

**DETERMINANT OF DELAY IN THE IMPLEMENTATION OF  
PRIVAT INVESTEMENT: A CASE STUDY OROMIA SPESIAL  
ZONE SURROUNDING FINFINNE**



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**ADDIS ABABA**

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## **ACRONYMS**

EIA	Ethiopian investment agency
EPA	Ethiopian privatization agency
FGD	Focus group discussion
MOFED	Ministry of finance and economic development
MSE	Micro and small enterprise
OLS	Ordinary list square
PPESA	privatization and public enterprises supervising agency
PSD	Private Sector Development

## **Abstract**

*the progress of the status of private investment in Ethiopia has remained slow. This study was conducted with the objective of investigating the microeconomic level determinants of private investment in the agro processing sector. The sample consisted of 63 private investors were selected from the total population of 170 using stratified random sampling method from implementation and operational status investments. The data were collected through structured questionnaires. The descriptive analysis and duration model were used as the main technique of data analysis so as to identify the main factors affecting private investment implementation delay. The findings of the study showed that access to infrastructure facilities, access to credit, and bureaucratic red tapes have a significant and negative impact on the investment implementation delay. However education level of the investors, access to land and corruption were found to have no significant impact on the investment implementation delay in the study. Finally, the study recommends that the zone administration, the regional government, the federal government other stake holders need to work hard towards improve private investment implementation, by considering aforementioned significant determinants of academic performance, The findings from this study have important implications for prospective business owners, lenders, and policy makers on how to improve private investment implementation and create conducive business environment.*

**Key words:** determinants ,privet investment, status of investement, spesial zone of Oromia.



# **CHAPTER ONE**

## **1. INTRODUCTION**

### **1.1 Background of the Study**

The most appropriate definition of investment as the term is used in this research is provided by Chhibber and Leechor (1995) who say that private investment is an investment which is made by privately owned business firms on new buildings, plants, and equipment that are used in the production of goods and services.

Investment is the application of money for earning more money. Investment also means savings or savings made through delayed consumption. Investment is widely considered as one of the main drivers of economic growth in the world because it is a flow that increases the existence of capital in the economy. Over the years, this has been a particularly dominant variable in macroeconomic development in developing countries. Developing countries incorporate all countries from Africa, Latin America and the Caribbean as well as Asia and Oceania (UNCTAD, 2008). . Accordingly, practitioners and academicians have conducted a lot of research into the importance and determinants of the operations of investments. They argue that investment is a key for economic growth because high investment rates are widely considered to be an essential condition for attaining a high and sustainable growth rate Levine & Renelt, (1992 cited in Gezachew in 2017)

A strong investment sector contributes prominently to the economy of a country through creating more employment opportunities, generating higher production volume, increasing export and introducing innovations. Consequently, the promotion of investment has an important role to play in developing countries, and particularly in African countries where it will markedly improve the peoples' standard of living and so decrease poverty. Ethiopia has also benefited from investment in different sectors. Job opportunities have been created, there has been an increase in the productivity of the society, and hard currency has been earned through participation in the export sector.

From 1974-1991 the economy of Ethiopia was state-centered and state-controlled. After these 17 years, changes in the country enabled Ethiopia to start building a market-oriented economy. Numerous macroeconomic reforms have been implemented with the objective of achieving macroeconomic stabilization and growth. The macroeconomic reforms included the privatization of state-owned enterprises, liberalization of trade policy, reduction of import tariff rates, elimination of non-tariff barriers, and the devaluation and deregulation of price and exchange rate controls (UNCTAD, 2002).

Private investment has been the major economic driver in developing countries such as Fiji, Ghana and Pakistan, a fact that was foreseen by a number of researchers (Seruvatu & Jayaraman, 2001; Asante, 2000; Bayai & Nyangara, 2013). According to Reinhart, Ghura and Hadjimichael (all cited in Bayai & Nyangara, 2013), private investment is still key to solving economic problems such as poverty and unemployment, especially in developing countries. Rapid and sustained growth is facilitated by a virtuous circle whereby entrepreneurship and investment lead to higher productivity, making it possible to invest larger sums in the future. During the course of this process, jobs are created and new technologies are introduced, especially through international trade and investment linkages. Successful mobilization of private investment is thus increasingly important for creating employment, raising growth rates and reducing poverty. Private Sector Development (PSD) is about enabling the enhanced utilization of labor and other resources through the growth of private business by creating an enabling environment both in the domestic and overseas markets (MoFED, 2000).

Ethiopia recognized the immense contribution of agro processing firms by promoting private investment for economic development and the transformation of the agricultural sector. The standard period/duration for private investors to move from the pre implementation to operation status is determined by the Ethiopian Investment Agency. Accordingly, the period allowed to proceed from pre implementation status to implementation status is six months and the period to proceed from implementation status to the operation status is thirty months. The investor is required to enter the operation status within 36 months of collecting the investment permit from the investment office (EIC, 2018).

The research took all this into account in this study and focused specifically on the determinants of Private investment in agro processing firms at micro economic level and the constraints for

private investors in the pre implementation, implementation and operational phase in Oromia special zone surrounding Finfine.

## **1.2 Statement of the problem**

According to the study conducted by Frimpong and Marbuah (2010), United Nations (2002), and World Bank (2004) report, private investment have an important role in job creation, growth expansion and poverty reduction. Meaning that the mobilization of private investment is essential for the development of a country and this can contribute directly to economic growth. On the contrary, where the growth of private investment is low, the productive capacity of the economy fails to increase and it results in lower rates of growth and job creation, and fewer opportunities for the poor to improve their livelihoods.

Furthermore, according to Access Capital Investment Assessment Report (2011/2012), the ratio of private investment to GDP in Ethiopia has been averaged between 5.8 and 10%. This ratio is below the levels being practiced in successful nations' economies, which is required to support economic growth needed for employment creation and poverty reduction. Due to the fact that private investment is below expectation, the government of the Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development of private investment which includes worked a lot to attract private investors for investment in different sectors of the economy. Those investment incentive packages are implemented in all cities of the country including special zone of Oromia surrounding finfine, Holeta ,Burayou ,Sebeta ,Sululta ,legetafo,legdadiy and Beshftu.

Reports in Ethiopia (EIA, 2012) show that project stagnation and delays of operations exist at all statuses of the investment sectors, In addition, a study by Hussien (2000) shows that in spite of the enormous number of projects licensed, the real investment rate is very unsatisfactory and more than 50% of projects have not yet started to be realized. This reality shows that there are problems which should be investigated so as to encourage and promote private investors at each investment status. This problem is evident in the agro-processing sector of special zone of Oromia.

This study thus seeks to analyse the determinants of private investment (since 1991) to uncover why the promotion of private investment status has remained sluggish and contrary to the rules on private investment. The researcher believes that there is a need to identify the micro level determining factors that cause this delay of private investment status and their resultant constraints on the top agro processing sector, specifically in the special zone of Oromia.

All the researchers studied macro level factors that affect private investment and little has been done regarding micro level factors affecting private investment in the country and to the best of my knowledge there is no empirical research conducted in investment delay in the special zone of Oromia surrounding finfine .

Adugna (2013) have studied determinants of private investment in Ethiopia. The data were analyzed using descriptive and inferential statistics (OLS estimation). However the researcher didn't use primary data but in this study the data will be gathered mainly from primary source.

Ephrem and Andualem (2015) have done their studies using micro level data in Wolayita Sodo town but they used descriptive analysis. But this study will adopt in addition to descriptive analysis, it employed one econometric model to explore inferential relationships between variables and to draw conclusion.

According to the empirical data analysis by Deneke(2001) the process of investment from preparation to implementation must pass through a long and cumbersome bureaucratic process. This accounts in part for the big gap between approved and operational projects and also for the fact that the number of projects completing the project cycle is low (workie1996) this reality shows that there are problems which should be investigated so as to encourage and promote private investment at each investment status this problem is evident in the agro processing sector of the special zone of Oromia and is negatively impacting the promotion of private investment and the overall economic development of the country.

