collateral requirements of banks/financial institutions?	1	2	3	4	5
2	Do you agree with any difficulty in bank paper work/bureaucracy/delay in loan delivery?	1	2	3	4	5
3	Do you agree with high interest rate?	1	2	3	4	5
4	Do you agree with corruption of bank officials?	1	2	3	4	5
5	Do you agree with inadequate credit/finance?	1	2	3	4	5
6	Do you agree with banks require detailed feasibility study information on customers?	1	2	3	4	5
Q2	Land access To get land for your investment, what were the problems?					
1	Do you agree with existing land tenure system?	1	2	3	4	5
2	Do you agree with difficult bureaucratic procedure getting land?	1	2	3	4	5
3	Do you agree with high lease price?	1	2	3	4	5
Q3	Investment incentive structure Which one of the following investment incentives promotes you much to invest?					
1	Do you agree with investment incentives income tax holidays?	1	2	3	4	5
2	Do you agree with investment incentives custom duty?	1	2	3	4	5
3	Do you agree with investment incentives access to bank loan?	1	2	3	4	5
4	Do you agree with investment incentives access to low lease price of land?	1	2	3	4	5
5	Do you agree with investment incentives market incentives?	1	2	3	4	5
Q4	Political stability From the risks listed below, which of the following political instability risk exist in the zone?					

		1	2	3	4	5
1	Do you agree with border conflict?	1	2	3	4	5
2	Do you agree with weak security system?	1	2	3	4	5
3	Do you agree with high trade restriction?	1	2	3	4	5
4	Do you agree with Public offices unnecessary interference?	1	2	3	4	5
Q5	**Administrative challenges** From the listed below, which of the following administrative challenges exist in your investment?					
1	Do you agree with poor enforcement of laws, rules and regulations?	1	2	3	4	5
2	Do you agree with tax rates and administration?	1	2	3	4	5
3	Do you agree with complex legal and institutional framework?	1	2	3	4	5
4	Do you agree with negative attitude against consumption of locally produced goods?	1	2	3	4	5

1 No limit   2 little limit 3 Moderate limit   4 High limit 5 Very high limit

Q6	**Financial Factors**					
1	Does your investment area is Limited by the number of financial institutions?	1	2	3	4	5
2	Does your investment Limited by the high cost of raw material and other inputs?	1	2	3	4	5
3	Do you Limited by high interest rate on bank loan?	1	2	3	4	5
4	Do you Limited low credit facility to get bank loan?	1	2	3	4	5
5	Do you Limit macroeconomic uncertainty (inflation, exchange rate) with your investment?	1	2	3	4	5
6	Do you Limit the high cost of working capital in your business operation?	1	2	3	4	5
7	Does your investment limited by high energy cost?	1	2	3	4	5
Q7	**Technological factors**					
1.	Does your investment limited by research and development works?	1	2	3	4	5
2.	Does your investment limited by appropriate technology supply Appropriate technology supply?	1	2	3	4	5
3.	Does your investment limited by information and communication technology?	1	2	3	4	5
Q8	**Infrastructural factors**					
1	Does your investment limited by road construction/transport?	1	2	3	4	5
2	Does your investment limited by electric power?	1	2	3	4	5
3	Does your investment limited by water supply?	1	2	3	4	5

4	Does your investment limited by air transport?	1	2	3	4	5
5	Does your investment limited by port facilities?	1	2	3	4	5
Q9	**Domestic market challenges**					
1	Does your investment limited by lack of access to market?	1	2	3	4	5
2	Does your investment limited by high cost of imported goods(raw materials)?	1	2	3	4	5
3	Does your investment limited by shortage of raw inputs?	1	2	3	4	5
4	Does your investment limited by imperfect market?	1	2	3	4	5
5	Does your investment limited by quality problem?	1	2	3	4	5
6	Does your investment limited by demand for your product?	1	2	3	4	5
7	Does your investment limited by promotion medias for your product?	1	2	3	4	5
8	Does your investment limited by pricing for your product?	1	2	3	4	5
Q10	**Location factors**					
1	Does your investment limited by skilled and customer attractive labor Force?	1	2	3	4	5
2	Does your investment limited by raw materials needed?	1	2	3	4	5
3	Does your investment limited by location to sell your product?	1	2	3	4	5
Q11	**Foreign market challenges**					
1	Does your investment limited by uncompetitive global market?	1	2	3	4	5
2	Does your investment limited by lack of knowledge about foreign market?	1	2	3	4	5
3	Does your investment limited by inefficient production?	1	2	3	4	5
4	Does your investment limited by logistic challenge?	1	2	3	4	5
5	Does your investment limited by finance?	1	2	3	4	5
6	Does your investment limited by high transportation cost?	1	2	3	4	5
7	Does your investment limited by uncompetitive global market?	1	2	3	4	5

Interview question to investors and managers

1. From the problems to get bank loan in question Please tell me the order which one the most influence your investment____, ____ and _____

2. From the investment incentives specified in questioners, Please tell me the order which one the most influence your investment____, ____ and _____

3. From the problems to administrative challenges in question Please tell me the order which one the most influence your investment____, ____ and _____

4. From the problems financial factors in question Please tell me the order which one the most influence your investment____, ____ and _____

5. From the political instability risks specified in question listed in questioners (Please tell me the order which one the most influence your investment____, ____ and _____

6. If there were other problems (other than the described one), would you please tell me them?

7. What are the measures the government should take in order to reduce (solve) the factors affect in your investment?

8. What do you suggest as a solution for the above-mentioned problems mean factors affecting your investment?