



**JIMMA UNIVERSITY**  
**FACTORS THAT AFFECT THE LEVEL OF PRIVATE INVESTMENT: IN**  
**CASE OF JIMMA ZONE**

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## **Abstract**

*Ethiopia has great potential for private investment sector because of its favorable conditions. Its fertile land, minerals, forest resources, different climatic conditions, water resources and human resources are some of the factors that makes Ethiopia desirable for private investment, despite these resources there are very few private investment activities in the country taking Jimma zone as one part of oromia region there are poor private investment activities even though the same favorable conditions exit as the general country. The study intended to identify the major causes for low private investment in Jimma zone of Oromia region, and there consequences on the overall economic development of the zone. For this purpose, data was collected from primary and secondary sources. Primary data was obtained from investment office of Jimma zone officers and leaders, and people being engaged in different private investment in the zone. Secondary data was taken from investment office of the zone, and different publications. The research also underlined the private investment activity is very limited and there are different social and economic problems resulted due to limited level of private investment such as, poor standardized of living, high unemployment, and general economic stagnation of the zone. Finally, the study concluded that the low level of private investment activities has negatively affected the level of economic growth of the zone.*

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## **ABBREVIATION**

GDP	Gross Domestic Product
LDC	Least Developing Countries
WB	World Bank

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# CHAPTER ONE

## 1 INTRODUCTION

### 1.1 Background of the study

Now a day investment is the main basis for economic growth and development countries in the world. Many countries adopt policies which help to the expansion of investment that is taken to bring changes to the economy and eradicate poverty (World Bank, 2006).

An investment refers to the purchase of several of goods and services that can be used for productions of other goods. Developed countries have excess capacity to invest. Investment whether domestic or foreign is an essential activity for sustainable growth. Investment can increase the productivity capacity of the economy. Most developed countries are encouraging private investment in order to run or facilitate their economic growth and employment opportunities.

Private investment plays a significant role in the world that is increases employment opportunity raises the level of output increase export to international market, increase the level of per capita income, and reduce poverty and raise urbanization. In general it fasters economic development in the world (encyclopedia book, 1994)

Investment is a crucial variable, which uses to accumulate capital and increases specialization of market efficiency. In general to the least developed countries regulate a policy that gives a palace for either private and public investment or foreign investment. However adopting and regulating policies about investment is not enough. Creating a smooth area of investment and encouraging and supporting private investors is required. This is necessary both to raise consumption level and to permit government of Ethiopia have adopted various development strategies to encourage both the individual farmers and commercial investors.

Investment is the main hope of most poor countries as Ethiopia to increase the level of income, because it is essential to increase the living standard of the people. Currently the federal and regional governments of Ethiopia devote much of their efforts an accelerating the growth of investment and diversification, because it is important to increase the level of output and

employment opportunities. However in Ethiopia the gap between investment and saving are wide due to low level of income and domestic saving.

Private investment in Ethiopia has great attention because change of different political regimes with different economic policies. The most significant time relation to investment from imperial regime of Haileselassie and Derge regime were the participation of private investment was limited by the state. However, in the context of significance change in fiscal monetary trade and industrial policies are needed for review of the continued public sector in wide range of activities cues felt (Annual report of the Ethiopian economy, 2000).

A new strategy for encouraging private sectors was adopted when the transitional government of Ethiopia comes to power in 1991. since 1991 enhance the role of private investment in the development presses , various policy measures have been established and revised several times. This revised investment code with the objective of eliminating, discriminating against the privet investment and creating conducive environment for them.

According to investment office, there is a lot of investment potential in the city such as, mineral, manufacturing, health, education, tourism etc. part of this strategies the services delivery system of banks and the government should pay due attention diversifying financial institutions, which render credit and other related services. This because the institutions play an important role in enhancing privet investment which in turn results in an increase in national income with the government has been aiming at.

## **1.2Statement of the problem**

Investment has a paramount importance in the process of bringing rapid economic development of nation. Most developing countries are going to private investment to run or facilitate their economic growth. Private investment is one of the main determinants for growth and development of nation. However, less developed countries are characterized by low level of saving.

The low level of domestic saving leads to low level of investment. The problem of wide resource gap in many LDC's, including Ethiopia; make them depend on foreign saving to finance their domestic investment. While Ethiopia in endowed with sustainably natural and human resources

its economy predominantly agrarian. The rapid growing population of the country contributed very less towards the economy by causing excessive pressure on foreland. Agriculture being the bone of the country economy, contributes the lion's share of the GDP, employment and export earning of the country. However it is vulnerable to frequent drought and natural disasters. Because of the weak linkage between different sectors of the economy, there has been a great problem in the agricultural sector in providing enough raw materials, machinery and spare parts.

As Jimma zone is one part of Ethiopia, the problem of private investment activities is the same. It is tied up with many problem among them, in adequacy of infrastructure, small market size and low demand is worth to concenter beyond these many physical, social and economic problem are retiring the private investment no to reach its peak.

The prospect to assign the leading role of the structural change of the country to the private sector could not be realized in the presence of these constraints. Therefore, this study addressed to the most influential factor that affect private investment in the zone.

### **1.3 Objective of the study**

#### **1.3.1 General objective of the study**

The general objective of this study is to analysis the major factors that affect private investment in the Jimma Zone

#### **1.3.2 Specific objective of the study**

1. To examine the economic and social factors that affects private investment in the Zone.
2. To assess the general attitude of investors and the government towards private investment activities in the Zone.
3. To give recommendation about the factors.

## **1.4 Research Questions**

This study would answer the following question

1. What are the major factors that affect private investment in the Zone?
2. What is the general attitude of the people, investors and the government towards private investment?

## **1.5 Scope of the study**

As indicated in the objective, the aim of this study was focused on the main factors that affect level of private investment in the study area. In order to identify the variables the survey conducted in the Zone by using questionnaires. Based on the investors licensed, stratified random sampling technique was employed and 57 investors selected from the total population. All private investment activities (agriculture, industry and service sector) were included in the study.

## **1.6 Significance of the study**

Private investment is the primary engine to promote any country's economic growth. This study initiates to explore the factors that affect private investment in the zone. In doing so, I hope that the study would add knowledge in the area of private investment and it has its own contribution for future research work. In general, the results of this study may benefit potential researchers, policy makers, planners redesigning appropriate policies and strategies. The study expected that it has a benefit to the public in general and potential investors in particular.

## **1.7 Limitation of the study**

Although the study has same significance, it has its own limitation, these are:-

- i. Resource limitations, which includes, money and materials.
- ii. Shortage of time given for data collection was very short.
- iii. Some of the selected respondents were not interested to give any full responses.
- iv. Health problem of the researcher.