Thus, this study will plan to fill the above listed research gaps by studying the impact of independent variables such as the access to land, access to credit, access to infrastructure facility, political instability, bureaucratic red tape, corruption, investment incentives, and level of education on investment implementation delay of projects in the special zone.

### **1.3 Research question**

Based on the gaps and factors identified above, this study addresses the following research questions.

What are the major firm level determinants of private investment status delay on private investment in the agro processing firms in special zone of Oromia surrounding finfine?

What are the factors that constrain the implementation and operation levels of private investors found in the agro processing sector?

### **1.4 Objective of the study**

#### **1.4.1 General objective**

The general objective of the study is to found out the major micro-level determinants of private investment status delay and operational constraints of private investment in the agro processing sector in the Oromia special zone surrounding finfinne

#### **1.4.2 Specific Objectives**

To assess the major factors causing the delay to start the operation/production status in the special zone of surrounding finfinne.

To find the major factor causing the delay in the progress of private investment status in the agro processing sector.

To identify the major operational constraints of private investors found in the implementation phase in the agro processing sector.

### **1.5 Significance of the Study**

Private investment playing a greater role than public investment in determining economic growth, the role of the private sector is important in terms of its ability to allocate and employ resources efficiently. The development of investment is essential for the economic growth of any country and especially for developing countries like Ethiopia. Investors spend their money and time to sell their products and services by competing with other investors in the sector. The government also attempts to construct infrastructures and create an environment conducive to attracting and encouraging investor.

The study investigate factors that promote or hinder private investment and it will be a stepping stone in the area and will be a good input for future researchers to study the topic by including wider geographical area as well wider concepts.

### **1.6 Scope and Limitation of the Study**

This study is only confined to the special zone of Oromia surrounding finfinne and for the purpose of this study, the investors selected to be respondents where only those private investors register by the Ethiopia investment office those who start implementation and operation during the data collection period.

The study did not include micro and small enterprises (MSE), public investment, endowment fund investments, non-governmental organizations (NGO) or foreign direct investment (FDI). The main limitation of this study is that it did not investigate or consider the determinants of private investment sectors generally other than it considering agro processing sector only and the challenge of the effectiveness of this study are inconstancies nature of the data, lack of efficient and sufficient data in desired way. Hence, the findings of the study should be applied with reference to these limitations and should not be inferred to other area than the study area.

### **1.7 Organization of the Study**

The study was organized under five chapters. The first chapter deals with the introduction part which contains introduction, statement of the problem, objective, research hypothesis, scope, significance and limitation of the study. The second chapter includes both theoretical and empirical reviews. The third chapter will cover methodologies and model specification of the study. Descriptive statistics analysis and econometric estimation results will be presented in chapter four. The final chapter was designed to provide conclusion and recommendation based on the study obtained from the analysis.

### **1.8 Research design and methodology**

This part of the paper discusses the research design, data collection procedures and data analysis methods.

### **1.8.1 Research design**

This research relies on the analysis of the micro level determinant. That is the research analyzes the determinant of private investment implementation delay in Oromia special zones surrounded Finfinne. As investment activities affected by various variables in dynamic environment in which its activity takes places, the researcher gave more emphasis to the relevant variables determining the investment activity of the area. The data will be cross sectional data which includes both quantitative and qualitative, depending in its nature it will gather from primary and secondary source of data even though the greater part of the analysis is analyzed by using primary sources of data.

### **1.8.2 Data collection procedures**

Questionnaires is the major collection tool which is used to collect primary data. Government officials are the major sources of primary data. Designing a formal questionnaire and analyzing the data by statistical software has been found appropriate for this work and checklist approach is selected to facilitate the interviews that help to conducted and ensure the required information is in fact collected. The additional data used in the project are collected through review of different literatures, publications and Ethiopian government published regulations related with this project issue. Internet is used as a source of most of the literature relevant to the issues involved in the study. Other literatures from various institutions are reviewed as well.

### **1.8.3 Data analysis**

Various qualitative and quantitative data analysis techniques are employed in this research. Analytical induction and logical analysis are the major techniques used to analyze the data gathered. In addition to the descriptive analysis, in order to capture the degree of influence of some of the determinants of private investment implementation delay, econometric analysis is applied.

## **CHAPTER TWO**

### **2. LITERATURE REVIEW**

This chapter deals with the studies made in the field of private investment and its current findings. Several hypotheses are assessed in order to explain variations in private investment in economies.

#### **2.1 Definition and Concepts of Investment**

Bayai & Nyangara (2013) noted that economists usually reserve the term investment for transactions that increase the amount of real aggregate wealth in the economy and sustainable growth for a country. This includes mainly the purchase (or production) of new real durable assets such as factories and machines. Under the International Centre for Settlement of Investment disputes Convention, investment encompasses any reasonable activity or asset that is any form of investment, which adds to the existing capital formation of a country and so has a positive effect on the gross output of a country.

Investment is generally classified into four major components: private domestic investment, public domestic investment, FDI and portfolio investment. 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 (Bakare, 2011).

Investment is an expenditure of money for income or profit or to purchase something of intrinsic value: capital outlay. It is the sum invested or the property purchased the commitment of funds with a view to minimize risk and safeguarding capital for sustainable time while learning a return (Adugna, 2013).



## **2.2 The Classical Theory of Investment**

The classical school took for granted that capitalists make investment because they expect to earn profit in the future depend on a good deal on what profit are now. For example Adam Smith in his book "the wealth of nations" elaborate this fact, by arguing that investment were made because the capitalist expected to earn profit on them and future expectation with regard to profit depend up on the present climate of investments as well as the actual profit depend up on the present climate of investments as well as the actual profit.

However, this rate of profit tends to fall with economic progress, when the rate at which capital accumulated increased capitation among capitalists raises wages and tends to lower profit, and hence lower investment (Jhingan, 1988 as cited in Kedir, 2011).

## **2.3 The Neoclassical Theory of Investment**

According to Seruvatu & Jayaraman (2001) to formulate the neoclassical theory of business fixed investment in which net investment is proportional to the gap between actual and desired capital stock. This model combines the user cost of capital and the accelerator effect to explain investment behavior. According to this theory, net investment is proportional the gap between actual and desired capital stock.

This relationship given by:

$$I_t = K_t - K_{t-1} = \eta(K^* - K_{t-1})$$

Where  $I_t$ : the net investment

$K_t$ : the existing capital stock at the end of the current period

$K_{t-1}$ : The capital stock at the end preceding period

$K^*$  the desire level from of capital stock and

$\eta$ : measures the fraction of the gap between the actual and the desired level of capital stock that is closed each period (Mankiw, 2003).

The basic notion behind this theory is that larger the gap between the existing capital stock, the more rapid a firm's rate of investment. So any factor that increases the desired capital stock such as an increase in expected output or a reduction in interest rate will increase the rate of investment. This theory is criticized on the grounds that it makes the following simplifying assumptions. The assumption of perfect competition and output is exogenously determined (Which are inconsistent with the business cycle) as well as expectations regarding price interest rate and output are static (which is invalid because economic agents have rational expectation about the future) (Haile, 2015).

## **2.4 Accelerator Theory of Investment**

Keynes' idea was never left unchallenged. Because in the 1950's and early 1960's other economist formulated model that gave rise to accelerator theory of investment. These theories assume investment to be proportional to the change in output. That is  $I = a(y)$  where  $I$  is investment and 'y' is output (Sader, 1994). In the model, a relatively modest increase in the rate of growth of demand for final goods can lead to large increase in the demand for investment on the other hand; the actual decline in the demand for final good produced is not a necessary precondition for a decline in investment. Investment can fall as a result of a decline in the rate of growth of the demand for final product.

These assumptions does not agree with real economic activities as it does not take in to account the role of expectation, profitability and capital cost which are a part and parcel of the investment activities. A number of criticisms have been leveled against simple accelerator theory. In flexible accelerator model, investments make up only a fraction (**B**) of the gap between the existing capital stock and the equilibrium desired capital stock.