## **1.8 Organization of the study**

The study is organized as follows:-

in the first chapter there is the introduction part which contain background of the study, statement of the problem, objective of the study, scope of the study, significance of the study as well as limitation of the study were presented. In chapter two review of literature with its theoretical and empirical parts presented. In chapter three methodology of the study were also presented. In chapter four the result and discussion is presented and at last chapter five contains conclusion and recommendation.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Theoretical literature**

##### **2.1.1 Definition**

For many years investment has been raised and be defined in different ways by different authors but with the same concept. The term investment can have more than one meaning. In economics it refers the purchase of a physical asset such as, a firm's acquisition of plant, equipment or inventory or an individual purchase of any home, which are used in the further production of goods and services. However for a lower the word dents purchase of an asset for storing value and hopefully increasing that value over time.(Herbert B. Mayo, 1997.pp.6)

Fredrick Ambling and William G.Forms, 1994 also define as, "The purchase of an asset that will provide income or further capital growth or both."

Gateman(1997) defines investment as sizable outlays of funds that commit a firm to some course of action, the firm lies on specific procedures to analyze andselect that investment policy.

Investment is the use of money to earn income. The term also refers, to the expediter of funds for capital goods such, factors, farm equipment, livestock and machinery capital goods are used to produce other goods or service (encyclopedia book, 1994)

Hulbert (1997) has defined investment has a fix and initialoperating resources used for the production of goods, the provision of service and the development of science and technology capability. He also advise investors that when he/she evaluate investment he/she should invest internally (within its activity)before considering external investment(investing outside its activity) before starting an investment activity, an investor must know and analyze in what area he/she is going to invest, the availability of funds he/she has for investment, the economic and

political situation of the country, availability of raw materials for running its activity and fully he/she must put standard of evaluating the profitability of the investment. The complexity and difficulties of choice in process of analysis and evaluating investment that ability of manager and decision maker arise much due to the existence of different kinds of with different nature(Alexander, 1993) distinguish in to:-

1. Real investment generally involves some kinds of tangible asset such as land, machinery, or factories.
2. Financial investment involves contracts written on pieces of paper, such as common stock and bonds.

In primitive economics most investment is of the real variety however, in a modern economy, much investment is a financial variety. Largely the two forms of investment are complementary, not competitive.

### **A. Keynesian Model of Investment**

The theory of investment behavior goes back to Keynes (1936) general theory he was the first to call attention to the existence of an independent investment. Decision function in the economy.

He observed that investment depends on the prospective managerial efficiency of capital relative to some interest rate that is relative of opportunity cost of the invested funds. So that investment can be increased either by managerial efficiency of capital or by reducing interest rate. He further pointed the private investment was interracially volatile since any rational assessment of the return on. Investment was bound to the highly uncertain. The annual spirit of the private investors would be the main driving force in investment decision, in addition expectation of future demand for firm output, velocity of investment, uncertainty and another non-economic readable i.e. political social and economic variables are possible deterrents of private investment in general.

### **B. Accelerator model of Investment**

After Keenness the evaluation of investment was linked to simple growth model. This model gives rise to the accelerator, popular in 1990s and early 1960s and widely used even today in practical growth exercise. The accelerator growth theory makes investment a line or proportion of

change in output. Its extreme simplicity explains its popularity; given all incremental output ratios. It is easy to compute the investment requirement associated with a given target for output growth. Perfect completion and exogenously determine output. The theory also disregards dynamic expectation with regard to further price, interest rate and capital cost.

## **C. Neo Classical Investment Theory**

The restrictive assumption behind the accelerator model theory led Jorgenson (1971) and Hail Jorgenson (1971) to formulate the neoclassical approach. In this approach, the desired capital stock depends on the level of output and the user cost of capital (which in turn depends on the price of capital goods, real interest rate and the depreciation rate). This theory indicates the fact that firm will invest as rental cost capital falls down but as output in the economy goes up. In addition, firms would like to have more capital stock when they expect higher level of output. Lags in decision making and delivery create a gap between the current and desired capital stock, giving rise to investment equation. I.e. an equation for the change in capital stock.

The foundation of this approach have are inconsistent; that the assumption of static expectation about future price output, and interest rate is inappropriate. Since investment is essentially of forward looking progress, and that the lags in delivery are introduced in labor manner (Serven & Solimano, 1992)

In economics, there are three types of investment spending; business fixed investment, residential investment and inventory investment (Mankiw, 1992 pp 463-82)

### **2.1.2 Types of investment**

#### **1. Business fixed investment**

Thus include the equipment and structures that business buy to use in production. The largest part of investment spending, accounting for about three quarters of the total is business fixed investment. The term business means that this investment goods are bought by firms for use in future production. The term fixed means that this spending is for capital that will stay put for a while, as opposed to inventory investment, which will be used or sold shortly later. Business fixed investment includes everything from fix machines to factories, computers to company cars.



The standard model of business fixed investment is called in the neoclassical model of investment. The neoclassical model examines the benefits and costs of firms owning capital goods. The model shows how the level of investment the addition of stock of capital is related to the marginal product of capital, the interest rate and the tax rules affecting firms.

## **2. Residential Investments**

Residential Investment includes the purchase of new housing both by people who plan to live in themselves and by land lords who plan to rent it to others.

### **The stock equilibrium and the flow supply**

There are two parts to the model first: the market for the existing stock of houses determines the equilibrium housing price, second, the housing price determines the flow of residential investment. This model of residential investment is similar to the theory of business fixed investment. According to this model of the housing market, residential investment depends on the relative price of housing. The relative price of housing, in turn, depends on the demand for the housing, which depends on the imputed rent the individual expects to receive from their housing. Hence, the relative price of housing plays much the same role for residential investment as Tobin's  $q$  does for business fixed investment.

### **Changes in housing demand**

When the demand for housing shifts the equilibrium price of housing changes and this change in turn affects residential investment. The demand curve for housing can shift for various reasons. An economic boom raises national income and the demand for housing. A large increase in population perhaps of immigration, also raises the demand for housing. One important determinant of housing demand is real interest rate. Many people take loans mortgage to buy their homes. The interest rate is the cost of the loan. A reduction in the interest rate raises housing demand, housing prices and residential investment.

## **3. Inventory Investment**

Inventory investment the goods that business put aside in storage is at the same time negligible and of great significance. It is one of the smallest components of spending averaging about one

present of GDP. Yet its remarkable volatility makes it central to the study of economic fluctuations. In recessions, firms stop replenishing their inventory as goods are sold and inventory becomes negative. In typical recession, more than have the fall in spending from a decline inventory investment. Higher output raises the stock of inventories firms to hold, stimulating inventory investment.

### Reasons for holding inventories

Firms have various motives for holding inventories of goods. Smooth production using them as a factor of production, avoiding stock outs and storing work in process, one model of inventory investment that works well without endorsing a particular motive is the accelerator model. According to this model the stock of inventories depends on the level of GDP and inventory investment depends on the change in GDP.

### Inventories and interest rate

Like other components of investment, inventory investment depends on the real interest rate. When the real interest rate raises holding inventories become more costly so rational firms try to reduce their stock. Therefore, an increase in real interest rate depresses inventory investment. Thus the real interest rate measures the opportunity cost of holding inventories.

## **2.1.3 Determinants of investment**

### **Interest rate**

The level of planned investment depends on the market interest rate, because in order to invest individual must either borrower or uses its own funds (Branson, 1989).

All types of investment spending are inversely related to the real interest rate. Higher interest rate raises cost of capital to firms that invest in plant and in equipment raises the cost of borrowing to home buyers and raises the cost of holding inventories (Mankiw, 1992)

## **National income**

This also another measure influence on investment is believed to be the change in national income .low level of income causes low demand for capital and low level of saving. This too again cause low level of investment leading to low level of output which inter brings low level of income i.e. vicious circle low level of income (Claran andPaul,19990)

## **Financing constraints**

Sometimes faces financing constraints limits on the amount they can raise in financial market. Financing constraints can prevent from under taking profitable investment. When a firm is unable to rise funds in financial market, the amount it can spend on new capital goods is limited to determine their investment based on their current cash flow rather than expected portability (Mannkiw, 1992)

## **The stock market and Tobin's q**

Many economics see a link between fluctuations in investment and fluctuations in stock market. Stock prices tend to be high, when firms have many opportunities for profitable investment, since these profit opportunity mean higher future income for the households. Thus, stock price reflect the incentives to invest(Mankiwe, 1992). The NobelPrizewinner economist James Tobin proposed that firms base their investment decisions on the following ratio, which is known called Tobin's q.

$$Q = \frac{\text{market value of installed capital}}{\text{replacment cost of installed capital}}$$

Tobin reasoned that net investment should depend on withier of greater or less than one. If q is greater than one, then the stock market value installed capital at more than its replacement cost. In this case, managers can raise the market value of their firms stock by buying more capital. Conversely, if q is less than one the stock market values capital at less than its replacement cost. In this case, managers will not replace as it wears out.

## 2.2 Empirical literature

A World Bank report (1991) indicated that there is a positive relationship between higher level of private investment and higher GDP growth rate for developing countries. This report also showed that countries that have kept low inflation, low interest rate and allowed sufficient credit to the private sector have been likely to high level of private investment as share of GDP. The report added that macroeconomic stability increase confidence, there by faster private investment.

Buffy (1986) and Branson (1986) noted that areal depreciation increase the real cost of new capital goods, relative to domestic goods, depressing investment in non-tradable activities. In the tradable good sector the cost of new capital goods relative to the price of output falls and investment rises. The result for aggregated investment is uncertain. Preferment and Madarssay(1993) studied the determinants of private investment in developing countries. They classified the determinants of private investment in to positive, negative and uncertain factors. The study showed that budget deficit is one of macroeconomic determinants that affect private investment negatively. This is because when there is budget deficit government tried to find different means of financing the deficit like that borrowing from local banks, international institutions and monetary expansion. However, each of this form of financing the deficit has negative effect on private investment when government finances deficit from local banks it will depress private investment by extracting most financial resources from the source and allocate towards government budget financing. Hence it will reduce credit availability to the private investors more over if the government tries to finance the budget deficit by printing money. It leads to inflation and affect private investment negatively. Along with the above variables extra indebtedness, volatility of inflation and exchange rate are classified as certain factors i.e. their effect cannot be predetermined.

Oshikya (1994) studied macroeconomic determinants of private investment in Africa using a sample of seven countries to the period 1970-1988. The result tends to confirm that increase in real output (GDP) growth rate has positive impact on private investment. Particularly for low

income countries. On the other hand, the effect to the real exchange rate is negative, small and insignificant in low income countries. The study also showed that inflation rate has a strong negative impact on private investment in low income countries. In contrast, the impact of domestic inflation rate on private investment behavior in middle income countries is positive.

The study adds domestic credit availability to the private sector is a major determinant of private investment for both middle income and lower income countries. However, the effect of change in terms of trade on private investment for both groups of countries is positive.

Eugene R, Black (1995) showed that there are vitally important advantages to be gained in developing countries. Above all, in the private sector there is the possibility of calling for the individual, energies that cannot be effectively gained by public fiat. It is also true that when there is a variety of initiatives and decentralization of efforts, economic life has breath and stability it would otherwise lack. Farther more such a situation freedom. The study added that the economical future of every developing country wishing to maintain a democratic tradition depends on importantly and often vitality up on the growth of a health and vigorous private sector capital.

Green and Villanueva (1991) examined the effect of various macroeconomic variables on the private investment activity. The study confirmed the restrictive monetary and credit policies includes in stabilization packages affects investment activities by rising real cost of bank credit and by raising interest rate they increase the opportunity cost of retained earnings. Both mechanisms raise the user cost of capital and leads to reduction in investment. In addition, the study found that the rate of private investment is positively related to the real GDP growth, the rate of public investment and negatively related to real interest rate, domestic inflation, the debt service ratio and the ratio of debt to GDP. The study under lined the importance of examined the interaction among investment, saving and growth in general equilibrium model. Akplau (1997) researched on determinants of private investment in Ghana. He found that in the end private investment in Ghana on real GDP, real interest rate, public investment and the availability of credit, positively affected by private investment, while increase public investment has negative impact on private investment.

## **CHAPTER THREE**

### **3. METHODOLOGY**

#### **3.1 Source of data**

The study was used both primary and secondary data for its successfully accomplishment. Primary data are information gathered by the researcher himself and were collected for the first time. Hence the study needed such information from the selected investors involved in the zone and from investment office of the zone. Secondary data is also obtained from personal, public documents and related to the case. In general, investors and the investment office of the zone were the main source of primary and secondary data relatively concerning the private investment activity of the zone.

#### **3.2 Method of data collection**

For this study, sample survey was used to collect the required information. Sample is chosen because it can save time and money, and it can provide accurate information if it is carefully selected. Regarding to primary data collection method the study used questioner to obtain information from the investors in the zone that is included in the sample. The form of questioners developed in both open-end (to get different information from different respondents) and close-ended (to get uniform answer). Beside, to obtain primary data from investment office of the zone, the so-called personal interview method of the data collection was employed.

In the second data collection analysis was made in different document of the private investment sector, besides the various reading of literature related the problem of the sectors.