This can be formally stated as

$$I_{t} = B (a) Q_{t} - K_{t-1}$$

According to this model disturbance in the final demand will have its largest effect during the current period and the effect will be diminished gradually. This argument served as the basis for the formulation of the flexible accelerator model of investment which can be agreement to capture country's specific feature of investment behavior. Despite the drawback of accelerator principle, these theories as well as the flexible accelerator principle of investment are popular as

evident in most of the empirical studies done to date. It is a constant capital stock to output ratio and assumption of availability of sufficient investment to keep desired capital stock to actual, In addition, disregards expectations, profitability and the cost of capital as determinants of investment (Serven and Solimano, 1992).

## **2.5 Keynesian Theory of Investment**

Keynes (1936) developed the idea of an independent investment function in the economy. According to Keynes the quantity of desired investment is a function of the marginal efficiency of investment (MEI) or the rate of returns on investment and the interest rate, with the latter a function of liquidity preference and the stock of money. Investment is worth undertaken if the present value of the future stream of returns is equal to or greater than the initial cost of capital. Keynes observed that investment spending is highly volatile due to the uncertainty associated with the returns on investment. Keynes further described the relationship between marginal efficiency of capital and investment. As he noted, there is an inverse relationship between investment and marginal efficiency of capital and when investment decline. Keynes described this volatility of expectations by saying that investment decisions depends on “animal spirits” of private investors or entrepreneurs, that is, their optimism or pessimism about the future (Serven and Solimano,1992).

## **2.6 Investments and Economic Development**

One of the indisputable stylized facts of economic development has been the wide disparity in economic performance across countries of the world. Over the past 40 years, economic performance of a small number of countries has been remarkable; with per capital GDP increasing fivefold is not more. At the same time a number of countries have experienced a starting decline in per capital GDP (Bouton and Sumlinski, 2000).

Investment is considered as one of the principal and important factors in economic development of a nation. Investment as it brings about fuller utilization of available resources, it paves the way for large scale production and technical progress, increases specialization, creates employment opportunities helps to have a more diversified economy, etc. and also, it can be considered as a source and mechanism to bring about economic growth. Due to this fact many economists agree

on the fact that every nation should invest in order to achieve a sustainable economic growth (Amanuel, 2015).

Salaries work in 1956 introduced a different perspective on the role of investment in economic growth. The production function he postulated has a long tradition in economics-output is produced by combining capital and labor under constant returns to scale. According to his model positive level of investment is needed to replace capital as it depreciates and to maintain the size of capital stock constant relative to the labor forces. Countries with higher levels of capital investment and higher levels of capital per workers will have higher level of per capital output. A conclusion from this model is that countries are rich because they have a lot of capital (Bouton and Sum linski, 2000).

## **2.7 Sources of Private Investment**

It is obvious that increasing investment or capital accumulation is a necessary condition for economic growth as well as economic development. So the need for increasing the level and rate of investment is unquestionable. The question is “how can investment be financed?” that is what are the real sources coming to support investment. Therefore without increasing the level and rate of investment, bringing a sustainable economic development is unthinkable. In any developing economy the accumulation of capital requires mobilization of economic surplus which can be financed from internal or external sources. Basically, the sources of investment can be categorized into two: domestic (internal) and foreign (external) sources (Kedir, 2011).

### **A. Domestic Source of Private Investment**

The accumulation of capital in any developing economy requires the mobilization of economic surplus, in the case of private investment it is to be increased from domestic sources there must be growing surplus, in the case of private investment it is to be increased from domestic sources there must be growing surplus above current consumption that can be tapped and directed into productive investment channels. This involves abstinence from present consumption for future use.

The importance of financial institutions in this case lies in their making available the means to utilize saving. It means the existence of a more developed capital market and financial

intermediaries will in the collection and distribution of inevitable funds (Meier, 1995) as cited in (Haile, 2015).

## **B. External Source of Private Investment**

Mobilization of resources from external sources is needed when the domestic resources are not enough to finance investment. The imports of foreign capital from developed countries could be in the form of loans and grants without 'strings'. But according to Jhingan (1988) as cited in (Kedir, 2011). The best course is to start joint ventures where by foreign investors bring technical knowhow along with capital, and they train local labor and enterprises.

### **2.8 Factor that affect investment implementation**

Private investment is a crucial pre-requisite for economic growth because it allows entrepreneurs to set economic activity in motion by bringing resources together to produce goods and services all over the country. The main determinants of investment in a given country can be at a micro and macro level. However, as the study emphasizes the micro level, the following discussion concentrated on different variable within different kinds of literature

Access to credit: according to Ambaye et al (2014) study on the determinants of domestic private investment in Ethiopia identified that domestic credit given to the private sector reduces domestic private investment because the credit may be diverted to nonproductive activities due to this reason it have negative impact. Study by Workie (1996) on constraints to entry, operation and expansion of private investment in Ethiopia using investor level information showed that bureaucratic procedures, a lack of infrastructure, power supply problems and access to finance were the leading constraints for operations. The other areas of the business environment (such as political/policy uncertainty and labor regulations) were relatively less important. The survey ultimately confirmed that the availability of finance rather than the interest rate is a crucial determinant of private investment in Ethiopia. In support of above evidence, Mbaye(2014) cited by (Muhdun, 2016) stated that funds to the private sector do not go to finance new investments because of poverty most people would borrow to finance other matters like education, healthcare and basic necessities. As a result private sector credit is negatively related to private investments.

Corruption & Bureaucratic red tape: A study by Deneke (2001) on the impact of corruption on investment showed that corruption was among the most significant obstacle due to this reason, the process of investment from preparation to implementation must pass through a long and cumbersome bureaucratic process both corruption & bureaucratic red tape have a negative impact.

Level of education & access to land: A study by Baye et al. (2005) on the macro and microeconomic determinants of private investment both at national and regional levels in Ethiopia showed that at the micro level the probability of individual's to invest is significantly and positively influenced by the level of education, access to land and investment incentives. The influence of bureaucratic red tape was also found to be negative impact.

Investment location: location is significant and firms located within the central region are likely to invest less than those located outside the central region in Uganda. Effect of sector location is also found to be significant for firms in agriculture, manufacturing, and services, According to Abuka et al (2006 cited by Deneke, (2001).

Infrastructure facility: Adugna(2013) undertook a study covering the period 1981-2010 using Ordinary Least Square (OLS) regression to model the determinants of private investment in Ethiopia. Findings from the study showed that public investments in basic infrastructures and social overheads are essential for private investment. In addition, the rising real per-capital income of the people has a crucial positive effect on private investment by way of increasing market demand for goods and service.

## **2.9 Private investment in Ethiopia**

Ambaye, Berhanu and Abera's (2014) study on the determinants of domestic private investment in Ethiopia identified that domestic credit given to the private sector reduces domestic private investment because the credit may be diverted to nonproductive activities. The study further identifies that the appreciation of the real exchange rate discourages domestic private investment and vice versa. In short, the high value of local currency constrains domestic investment.

## **2.10 Private investment trends during the Feudal regime (prior to 1974)**

During the imperial period, important reforms were introduced and these impacted on investment development in Ethiopia. The development of basic infrastructure began in the late 1950s in Ethiopia and this included a system of administration, road construction, Ethiopian airlines, banking and electric power. All these contribute well to planned development. The first legislation on investment was introduced and enacted in 1950 but it did little to encourage high investment. In 1954, agricultural and industrial expansion proclamations had a good impact on investment because it required industrial and agricultural investment from both domestic and foreign investors. During the period 1941-1955, a number of manufacturing industries began operating. In line with this, the government introduced tax incentives, high levels of tariff protection and favorable credit terms to encourage and attract an inflow of capital into different sectors. From then till 1974, different enterprises were started and this included foreign owned initiatives in the manufacturing sector. The Investment Decree No. 51 of 1963 (Imperial Government of Ethiopia, 1963) was issued at a time when infrastructure development (road transport, air transport, banks, power generation, etc.) was taking place at a rapid pace. Private investment was singled out for attention and this led to the import substitution strategy which was adopted in the five-year development plans. A system of attractive incentives (including tax holidays, low or no taxation on imported capital goods, satisfactory remittance of profits, etc.) was built into the investment proclamation and foreigners were permitted to establish companies and carry on all kinds of business in Ethiopia in the same way as Ethiopian nationals could. In the 1960s with the issuance of the above decree the rate of private investment (both domestic and foreign), increased. Private investment was expected to play a leading role in mining and housing while investments in infrastructure, education, health and social welfare were undertaken by the public sector as part of various development plans between 1968 and 1973.

## **2.11 Private investment trend during the Socialist Regime (1975-1991)**

The focus was on nationalization and the public ownership of most economic sectors. Proclamation No. 26/1975 (Military Government of Ethiopia, 1975a) was a decree which introduced widespread nationalization and large numbers of private businesses were nationalized. Proclamation No. 76/1975 (Military Government of Ethiopia, 1975b) issued at

about the same time as the nationalization proclamation restricted private operations to a few lines of activities and imposed capital ceilings on them. Only individual business was allowed (without branches) and private businesses were organized in the form of partnerships where membership was restricted to 5 persons. Government policies during the Dergue regime strictly limited private sector investment capital and placed a ceiling amount of Birr 500,000 on investors. They were also not allowed to hold a license for more than one line of business and this had to be run by only one individual entrepreneur who did not have any other permanent job. The tax structure was very harsh with the maximum rate on personal income being as high as 89% (MoFED, 1999). In addition, interest rates were higher for private borrowers than for public enterprises and cooperatives. These policing mechanisms severely hampered the potential for expansion of the manufacturing and the agro processing sector during the Dergue period and private sector activity was effectively incapacitated. In 1983, joint ventures were allowed (Military Government of Ethiopia, 1983) but only if they involved government and foreign capital. According to this proclamation, the government must have the majority share in all such joint ventures. Consequently few joint ventures were established. The Special Decree No 11/1989 (Peoples Democratic Republic of Ethiopia, 1989), amended Proclamation No. 235/1983 and permitted domestic private capital participation in joint ventures, and lifted the restriction on the duration of the joint venture agreement and the provision for majority shareholding by the government. In March 1990, there was a change of course when the government chose to pursue the “mixed economic” policy. Special Decree No. 17/1990 (Peoples Democratic Republic of Ethiopia, 1990) was issued in May 1990 and it removed most restrictions imposed on domestic private businesses and foreign investment in previous legislations. As the policy was so restrictive and marginalized the private sector, it is not surprising that the private investment ratio in Ethiopia did not fare well when compared to the average for Sub-Saharan African countries during the same period. At this time the average investment ratio for Sub-Saharan African countries excluding South Africa was about 10% of GDP, whilst that of Ethiopia was on average (between 1975-1991) 2.4% of GDP. On the other hand, public investment in GDP did increase during the time of the intensification of the establishment of the state-owned enterprises.



## **2.12 Private investment trend post -1991**

After the seizure of power by the Transitional Government of Ethiopia (TGE) in 1991, most of the policy distortions of the Dergue were rectified. The new economic policy of Ethiopia adopted by the TGE pursued a market-oriented economy by rationalizing its role and encouraging greater participation of the private sector. To revitalize the economy and stimulate growth, the Economic Reform Program (ERP) was launched in 1992/93 and this was further strengthened by the FDRE in order to readdress the structural bottlenecks of the Ethiopian economy. Like many African countries, Ethiopia adopted a structural adjustment program following the change of government (MoFED, 1999). The exchange rate was devalued, government monopolies were abolished, domestic markets and imports were liberalized and export disincentives were largely rectified. A major structural reform in the monetary and financial sector during the reform program has been taken, the introduction of a competitive financial sector, including the establishment of private banking and insurance companies. In order to realize the policy of encouraging PSD, Proclamation No. 15/1992 (Transitional Government of Ethiopia, 1992) was enacted in May 1992. The proclamation signified a major departure from the previous regime's investment Special Decree 17/90 (Peoples Democratic Republic of Ethiopia, 1990). It provided new areas of investment, particularly for domestic investors, in areas such as air transport, electricity production and distribution, banking and insurance. Moreover, it allowed foreign investors to enter into joint ventures with domestic private investors without limiting them to joint ventures with the government. In June 1996 Proclamation No. 37/1996 (FDRE, 1996) was enacted. In it, investment objectives, areas and incentives were defined, as were forms of investment and capital requirements for foreign investors, investment permits, transfers of technology, loans, the utilization of foreign currency and remittance of funds, and investment administrative requirements. This proclamation clarified some of the ambiguities that prevailed in the first one. With regard to the institution to implement investment policy and incentives, Investment Office of Ethiopia (then known as the Ethiopian Investment Commission, EIC) was established. The commission was accountable to the Investment Board which was chaired by the Prime Minister. The responsibility of the EIC process investment application was to issue investment certificates and the grant investment incentives provided for in the proclamation. The EIC was responsible for investors with and above a capital amount of Birr 250,000 for domestic investors, and USD 500,000 or equivalent for foreign investors. If investors were unhappy with the decision of EIC,

they could appeal to the Investment Board whose ultimate decision was final. Investment Proclamation No. 280/2002 (FDRE, 2002) was enacted in order to accelerate the economic development of the country and improve the living standard of its peoples, and in particular that of domestic investors. It also aimed to widen the scope of participation of foreign investors and facilitate conditions which enhanced the country's investment activities and made the administration system of investment transparent and efficient. The Council of Ministers Regulations No. 84/2003 (FDRE, 2003) outlined investment incentives and investment areas reserved for domestic investors. These regulations were issued to amend the definition of powers and duties of executive organs of the FDRE and re-enactment of investment proclamations. This includes the investment activities eligible for income tax exemption and exemption from the payment of customs duty. The last regulation of investment activity is the Council of Ministers Regulation No. 146/2008 (FDRE, 2008) and it amended the investment incentives and investment areas reserved for the domestic investor. Due to the policies and activities introduced by the government and investors on investment, economic development was encouraged in different sectors. Since 1998/99, the GDP of the country showed an increasing trend and this was caused by the economic policy reforms adopted by the then government. According to the trend of Real GDP growth, from 1998/99 to 2001/02 the GDP increased. The following year showed a decrease after that there has been a steady but fluctuating increase. Investment during this period is higher when compared to previous governments. This might be because of the new economic reform programs and investment codes launched by the government. They measurably contributed to and promoted the participation of investment sectors in economic activities.

## **2.13 Empirical review**

### **2.13.1 Studies conducted outside Ethiopia**

Pun 2005 cited in Gizachew, (2017) identified a list of common success factors and problem areas for manufacturing businesses in Hong Kong. The success factors are: accessibility to markets, availability of funds and capital, availability of workforce, company's location, company's mission, company's policies, company's reputation, company's strategies, cost of production and operations, customer services, employee involvement, information technology or system, management commitment and communication, market share, market positioning, materials supply, product mix and range, product or service quality, research and development or

innovation capabilities, and workforce skills or abilities and training. The problem areas are: cash flow problems, effects of protectionism, few current and potential markets, few suppliers and/or vendors, high employee turnover, increasing production costs, insufficient research and development, strong local competition, lack of government support, low productivity (including poor employee morale), political influence, and strong overseas competitors. Management commitment, the company's mission, and the availability of funds and capital are key determinants for organizational success in various endeavors.

Yawul (2000) studied "determinants of private investment behavior" using time series analysis complementing it with a cross sectional one. The result suggested that policies that address only some components of macroeconomic instability may not be enough to revive private investment. The question of finance must be addressed in order to ensure continuing participation of private sector investment based on the finding that the growth of real credit to private sectors has a positive and statistically significant effect on private investment. The study also founds, the overall measure of macroeconomic instability has been a major hindrance to private sector and again founds, public investment has a positive coefficient and shows "crowding-in" effect of public investment.