### 3.3 Sampling Technique

The study population includes all sectors of investment and employee of investment office of the zone. Accordingly, the total population of investors currently found in the zone with different business activity is total to 350 investors. Since investors are different in terms of their experience. Stratified random sampling technique was used for the selection typical sample out of the total population of investors. To include investors to the sample size from the sector taken the sample. In line with these 40 investors from service sector, 10 investors from industrial sector and 7 investors from agricultural sector were included in sample size, which together sump to a total of 57 sample respondents.

The sample size determination formula,

$$n = \frac{Z^2 pqN}{E^2(N-1) + Z^2 pq}$$

Confidence level = 90%

Error = 10%

Z=1.64

$$n = \frac{Z^2 pqN}{e^2(N-1) + Z^2 pq}$$

$$n = \frac{(1.64)^2(0.5)(0.5)350}{(0.1)^2(350-1) + (1.64)^2(0.5)(0.5)}$$

$$n = \frac{235.34}{3.49 + 0.6724}$$

n= 56.53

n= 57

N= 350

n= sample size

$p$ = probability of success

$q$ = probability of filler

$z$ = level of confidence

$N$ = total population

$E$ = error

$p + q = 1$

$p=0.5$

$q=0.5$

### **3.4 Method of data analysis**

After the data was collected properly, the process of editing, classifying, arranging or organizing the collected data was done. So that it will be suitable for further analysis. After this all had done, the base for the whole study or research, data analysis was made while is the further transformation of the processed data to one for possible patterns and relations among data groups. To this end disruptive form of analysis was extensively employed for the matter of easy understanding of interpretation. The common form of describing the processed data that study had used in tables, percentages and figures.



## CHAPTER FOUR

### 4. Results and Discussion

Ethiopia started to be ruled by the federalism system of government in the year 1992/93 G.c, which changed the centrally common socialist economy in to developmental state market economy. After this time that oromia region established its own government as one among the nine regions of the country. Besides the regions has established its own investment commission and recently formed investment offices at zone level. The secondary data obtained from the zone investment office can be discussed in the following section according to their relation with the objective of the study.

Table 4.1: distribution of sectored private investment in Jimma zone of September 2016

No	Sector	No of project	Land size(hec)	Registered capital	Capital with work	Job opportunity		
						permanent	temporary	Total
A	Agriculture	149	19,42.1	444,307,340	296,261,901	1131	6972	8103
1	coffee production	98	14,887.9	336,002,107	265,970,116	715	5973	6658
2	Oilseed production	34	4388	87,509,193	20,476,785	347	900	1247
3	Animal husbandry	17	148.2	19,796,040	9,815,000	69	129	198
B	Industry	98	117.49	202,765,300	162,887,823	655	4341	4996
4	Coffee machine	89	107.1	171,765,140	138,911,351	481	4210	4691
5	Electrical pole production	1	4.05	29,000,000	22,000,000	110	112	222
6	Metal work	8	6.34	2,000,160	1,976,472	64	19	83
C	Service	103	24.388	108,772,810	94,962,820	169	270	439
	Total	350	19,565.978	754,845,450	554,112,544	1955	11,583	13,538

Source; investment office of Jimma zone, 2016

The above table shows that a total of 350 private investors have secured investment license and had a total investment capital of 554,112,544 on 350 varies projects those have different states with a job opportunity of 13,538(permanent,1955) and (temporary,11,583).

Regarding to job opportunity of the agriculture sector take the major parts with hiring 8103 and followed by industry and service sector with hiring a total 4996 and 439 labor respectively.

Consider the table below that reflects the number of prospects who get investment permission in each year of the last 5 years and other related features.

Table4.2: the number of investors who got investment permissions, capital invested, and job opportunities created in each year of the last 5 years in the zone.

No	Year	No of projects	Capital	Job opportunity		
				Permanent	Temporary	Total
1	2005	13	60,426,713	71	27	98
2	2006	17	80,217,003	96	78	174
3	2007	6	10,401,000	59	108	167
4	2008	9	16,966,112	104	62	166
5	2009	14	28,261,000	94	86	180

Source; investment office of Jimma zone. Calculated by the research.

The above table shows that what the zone level of private investment looks like in the last 5 years in terms of number of investors, amount of capital and employment opportunity.

Beginning from the year 2005 E.c still 2006 the zone level of private investment was increased in terms of investors, amount of capital and created of job opportunity. However, on 2007 the number of investors were decreased by 11 from the preceding year. And also amount of capital invested and created of job opportunity was decreased.

After 2007 the zone level of private investment was increased in terms of number of investors, amount of capital invested and created job opportunity.

Table4.3: participation of investors by citizenship.

No	Investors	No of projects	Capital	Land size(hec)	Job opportunity		
					Permanent	Temporary	Total
1	Domestic investors	345	392,136,403	17,000.378	1,791	10,183	11,974
2	Foreign investors	5	161,676,141	2565.6	164	1,400	1,564
3	Joint	-	-	-	-	-	-
	Total	350	554,112,544	19,565.678	1,955	11,583	13,538

Source investment office of Jimmazon, own computation

The above table shows that from the total 350 investors, about 345 investors are domestic investors, about 5 are foreign investors and none of the investors invest jointly. In terms of capital invested domestic investors takes the first rank. In terms of job opportunity domestic investors also the leading. Domestic investors and foreign investors are created job opportunities for about 11,974 and 1,564 citizens respectively.

## 4.1 demographic characteristics

Table 4.4: sex responses' of investors

Sex	No of respondents	Percentage
Male	49	86%
Female	8	14%
Total	57	100%

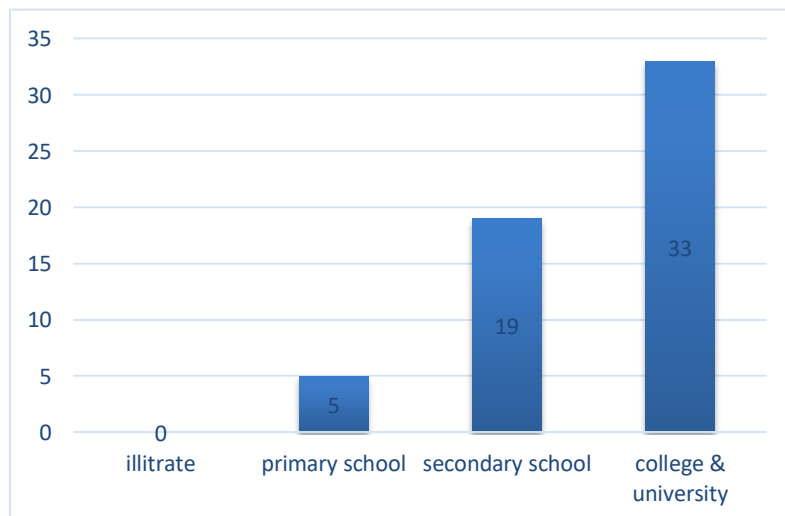
Source; survey 2017, by the researcher

As it can be seen from the table 49(89%) of the respondents are male and only 8(14%) of the respondents are females. This shows the majority of investors participating in the zone are male.