### **2.13.2 Studies Conducted inside Ethiopia**

The study Ephrem & Andualem (2015) on "Assessment of Domestic Private Investment in Wolaita Zone: Case of Sodo, Areka and Bodity Cities" concluded that the major constraints hinder investment activity in the town are institutional problems (lack of consultation and advisory services, lack of promotional activities, corruption and administrative services (their problems), which is low level of qualified workers in offices), economic problems (like lack of capital loans, low level of market activity due to lack of diversity and high level of tax) and infrastructural problems (including transport service, educational service, water supply, telephone and electricity). The study utilized descriptive method of analysis and collected cross sectional data from 96 investors in the town using questionnaire. Thus, the above studies done in WolaitaSodo town regarding investment lacked inclusion of personal investors' characteristics in affecting investment in the town and only have used descriptive analysis method.

Adugna(2013) studied Determinants of Private Investment in Ethiopia. The data was gathered mainly from secondary source and were analyzed using descriptive and inferential statistics

(OLS estimation). The research arrived at the cost and quality of infrastructure, limited financial access and poor institutional set ups are major restraints to firm performance and the econometrics result also concluded that poor infrastructural qualities, specially power interruption has a negative impact on privet investment productivity. Finally, he recommends that for the improvement of infrastructural services with a large emphasis to public power supply.

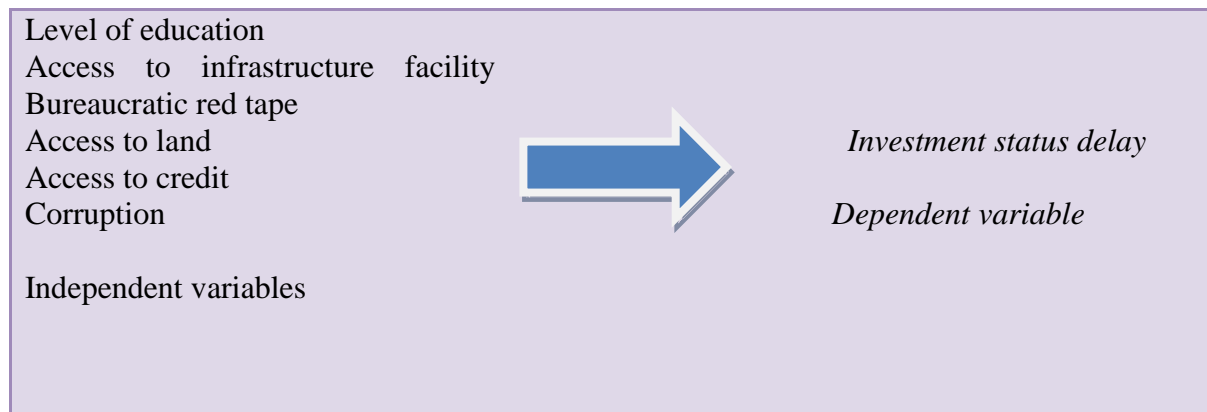
According to Gizachew(2017) studied micro-level determinants of private investment in manufacturing sector in the State of Tigray, Ethiopia, were analyzed using both descriptive and econometric methods Thus, an econometric method of data analysis using a duration model was applied and also he conclude The econometric result revealed that infrastructure facilities, the judicial system, and investment areas negatively and significantly delayed the entire private investment status. However, interest rates and investment location were positively and significantly supported to continue their status of the entire private investors in the manufacturing sector.

Having the roughly revised all these literatures, this research examined the following research gaps. Firstly, in WolaitaSodo town are descriptive one and they only analyzed factors which are common to all investors in the town and nothing is done regarding the study of individual behaviors in affecting investment decision of households. Most researches done in Ethiopia on the topic is greatly confined to obvious macro-economic determinants of private investment (like interest rate, GDP, etc.) and gave marginal importance to firm level determinants. Thus, having these considerable gaps existing in the area of study, this study will make the gap narrower and will be solving for those want to boost investment in the oromia special zone surrounding finfinne.

## **2.14 Conceptual framework**

The current study will conducted based on a conceptual framework drawn from the empirical and theoretical literature reviewed and explained above. The main determinant variables at macroeconomic levels in various research literatures were identified but the study only makes use of independent variables at a microeconomic firm level. This research also focused on studying the major determinants of privet investment in oromia special zones surrounding finfinne. From the literature review above, the following schematic representation of the

conceptual framework and model for this study was developed. It depicts the relationship of variables within the investment status and shows the Level of education, Investment areas, Access to credit, Interest rate, Access to infrastructure facilities, Access to land, Bureaucratic red tape, Corruption, as independent variables and investment status delay as dependent variable selected and investment incentive include in the questioner as independent variable and the study try to include in the descriptive part.



Source: Own Construction based on literature review (2020)

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter provides a detailed discussion of the research methodologies employed in this study. It starts with a description of the study area and is followed by a presentation of study design, the sampling procedures and data collection methods used. The latter includes sampling techniques, sample size, sources and methods of data collection. Finally, this chapter presents the method of data analyses – the descriptive and econometric methods.

#### **3.2 Description of the study area**

The research data was collected in the State of Oromia special zone surrounding finfinne. This state was chosen as the study area for the analysis of microeconomic determinants because it was noted that there was an increase of private investment on agro processing in the area. The area surround the capital city of Addis Ababa that have a potential demand for agricultural products. This study identifies factors influencing private investors in the sector and also changes and developments that will support the balanced development of private investors in the regional states of Ethiopia. It was believed that the study should be rigorous and treats the topic in depth, thereby avoiding broad and unmanageable research designs. Moreover, the researcher believes that the results of the research can be applicable to the situations in other states of Ethiopia, and lessons drawn could promote countrywide improvement. The study will undertake on the determinate of private investment delay of the Oromia special zone surrounding finfinne. As investment activities affected by various variables in dynamic environment in which its activity takes places, the researcher gave more emphasis to the relevant variables determining the investment activity of the area. The data will be cross sectional data which includes both quantitative and qualitative in nature and depending in its nature it will gathered from primary

and secondary source of data even though the greater part of the analysis is analyzed by using primary sources of data.

### 3.3 Sampling design and Procedures

The population under the study is the individual investors of Oromia special zone surrounding finfinne and the study employed sampling rather than census so as to increase the feasibility of the study. The study used random sampling technique. The total number of private investors (i.e. the sampling frame or source list) is 215. The samples are classified or stratified as follows a total of 133 investors are in the operation status, 56 in the implementation status and 45 the pre-implementation status. Out of these 63 samples investors are selected using stratified random sampling technique was applied in order to obtain a representative sample and for the purpose of this study, the investment status includes only operational status and implementation status. Here the investors included as samples are only those invest who are under operations and implementation stage. Thus the total number of investments under operations and implementation stage are 170. The strata needed due to the fact that the investors are heterogeneous in terms of operational statuses and due to sector so selecting will made according to the weight each strata (statues) have (the weight given to each sample is proportional to the number of investors found in each sector). According to Kish (1998 cited in Haile, 2015), No survey can ever be deemed to be free from error or provide 100% surety and error limits of less than 10% and confidence levels of higher than 90% can be regarded as acceptable. Bearing this in mind, at a confidence level of 90%, the margin of error will be 0.1 or 10%. To obtain the minimum population sample for this study, the researcher adopted judgmental sampling as a technique as follows:

$$n = \frac{N}{1 + N * (e)^2}$$

Where: - n = is the sample size

N = is the population size

e = is the margin of error.

$$n = \frac{170}{1 + 170 * (0.1)^2}$$

$$n = 63$$

Then, the total population of the study project is stated as follows: it holds 55 investors from operational statuses, 8 from implementation statuses. Therefore, Sample size of the respondents for this study is 63 from a population of 170.

### **3.4 Nature, Sources and Methods of Data Collection**

The study used both primary and secondary data. Regarding the primary data, the researcher will collect the data from 63 sampled investors using semi structured questionnaire. To get data from primary sources both open ended and closed ended questions will be prepare in the form of questionnaire and distributed to private investors and the investment offices to disclosed their ideas and about the questions for open ended questions. The closed ended questions will selected for the reason that it provides uniform responses an also easy to process and relevant to most of respondents.