### 4.1.1 Educational states of respondents

The educational background of the investors study elements is believed to be an important factor for correct decision-making and developing logical attitude in order to evaluate fruitful investment directions. The educational distribution of the investors or respondents is presented in the following figure.

Figure4.1 Educational states of investors



Source; survey 2017 by the researcher

The above bar graph indicates that none of the sample size served for the educational status of the investors are illiterate and 5(8.77%) of the respondents have attended primary school, 19(33.3%) of them are attended secondary school and the graduates of college and university together consists 33(57.89%) of the respondents.

In a similar manner when these issues of education status raised to workers of investment office of the Jimma zone, the head of the office has BA degree and the other two works serving as both the works of the office and the member of the committee have diploma.

As the analysis shows investors have more knowledge than workers of the investment office do. As indicated in bar graph above most of the investors are attended the college and university level. In contrast to this the office has both inadequate labor and skilled labor force, which have adverse effects on the performance of investment activity. (Source; interview 2017 by the researcher).

#### **4.1.2 Effect / Impact of education on privet investment activity**

It is obvious that level of education is very important in day to day activities. It has positive impact. Accordingly 80.7% of the respondents replied that their education has a positive impact on their investment activities and 19.3% of the respondents though that their low level of education has a negative impact on their business activities.

Table 4.5 impact of education on private investment activity

Response	No of respondents	Percentage
Positive	46	80.7%
Negative	11	19.3%
Total	57	100%

Source; survey 2017 by the researcher

Those respondents, whose education level is justified that education helped them to collect necessary information for making relatively right decision to evaluate and analyze the business environment before and after the operation. It also helped them in minimizing or even eliminating paying high wage for managers as they can act as an owner and manager.

However, respondents with negative to their education level have justified, as their education level have not enabled them, generally to take the opportunities mentioned above. This means that they like professional to run their business activities which forces them to incur high extra cost and so reducing their profit. It also challenges their competence and efficiently as computed to those well-educated ones.

The implication of the study result indicates that most of the investors have necessary knowledge with contributes positively to the investment activity. One can also easily predict that education helps investors to easily learn and develop efficient and effective ways of running the business in the future.

### 4.1.3 Attitude of investors towards investment activity

The attitude of investors towards investment activity before their involvement in the activity was mostly medium while that of same was good. However, after involving in the investment activity, most of the investors or respondents replied that their attitude towards investment activity is good and for some of them very good. This presented in the table below.

Table 4.6 Attitude of investors towards investment

Time period	Attitudes of the respondents			
	Very good	Good	Medium	Bad
Before investing	5	14	38	0
After investing	25	32	0	0

Source; survey 2017 by the researcher

Sectoral investment structure of the respondents are invest in service sector about 39(68.42%), invest in industrial sector about 12(21%) and the rest 6(10.54%) of the respondents invest in the agricultural sector. The respondents have forwarded different rezones for their involvement in their respective sector of investment. Accordingly, the main reasons for those who are involved in service sectors are low risk, and existence of fair markets for their outputs relative to other sectors. Greater return and low risk are the main reasons for these who are involved in the industrial sectors and low capital requirements are the leading reasons for those who are engaged in the agricultural sectors.

Besides, for the question that says in which sector do you think investment is difficult relatively? 38(66.66%) Of the respondents replied that investing in agriculture sector is difficult whereas about 14(24.56%) of the respondents replied investing in industrial sector is difficult and the rest about 5(8.77%)of the respondents said service sector is difficult to invest in. the respondents have their own reason for saying this. For example those respondents who said investing in agriculture sector are difficult than others. The reason such as it is highly risky, it is natural dependent (drought) or lake of rainfall and its output is subject to international market of price fluctuation. In addition those who said investing in industrial sector is difficult, forward reasons such as, its high establishment of capital requirement, it needs skilled man power for operation of industrial machineries and also it needs expensive and up to date machineries.

### 4.1.4 Responses of domestic interest rate

It is obvious that an interest rate is one of the main determinants of investment in every economy. They have inverse relationship between interest rate and investment. As an interest rate increases in an economy borrowing is decrease and hence investment decrease and vice versa. From the information obtained from the sample respondents are given below the table.

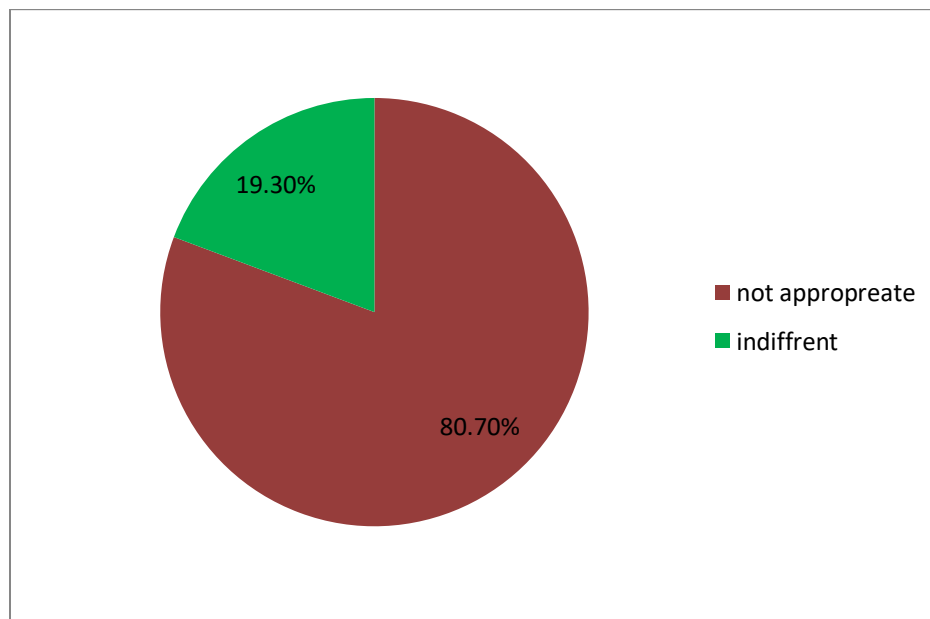
Table4.7 response of interest rate

No	Responses	No of respondents	Percentage
1	Appropriate	0	0%
2	Not appropriate	46	80.7%
3	Indifferent	11	19.3%
	Total	57	100%

Source; survey 2017 by the researcher

Shown in above table no one responded in favor appropriateness of the domestic interest rate. However, about 80.7% of the respondents replied that the domestic interest rate is not appropriate since it is so high. The rest 19.3% of the respondents responded domestic interest rate is indifferent since, they did not deal with financial institutions so far. This means that they have their own investment equity. This finding can be summarized in the following figure.

Figure4.2 responses of Investors towards domestic interest rate



Source; survey 2017 by the researcher

## 4.2 problems and investment climate

To analyze the problem and investment climate of the zone that qualities determine the zone attractiveness to potential investors and threat issue like social, political, economical, row materials and other problems were asked from investors. To strength the reliability of the date

obtained from private individuals the same question was raised to the investment office of the zone and replied that the same responses as investors.

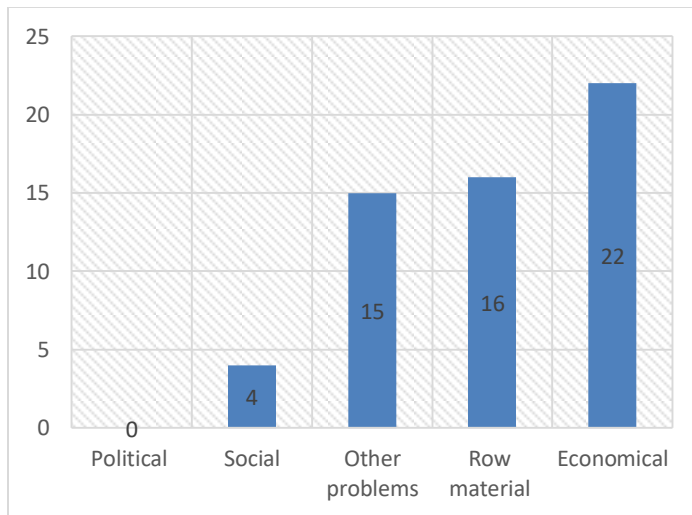
Table 4.8: Responses of respondents in the problem of private investment and climate

No	Problem of investment	No of respondents	Percentage
1	Political	0	0%
2	Social	4	7%
3	Economical	22	38.6%
4	Raw material	16	28%
5	Other problems	15	26.3%
	Total	57	100%

Source; survey 2017 by the researcher

This table can be summarized in the following bar graph as follows.

Figure 4.3: Investors' response to the problem they faced during their engagement.



As indicated by the above bar graph, investors have faced social, economical, raw material, and other problems. However, none of them faced political problems during their engagement in the zone.

As the bar graph depicts, there is strong concern regarding the economical and raw material problems mentioned frequently as infrastructure, domestic market, and service delivery problem. In this respect, 4 (7%) of the respondents strongly believed that the social environment is unfavorable.

Similarly, 15 (26.3%) of the respondents have other (infrastructure, domestic market, and service delivery) problems. And also, 22 (38.6%) of the respondents face an economical problem. While 16 (28%) of the respondents also face raw material problems.

### **4.2.1 Economical problem**

The economic problem is specified as a shortage of financial capital to operate at full capacity, this economic problem limits the expansion of the business, the use of modern technologies to produce quality products and minimizing unit cost of production. This makes difficult to adopt marketing strategy based on lower price and quality products. In addition the investors respond that banks ask high collateral in giving loan. From this analysis, I can saw the strong relationship between economic problem and market problem. Economic problem affects market through increasing cost of production that is lack of full capacity utilization and poor quality of products as a financial constraint in suing modern technologies. This financial problem also ahandicap to investors to obtain information and to provide training program for their worker to increase the efficiency of workers Thus the study indicates that low purchasing power of the people, poor quality of domestic products and financial constraints together generalized as marketing and economic problems which are the factors determine the private investment activity of the zone.

### **4.2.2 Social problems**

The respondents perceived to have social problem identified as the negative attitude of the society towards the startup of business (investment) due to unwillingness to lose their land. Even though compensation payments were made and lack of awareness on the benefit of privet investment. According to the ideas obtained from the investment office for the specific question raised to determine the general attitude of the people towards investment activity in the zone for last 10 years. The general attitude of the people towards private investment activity in the specifies period was indifferent which means neither discouraging nor encouraging this shows that the society was not well experienced and informed about the importance of private investment in tackling economic problem. However, recently the office give due attention in awarding the society about the importance of investment and their role in economic development.

Another problem that the respondents disclose was that the owners of the land who lose their land for investment activity does not use properly the compensation made for the land they give up.

They suggest awareness creation regarding the benefit of private investment related to minimizing economic problem of the society like unemployment problem and income problem are essential mechanism and incentive to develop co-operation and co-ordination of the people to all private investment endeavor.

### **4.2.3 Market problems**

In the case of domestic market problem, most of the issues are related to the general economic level of the country and policies. The country's investment policies base its activity on producing competitive products for both domestic and foreign market. That is the market mechanism



determines the price of products. The policy is supplied as a good means or strategy to integrate the domestic economy with the external economy to efficiently utilize the world resource but it challenging for domestic investors even computing in domestic market with foreign firms. As to the views of investors, even though there are substantial domestic markets, the market size was more important for imported products than local products.

The demand for manufacturing products are as also every small compared with the size of the population because of the low level of income of the majority of the population.

Beside, low buying capacity, lack of infrastructural development restricts the wide distribution of the product to explore the existing market opportunities. Lack of awareness on the part of the consumers the price determine the choice of quality products is also challenges the marketing of the products. Up to date local and international market information is unavailable at home, and professional and financial constraints are impending factors for caring out market research and promotional activities.

#### 4.2.4 Infrastructure problems

The main important input in private investment activity is the level of infrastructural facility of the area under investigation. Infrastructural facilities imply the availability of roads, electric power, and water and tell communication etc. therefore, without availability of such facilities, privet investment activity is unthinkable. Among the sample respondents of the study, about 100% of them replied that they have lack of infrastructural facilities.

Among those who said that we have lack of infrastructural facilities 38(66.66%) of them replied that they have road infrastructural facilities problem, water supply takes the second strong concern of investors view in the list of the infrastructural problems that accounts 8(14%) of the respondents, similarly electric power supply is another treating factor in the zone. However, a few numbers of respondents responded have a problem of tell communication. These problems can be summarized in the table below.

Table 4.9 Response of the problems of infrastructural facilities

Response	Types of infrastructure	No of respondents	Percentage
With infrastructural problems	Road	38	66.66%
	Water	8	14%
	Telephone	4	7%
	Electricity	7	12.3%
With no infrastructural problem		0	0%

Source: survey 2017 by the researcher

The implication of the study result revealed that, lack of physical infrastructure and its poor quality is the factors significantly affecting the private investment performance of the zone. This

is most probably attributed to the development of public infrastructure development in the country in general and particularly in the zone specially those backward districts.

### 4.3 capacities of investors to invest

The responses obtained from investor’s shows that most of them have no utilized their capacity fully and only very small number of them has replied that they have utilized their capacity.