The questionnaire will help in collecting firm level data related to individual behavior of investors and the questionnaire invigorates both qualitative and quantitative questions. The secondary data is related to the general investment climate of the area, reports and rosters for the year May 24, 1993 - May 07, 2019 and collected from Ethiopia investment agency (EIA). In addition, website, bulletins and other reliable source available at the time of the study was used for the analytical purpose.

### **3.5 Method of Data Analysis**

To meet the objective, the study used both descriptive and inferential analysis.

#### **3.5.1 Descriptive Statistics**

Descriptive statistics is one of the techniques which could be used to summarize information (data) obtained from the respondents. By applying descriptive statistics such as mean, frequency of appearance, etc. one can compare and contrast different categories of sample units with respect to the desired variables. Hence it will help to create general awareness about the variables in the study



### 3.5.2 Econometric Analysis

In addition to the descriptive analysis, in order to capture the degree of influence of some of the determinants of private investment implementation delay, econometric analysis is applied.

### 3.6 Model Specification

In addition to descriptive analysis, the study used one econometric model – the duration model to test the relationships between variables and to draw conclusions. The duration model is a more recent statistical tool and it has gained a lot of popularity recently. The technical definition used in most of the studies for the hazard rate is the probability of exit faced by firms that survive up to a particular point in time (Egesa, 2010). In this study, duration analysis involves several related techniques that focus on times until the event of interest occurs. Although the event could be good or bad, by convention, the study refers to the event as a “failure.” The time until the failure is “survival time.” Survival analysis is important in this research; as it can be applied equally well to other fields from engineering to social science. In this study for example, time was modeled until the investor began operation, or there was a single exit from pre-implementation to another exit period.

A Cox proportional hazard model is applied on the cross-section data collected from 63 private investors in Oromia special zone surrounding finfinne to identify factors that determine the exit of a firm from pre-implementation status to implementation and then to operation status at the optimal time. This regression employs proportional hazard models. The hazard rate for failure at time  $t$  is defined as:

$$H_{(t)} = \frac{\text{the probability of failing between time } t \text{ and } t+\Delta t}{(\Delta t)\text{the probability of failing after time } t}$$

This hazard is modeled as a function of the baseline hazard  $H_0(t)$  at time  $t$  and as the effect of one or more explanatory or  $X$  variables. Baseline hazard means the hazard for an observation while all  $X$  variables equal to zero.

$$H(t) = H_0(t) + \exp(B_1 X_1 + B_2 X_2 + B_3 X_3 + \dots B_k X_k)$$

$H(t)$  is a survival time data that contains, at a minimum, one variable measuring how much time elapsed before the certain event occurred to each observation. The literature often terms this event of interest a “failure” regardless of its substantive or functional meaning. When a failure

has not occurred to an observation by the time that data collection ends that observation is said to be “censored.” The duration of a firm’s status is time taken (duration of months elapsed) before an investor leaves one investment phase to enter another, or study ended and it is a time variable.

To implement the duration model, the period (duration) of all the private investors in the study were counted in months from the survey questionnaire. An investor in the implementation status was counted the periods stayed in the pre implementation status and implementation status. And, an investor in the operation status was counted the periods stayed in the pre-implementation, implementation and operation status.

Based on the above data, an investor’s status, when an investor registered as an investor, how many months elapsed in each statuses and when production starts helped to identify the event of an investor. Such information allows establishing the investment operation spell for each firm, and the spell might be either completed or right censored at the time of survey.

### **3.7 Definition of Variables**

#### ***The dependent Variable***

The explained variable of the model in this study is the initial registered license of private investors. So the dependent variable will be measured based on the below listed micro economic independent variable.

#### ***The independent Variables***

The independent variables: The following are firm-level characteristics and investment climate (economic factor) indicators of the micro-level determinants of private investment operations in each investment status. They include the level of education, investment area, access to credit, access to infrastructure facility, access to land, bureaucratic red tape, corruption and these are outlined together with their details

**Level of education (edu):** This variable shows the level of formal education attended by the private investors in the sample group and its delay impact on investment status. This variable is included in a sense that investors with varied academic knowledge will have varied understanding about risks associated with investment, return from investment and management of investment, hence, this study expected a positive impact of education on private investment

Baye et al. (2005). In this study, primary school complete is labeled '1,' secondary school complete '2,' college diploma '3,' first-degree graduate '4' and Master's degree graduate and above '5.'

**Access to infrastructure facility (Dinfrast):** 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 Adugna,(2013). In this study, if the investment implementation is delayed due to problem in access to infrastructure facilities that is labeled as '1,' and not delayed is labeled '0.'

**Access to credit (Daccredit):** This refers to the possibility that individuals or enterprises can access financial services like credit, deposit and other related services. According to Ambaye et al (2014) study on the determinants of domestic private investment in Ethiopia identified that domestic credit given to the private sector reduces domestic private investment because the credit may be diverted to non-productive activities due to this reason it have negative impact. This study investigates whether the investor has delayed in their investment status due to the actual access to credit facilities. In this study, if access to loan delayed impact it is labeled '1' and if not, '0.'

**Access to land (Dacesstoland):** Land access is broadly defined as the processes by which people individually or collectively gain rights and opportunities to occupy and utilize land so this positively contributes to promoting investment status Baye et al. (2005). 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. Thus, in this study, if private investors encounter any problems in securing land for investment that delayed their investment status, it is labeled '1,' and if not, '0'.

**Bureaucratic red tape (Bredtap):** Bureaucratic red tape refers to the existence of complicated rules and procedures which can cause long delays due this reason it have negative impact Deneke,(2001).This variable refers to the respondents' perception towards bureaucratic procedures of government organizations. in this study, if there are delays in getting public services due to the bureaucratic red tape, it is labeled '1' and '0' if not.

**Corruption (Ddcorruption):** The encyclopedic and working definition of corruption used by the World Bank and Transparency International is that it is the abuse of public power for private benefit or profit( Deneke, 2001).They may be asked to consider different services areas such as: securing a bank loan, investment permits and licenses, municipality works, and infrastructure facilities related to their investment status. Thus, in this study, if private investors are affected their investment status by corruption to get services in the state; it is labeled ‘1’ and ‘0’ if not.

### **3.8Research Hypotheses**

In trying to achieve its objective, this study hypothesized the following:

Hypothesis 1: Access to land

Deneke (2001) found that access to and the cost of land is the specific leading entry constraint to private investment in Ethiopia. And, the results at a micro level showed that the probability of individuals to invest is significantly and positively influenced by access to land (Baye et al., 2005). Based on the above evidence, the following hypothesis is made:

H0: Access to land has a no significant effect on investment implementations delay status of private investors.

H1: Access to land has a significant negative effect on investment implementation delay of private investors.

Hypothesis 2: Bureaucratic red tape

Bureaucratic procedures are the leading constraints for entry, operation and expansion of private investment in Ethiopia (Adugna, 2001). Thus, the next hypothesis is formulated as follows:

H0: Public services delay due to bureaucratic red tape has a no impact on investment implementation delay of private investors.

H1: Public services delay due to bureaucratic red tape has a negative impact on investment implementation delay of private investors.

Hypothesis 3: Level of education

A study on private investment determinants at the micro level by Baye et al. (2005) has also shown that the level of education significantly and positively influences the probability of an individual to invest. Thus, the following hypothesis is made:

H0: Investor's level of education is expected to have no effect on private investment.

H1: Investor's level of education is expected to have positive effect on private investment.

#### Hypothesis 4: Access to credit

Economic theory has also shown that access to credit plays a significant role in enhancing or promoting investment. Empirical studies have similarly shown that debt servicing has a significant positive relationship with private investment (Bayai & Nyangara, 2013).

H0: There will be no negative influence of access to a bank loan on the investment status delay of private investors in the manufacturing sector.