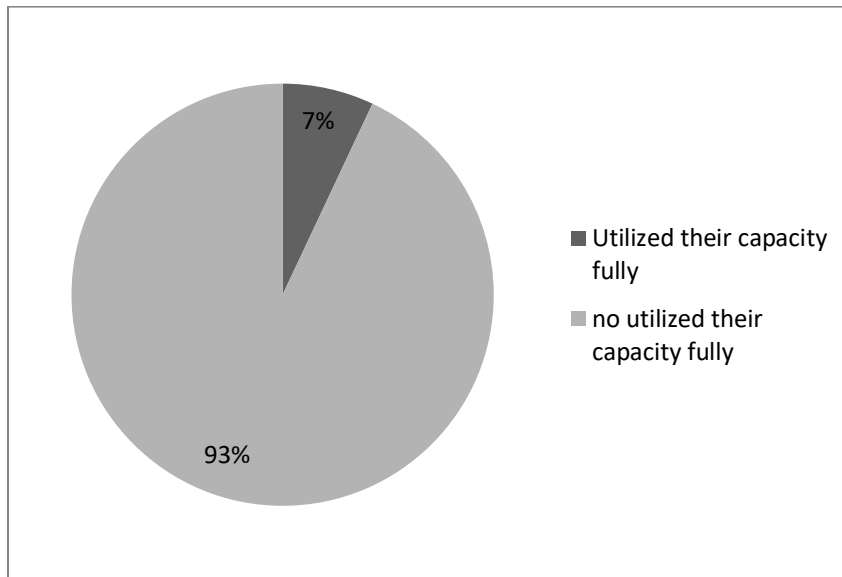
Table 4.10responses of the capacity of investors

Responses	No of respondents	Percentage
Utilized their capacity	4	7%
No utilized their capacity	53	93%
Total	57	100%

Source: survey 2017 by the researcher

When we say capacity, it is the ability of investors in terms of capacity, knowledge and other resource they have. This table can be summarized in the following chart.

Figure 4.4 share of respondents who utilize their capacity fully



Source; survey 2017 by the researcher

The respondents who failed to utilize their capacity fully have out lined different reasons such as financial constraint, infrastructural problems, lack of technical assessment from the government bodies and poor implementation of policies.

From the 57 sample respondents 53 of them replied that they have still capacity to invest more and 4 of them responded that they have no capacity to invest more. Similarly 52(91.23%) of the

respondents responded that they have plan to continue and 5(8.77%) of them no intention to continue their business. This can be shown in the table blow.

Table 11; number of respondents who have no capacity to invest more and plan to continue their business

Responses	No of respondents		Percentage
	Yes	No	
Capacity to invest more	53	4	100%
Plan to continue	52	5	100%

Source; survey 2017 by the researcher

As the above table shows the majority of the respondents have planned to continue while only a few of the respondents have no plan to continue. This implies the most of the investors have planned to continue their business which seems to have positive relationship with capacity.

That is, if they have access to sufficient financial source and required level of infrastructure, they can continue their business activities. Plan for future activity can be influenced by other factors like the accessibility of financial sources, market, political condition and general level of the economy elements.

#### **4.4 incentives given to investors by government bodies**

Regarding to the incentives provided to them by government bodies about 71.9% of the respondents replied that the incentives given to them is good and the rest 28.1% of the respondents responded very low. This can be summarized in the following table.

Table 12; Amount of incentive delivered to investors by government bodies.

	Incentive given by the government bodies	
	Low	Good
Respondents	16	41
Percentage	28.1%	71.9%

Source; survey 2017 by the researcher

In similar manner, the same question was raised to the official of investment office of the zone. Accordingly, all of them replied that the incentive given so far was not as such satisfactory but it is not very low. This show that the incentive that the government bodies are delivering to the investors are low and hence lack of fair incentives for investors is one of the main obstacle of the privet investment sector for the zone.

#### **4.5 Investment promotional activities done by the government bodies to attract new investors.**

The information obtained from the sample respondents showed that, the activities performed by the government bodies in attracting new investors is low. This intern reflects that the poor level of promotion to investment activities in the zone is one of the main factors that are hindering the privet investment activity in the city as can be summarized by the following table.

Table 13: Investment promotion activities done by the government bodies to attract new investors.

Respondents	Investment promotion	
		39
Percentage	68.4%	31.6%

Source; survey 2017 by the researcher

For the question that says “do you believe that there is problem of investment activity in the zone?” all the respondents replied “yes” to this end, they repelled on the ground that despite the abundant natural resources, suitable water conditions and other opportunities, the level of privet investment is very low. Beside the respondents forwarded the main causes of the low level of privet investment in the zone. These are lack of infrastructural facilities, problem related to preparation delivery and implementation of privet investment land, lack of promotional effects to attract privet investors. To the zone, lack of good awareness of the government and the society towards privet investment, lack of sufficient finance of income and lack of incentives and effective technical assistance from government bodies. This can be summarized in the table below.

Table 14: the main causes of low level of privet investment in the zone.

No	The main causes for the low level of investment in the zone	No of respondents
1	Lack of infrastructural facilities	57
2	Problems related to preparation delivers and implementation of privet investment land	46
3	Lack of sufficient finance of income	31
4	Lack of promotion effort to investor to the zone	35
5	Lack of good awareness of the government and the society towards privet investment	29
6	Lack of incentive and effective technical assistance form government bodies.	16

Source; survey 2017 by the researcher

For the question that say “are there investors who have applied to the bureau to invest in the zone, but did not start its operation?” sample responds (the official) said that “yes” the respondents replied different reasons for the alliance of investors in the operation.

These are lack of sufficient capital, intention to sold land in profit to another person (rent seeking), management problem, unable to compute with the existing competitors and lack of appropriate market knowledge.

In the zone, still there are areas open for foreign and or private domestic investors as the respondents replied. The expected duties are well coming appropriate area (land) and guiding efficient investors. However, there is a problem of promotional activity in attracting investors to the zone because of insufficient capital human resource.

Economic theory states that the level of investment and the level of economic growth have positive relationships.

In other words, the level of private investment determines the level of economic growth as the level of private investment increases, the level of economic growth increases and vice versa. This can be measured in terms of the gross domestic product (GDP) =  $C+I+G+X-M$  since  $GDP=C+I+G+X-M$  the change in the level of private investment changes the level of gross domestic product of an economy.

To this end, all of the respondents recognized the same thing as the general economic theory by saying that “the more the level of private investment, the more the level of economic growth of an economy and vice versa.

## **CHAPTER FIVE**

### **5. Conclusions and Recommendation**

#### **5.1 conclusions**

Ethiopia has great potential for the private investment sector, because of its favorable conditions its fertility of land, mineral, and forest, different climatic divisions and water resources are some of the factor that make country desirable for investment.