H1: Access to a bank loan will have a negative effect on investment status delay of private investors in the manufacturing sector

#### Hypothesis 5: Access to infrastructure facility

The study by Adugna (2013) showed that private investment is positively affected by public infrastructure in the long run in a developing country. The following is therefore the hypothesis drawn:

H0: Access to infrastructure facilities has no effect on the investment implementation delay of private investment.

H1: Access to infrastructure facilities has a negative effect on the investment implementation delay of private investment.

#### Hypothesis 6: Corruption

Mulunga (cited in Baye et al., 2005) found that corruption has a negative impact on investment. Consequently, the following hypothesis is drawn:

H0: Investment status delay is not significantly affected by the level of private investor's perception of corruption.

H1: Investment status delay is negatively affected by the level of private investor's perception of corruption.

## **CHAPTER FOUR**

### **4. PRESENTATION ANALYSIS AND INTERPRETATION OF DATA**

In this chapter the main findings of the study are presented. The source of information is the data gathered from the respondent in the two investment statuses of the private investors in agro processing firms. Descriptive and econometric analyses were used to analyze the data. 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. All these show the pattern of relationships between investment implementation delay and its determinants. Generally, this chapter identifies the effect of each explanatory variable on the dependent variables.

#### **4.1 Descriptive Statistical Analysis**

##### **4.1.1 Introduction**

This section focuses on the descriptive analysis of the data. For the descriptive analysis, frequencies of the descriptive statistics and mean have been utilized.

Private investment has three statuses: pre-implementation, implementation and operation. Private investors receive investment permits and investment land in the pre-implementation status. Those who have started practical activities (such as civil engineering works, the construction of factory buildings or installation of purchased machinery and equipment) are considered to be in the implementation status. Those who have started with production are in the operation status (Hussien, 2000). However this study covers only private investments that are found in implementation and operation status. Participants were asked to determine the status of their investment by labeling '1' for implementation status and '2' for operation status.

Table 4-1: Private investor distribution by investment status

Investment status	Frequency	Percent	Valid Percent	Cumulative Percent
Implementation	8	12.7	12.7	12.7
Operation	55	87.3	85.5	100.0
Total	63	100	100.0	

(Source: Self compiled from Survey Questionnaire, 2020)

As depicted in Table 4.1 above, out of the total respondents of private investors in the survey during the data collection period, about 12.7% were in the implementation status and 87.3 % of respondents were in the operation status.

#### 4.1.2 Categorization of investment status

The standard period/duration for private investors to move from the pre implementation to operational status is determined by the s Oromia investment office and Ethiopian Investment Agency. Accordingly, the period allowed to proceed from pre-implementation status to implementation status is six months and the period to proceed from implementation status to the operation status is thirty months. The investors are required to enter the operation status within 36 months of collecting the investment permit from the investment office (OIB, 2018).

Table 4-2: Respondents' investment status delay

<i>Delay status</i>	<i>Investment status</i>				<i>Total</i>	
	<i>Implementation</i>		<i>Operation</i>		<i>Freq.</i>	<i>Percent</i>
	<i>Freq.</i>	<i>%</i>	<i>Freq.</i>	<i>%</i>		
Delayed	4	50	35	63.63	39	61.9
Not delayed	4	50	20	36.37	24	38.1
Total	8	100	55	100	63	100

(Source: Self compiled from Survey Questionnaire, 2020)

According to the information in Table 4.2 above, 50% of the respondents in the implementation status were delayed and had not yet proceeded to the next status (operation status). And 50% of the respondents of the implementation status group were expected to implement on time. But, in the operational status group, 63.63 % were delayed from proceeding to the operation status. The remaining 36.37% were not delayed to proceed to the operation status on time. Overall, 61.9% of the total respondents were delayed from proceeding from one status to the next; the remaining 38.1% were not delayed.



The study revealed that most of the respondents in the started group (88.9%) were males and only 11.1% were females.

Table 4-3: Gender of respondents'

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Female	7	11.1
Male	56	88.9
<b>Total</b>	<b>63</b>	<b>100.0</b>

(Source: Self compiled from Survey Questionnaire, 2020)

Table 4.4 illustrates that the highest percentage of respondents were aged between 31 -40 years (36.5%) closely followed by the investors aged between 41 - 50 years (33.3 %). The least number of respondents (7.9%) were aged below30 years old.

Table 4-4: Age of respondents'

<b>Age Group</b>	<b>Frequency</b>	<b>Percent</b>	
Below 30 years	5	7.9	7.9
31 - 40 years	23	36.5	44.4
41 -50 years	21	33.3	77.8
above 50 years	14	22.2	100.0
<b>Total</b>	<b>63</b>	<b>100.0</b>	

(Source: Self compiled from Survey Questionnaire, 2020)

Table 4-5: Distribution of respondents' according to Area of investment

<b>Investment Area</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Food and beverage	5	7.9	7.9
Meat processing	6	9.5	17.5
Milk and dairy processing	19	30.2	47.6
Poultry and chicken farm	10	15.9	63.5
Mill processing	20	31.7	95.2
Slaughtering service	3	4.8	100
Total	63	100.0	

Out of the total private investors surveyed, 20 (31.7%) were engaged mill processing investment area and it is investment area which has a largest share of investors followed by milk and dairy processing which has 19 (30.2 %) investors.

### 4.1.3 Descriptive Analysis on Determinants of Investment Status

The level of education of private investors and its impact on investment implementation delay was studied. The educational level of respondents included is varied from primary school to master's degree level. Concerning Implementation delay status, out of the total respondent investors whose investments are delayed, 70% were found to have either primary or secondary level of education. The remaining 30% had at least a diploma. Furthermore, it was found that the greatest number of private investors delayed had a primary school education (41%).

Table 4-6: Level of education and investment delay status

Attributes	Delay Status				Total	
	Delayed		Not delayed			
	Freq.	%	Freq.	%	Freq.	%
Primary school complete	16	41	5	20.8	21	33.3
Secondary school complete	12	30.7	6	25	18	28.5
College Diploma	4	10.2	4	16.6	8	12.6
First Degree graduate	1	2.5	5	20.8	6	15.3
Master's Degree graduate and above	6	15.3	4	16.6	10	15.8
<b>Total</b>	<b>39</b>	<b>100</b>	<b>24</b>	<b>100</b>	<b>63</b>	<b>100</b>

(Source: Self compiled from Survey Questionnaire, 2020)

Table 4.7 below illustrates that the 42.9 % of the investors think that their level of education did not affect the implementation delay status while 57.1 % think their education level affect the implementation delay status.

Table 4-7: The effect of education level on investment implementation delay

<b>Education level affects implementation delay</b>	<b>Frequency</b>	<b>Percent</b>
Yes	36	57.1
No	27	42.9
<b>Total</b>	<b>63</b>	<b>100.0</b>

(Source: Self compiled from Survey Questionnaire, 2020)

The financial source for the investors was analyzed and the data is presented in Table 4.8 below. 50.8 % from formal financial institution, 38.1% from personal saving and the respondents replied that only 7.9% replied that the main sources of finance for their investment were informal financial institutions.

Table 4-8: Source of finance of private investors

<b>Source of finance</b>	<b>Frequency</b>	<b>Percent</b>
Formal financial institutions	32	50.8
Loan from NGO	2	3.2
Personal saving	24	38.1
Informal Financial institutions	5	7.9
<b>Total</b>	<b>63</b>	<b>100.0</b>

(Source: Self compiled from Survey Questionnaire, 2020)

The major source of finance for private investors is bank credits and their own contributions. The discussion now focuses on the number of private investors who applied for a bank loan, and the impact of the loan on investment implementation delay and related problems.

Data was gathered concerning whether the private investors requested a loan from a financial institution. Overall, around 73.0 % ( 46 investors) of the respondents applied to financial institutions for loans for their investment activities, but the remaining 27 % (17 investors) did not (see Table 4.9).

Table 4-9: Request for credit by private investors

Requested credit from financial institutions	Frequency	Percent
Yes	46	73.0
No	17	27.0
Total	63	100.0

(Source: Self compiled from Survey Questionnaire, 2020)

Based on this, the reasons for not requesting credit from banks were asked in the questionnaires and the following reasons were given:

- 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.