Similarly, Jimma zone is endowed with vast human and natural gift that are potential for the development of manufacturing, agriculture and services. Besides, vicinities to the central market are enabling factors for operating private investment activities relatively at low cost in the zone.

As compared to existing opportunities and advantages, the participation of investors in the zone especially foreign investors are very low. The reason for such performance is due to low capacity of investment office in attracting foreign investors through promotional works.

In spite of the existence of substantial domestic market, there exist deficiencies demand for some domestic products due to low poor quality of products, low level of income of the majority of the people and infrastructural problems.

The economic problem specified is that the shortage of financial capital, which faces investors to operate at less than full capacity and hinders the use of modern technology to produce quality products. This makes difficult to adopt marketing strategy based on lower price as well as quality of the product.

The study clearly identified and underlined that the main factor of the low level of private investment of the zone are lack of infrastructural facilities, problems related to preparation, delivery, and implementation of investment land, lack of sufficient income or finance, lack of promotional efforts to attract investors to the zone, lack of awareness of government and the society towards private investment and lack of incentives and effective technical assistance from government bodies.

The research also underlined the private investment activity is very limited and there are different social and economic problems resulted due to limited level of private investment such as, poor standardized of living ,high unemployment, and general economic stagnation of the zone.

Finally, the study concluded that the low level of private investment activities has negatively affected the level of economic growth of the zone.

## 5.2 Recommendation

- ✚ Investment has come to be widely recognized as a major potential contributor to growth and development for any country. The relationship between private investment and growth suggests the need to promote policies of faster the benefits of this connection.
- ✚ So far the study or the research under that there are some main factors that are affecting (hindering) the level of private investment of the zone. Hence, in order to spend up the economic growth of the zone, the problems should be solved appropriately as my role is concerned would like to forward the following important recommendation in order to alleviate the problems.
- ✚ Infrastructure contributes significantly to economic development by both increasing productivity and providing amenities that enhance the quality of life. Therefore the regional and government should deliver the maximum possible effort in improving the infrastructure facilities in the zone. Besides, there should be involvement of investors in infrastructural development.
- ✚ On preparation of private investment land, it should be prepared accordingly to its suitability for industry and as well as there should be standard bench mark to determine amount of land suitable for private investment.
- ✚ On the delivery of private investment land, it should be appropriate compensation or payments for land owner in advance. In addition, there should be a considerable awareness and recognition of private investment laws.



- ✚ On the implementation of private investment land, there should be strict supervision and control on those investors that took land to start operation within the agreement period. If they did not start operation within the given time, land should be taken away from and delivered to other potential investors. The capacity of investors should be tested properly before for delivering private investment land.
- ✚ To enhance the financial capacities of investors, the financial institution should be well developed and strong enough to fill the gap of investors' problems. Besides, the collaterals asked by the domestic financial institutions should be fair enough for investors.
- ✚ Regarding the promotional activities, a great work (effort) should be done by different stock holders such as, government bodies, NGOs, investors and the societies as a whole as to attract domestic and foreign investors to the zone.
- ✚ Awareness of the government and the society towards the importance of private investment should be enhanced in a well manner. Government should be teaching the society regarding to the importance of private investment. So the society is familiar with the idea and stop refusing of the new coming investors to the zone. Incentives and technical assistance granted by federal, regional and zonal government should be arranged and applied according to the need of the majority of the investor by making effective and continuous discussions with investors.

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## **Appendix**

**ECONOMICS DEPARTMENT  
COLLEGE OF BUSINESS AND ECONOMICS  
JIMMA UNIVERSITY**

**A questionnaire designed to investigate factors that affect the level of private investment in case of jimma zone**

This questionnaire is prepared to get relevant data to investigate that affect the level of private investment in case of jimma zone. So that you are kindly requested to respond the questions forwarded below. Please fill the entire questions correctly and clearly. The researcher confidently promise that the data collected would be for research purpose and kept confidentially.

Remark: Dear respondents: please respond the questions frankly and honestly; your feedback is very important. There is no need to write your name on the questionnaire. Use  to answer closed ended question and put “x” *in the provided box to show your choice* and use the space provided to answer open ended questions.

## Questioners

### General directions

- No need to write your name
- Put tick ark in the box and for opened question write on the space provided.
- You can give more than one answer then it is necessary
- You are kindly requested to answer all questions

The following are questions that people includes in the sample are ask to attain the objective of the study the researcher will use its research findings only for academic purpose.

### Personal information

1. What is distribution of sectored private investment in Jimma zone of September2006?
  - A. Agriculture
  - B.Industry
  - C.Service
2. The number of investors who got investment permissions, capital invested, and job opportunities created in each year of the last 5 years in the zone?
  - A .Capital
  - B. Job opportunity
3. What is the participation of investors by citizenship?
  - A. Domestic
  - B. Foreign investors
  - C. Joint
4. What is the sex responses' of investors?
  - A. Male
  - B.Female
5. Educational states of investor's A. literate B.illitera

5.1 The literate states of investor's A. primary school,

B. secondary school

C. The graduates of college and university

D. other

6. The impact of education on private investment activity?

a. passive

B. Negative

7. What is the attitude of investors towards investment?

A. Very good  B. Good  C. Medium  D. Bad

7.1. The attitude of investors before investing?

7.2. The attitude of investors after investing?

8. What is the attitude towards interest rate?

A. Passive attitude towards interest rate

B. Negative attitude towards interest rate

9. What are the problem faced by respondents in the privet investment and climate?

A. Political, No. of respondents

B. Social , No. of respondents

C. Economical, No. of respondents

D. Row material , No. of respondents

E. Other problems, No. of respondents

10. What Response of the problems of infrastructural facilities

A. Road, No. of respondents

B. Water, No. of respondents

C.Telephone. No. of respondents

D. Electricity, No. of respondents

**11. What is the capacities of investors to invest ?**

A. Utilized their capacity , No. of respondents

B .No utilized their capacity, No. of respondents

12. What Investment promotion activities done by the government bodies to attract new investors.

A. Respondents, No. Investment promotion

B .Percentage, No. Investment promotion

13. The main causes of low level of privet investment in the Jimma zone?

Lack of infrastructural facilities

A. Problems related to preparation delivers and implementation fo privet investment land No of respondents

B. Lack of sufficient finance of income, No. of respondents

C. Lack of good awareness of the government and the society towards privet investment Lack of promotion effort to investor to the zone, No. of respondents

D .Lack of incentive and effective technical assistance form government bodies. No. of respondents

## **DECLARATION**

I, the undersigned, declare that this is my original work and has not been presented for a degree in any other university and that all sources of materials used for the project have been duly acknowledged.

Declared by

Signature

Date

.....

Name of Advisor

Signature

Date

.....