- Some private investors had enough capital for their investment from the beginning.
- The religion of some private investors did not allow for the borrowing of money from a bank and paying of interest on loans.

The impact of access to credit on private investors is a significant variable. This section also considers factors like collateral, interest rates, bank paperwork, officials' corruption, and inadequacy of credit. Table 4.10 below was generated using SPSS and shows that 46 private investors (73.0%) had reported that access to credit constrained investment implementation.

Considering all private investors who requested bank credit, only 17 (27.0%) were report they are not adversely impacted due to access to credit problems.

Table 4-10: Access to credit impact on investment status delay

<i>Attribute</i>	<i>Freq.</i>	<i>percent</i>
Have impact	46	73.0
Didn't have impact	17	27.0
<b>Total</b>	<b>63</b>	<b>100</b>

(Source: Self compiled from Survey Questionnaire, 2020)

The complexity of securing a bank loan for those private investors who requested credit was also studied. Table 4.11 illustrates that inadequate credit for the investment inadequate credit, high interest rate and Collateral requirements were the major problems which accounts, (98.4%, 96.8% and 92.1% respectively). The total of 63 respondents' who filled the questionnaire 80% replayed that inadequate credit for the investment, high interest rate and Collateral requirements delayed their investment implementation respectively. Bank bureaucracy and corruption of officials were the next most commonly cited difficulties to securing bank loans.

Table 4-11: Constraints of private investors due to bank loan access

Problems	Attributes	Freq.	percent
Collateral requirement	Yes	58	92.1
	No	5	7.9
Bank Bureaucracy	Yes	35	55.6
	No	28	44.4
High interest Rate	Yes	61	96.8
	No	2	3.2
Corruption of bank official	Yes	30	47.6

	No	33	52.4
Inadequate credit	Yes	62	98.4
	No	1	1.6

(Source: Self compiled from Survey Questionnaire, 2020)

In addition to the above factors that difficulties in securing a bank loan, private investors identified other challenges. These are:

- The financial institutions and banks prioritize within the type of investment as per the policy of the government and minimize the credit requests made by the investors.
- Due to foreign currency shortage that the countries face, there are delays to import the necessary machineries on time.
- Construction and the installation costs of investment are not always accepted by banks as collateral for bank loan requests.

The variables used to evaluate the quality and efficiency of infrastructure service deliveries to private investors are discussed below. These infrastructure establishments are: road, telecommunication, electric power, water/sewerage agency, postal service agency. According to Table 4.12 below, the lack of infrastructure facilities influenced 34 private investors (87.17% of the total that delayed). 5 respondents' (12.8% of the total that delayed) said that problems with infrastructure facilities did not have an impact on implementation delay status.

Table 4-12: The impact of infrastructure facilities on investment status delay

Attributes	Delay Status			
	Delayed		Not delayed	
	Freq.	%	Freq.	percent
Had impact	34	87.17	3	12.5
Did not have an impact	5	12.8	21	87.5
Total	39	100	24	100

(Source: Self compiled from Survey Questionnaire, 2020)

As illustrated in table 4.13 below, 98.4 % investors replied that their investment implementation had constrained by difficulties to get electric power and 19.0 % by difficulties of road Facilities.

Table 4-13: constraints of private investors due to infrastructural problem

Problems	Attributes	Freq.	Percent
Delay due to Difficulties of road Facilities	Yes	12	19.0
	No	51	81.0

Delay due to Difficulties of electric power	Yes	62	98.4
	No	1	1.6
Delay due to Difficulties of telephone and internet service	Yes	4	6.3
	No	59	93.7
Delay due to Difficulties of sewerage services	Yes	3	4.8
	No	60	95.2
Delay due to Difficulties of postal services	Yes	0	0
	No	63	100

(Source: Self compiled from Survey Questionnaire, 2020)

Table 4.14 below presents the perception of respondents' about the impact of the problem of access to land on private investment implementation delay. To summarize, the status of 61 private investors replied that their implementation was delayed (96.8% of the total that delayed) because of problems of access to land and 2 private investors (3.2%) were not impacted by problems of access to land for their investments.

Table 4-14: The impact of access to land on investment implementation

Delay due to access to land	Freq.	Percent
Yes	61	96.8
No	2	3.2
Total	62	100

The perception of private investors on corruption as a cause of investment implementation delay was studied. In particular it refers to the impact on investment implementation due to the level of corruption in getting services like a bank loans, investment permits, licenses, municipal services, etc.

Accordingly, out of the total respondents, of the private investors that are delayed reported that their investment status was negatively influenced by the high challenge of corruption in the states to get different services. From output in Table 4.15 below, it can be seen that 59 private investors delayed because of the challenge of corruption in the state to get different services (93.7%) and 4 (6.3%) not delayed by corruption.

Table 4-15: Corruption impact on investment status delay

Delay due to Corruption	Freq.	Percent
Yes	59	93.7
No	4	6.3
Total	62	100

(Source: Self compiled from Survey Questionnaire, 2020)

The study also investigated the impact of bureaucratic red tape on the investment delay status due to the delay in receiving public services like investment licenses, bank loans, vehicle registrations, police services and other utilities. As indicated in Table 4.16 below, more 95 % of the respondents whose projects are in delay status replied that they were subjected to delays in their status because of bureaucratic red tape in getting public services and said that this did not facilitate their investment status. However, 5% of the respondents in delay status replied that they were not subjected to due to bureaucratic red tape.

Table 4-16: Bureaucratic red tape impact on investment status delay

Attributes	Delay Status			
	Delayed		Not delayed	
	Freq.	Percent	Freq.	Percent
Had impact	39	100%	23	95.8%
Did not have an impact	0	0%	1	4.1%
Total	39	100	24	100

(Source: Self compiled from Survey Questionnaire, 2020)

In the case of the private investors who replied that their investment status was delayed due to bureaucratic red tape, more than have of the respondents said that getting bank loans, getting investment and utility services (like water, electric power, and telephone lines) were the major obstacles. But, the other public services (the land access process and vehicle registrations) did not have much impact on the delay of investment status arising from bureaucratic red tape (see Table 4.17)

Table 4-17: Public services delay due to bureaucratic red tape

Public services	Attributes	Freq.	Percent
Investment license	Yes	54	85.7
	No	9	14.3
Bank loan	Yes	58	92.1
	No	5	7.9
utility service	Yes	58	92.1
	No	5	7.9
Register vehicle	Yes	24	38.1
	No	39	61.9
To get land	Yes	60	95.2
	No	3	4.8

(Source: Self compiled from Survey Questionnaire, 2020)

In addition to the above, private investors mentioned the poor delivery of the following public services as causes of delay due to bureaucratic red tape, Inefficiency of customs and duty authority in facilitating taxes, customs duties, Inefficiency of the municipal office, especially in construction design activities ,Unwillingness of the investment office in permitting them to invest as per their interest.

The perception of private investors on investment incentives as a cause of investment implementation delay was studied. In particular it refers to the impact on investment implementation due to the level of incentives is offers like income tax holiday, custom duty free ,access to low lease price etc.

Accordingly, out of the total respondents, of the private investors that are delayed reported that their investment status was negatively affected by investment incentives in the state to get different offers. From output in Table 4.18 below, it can be seen that 60 private investors delayed because of the challenges of getting incentives in the state to get different services (95.2%) and 3 (4.8%) not delayed by investment incentives.



Table 4-18: Investment incentives impact on investment status delay

Delay due to investment incentives	Frequency	percent
Yes	60	95.2
No	3	4.8
Total	63	100

(Source: Self compiled from Survey Questionnaire, 2020)

## 4.2 Results of Model Estimation

As explained in the methodology section, the duration analysis was used to complement the preceding descriptive result. The descriptive analysis focuses on explaining factors that determine the delay of private investment from one investment stage to the next.

The duration of domestic private investment, that is, the time from the application for an investment permit at the investment office until the investment license is granted and operation begins, is influenced by various factors which have been discussed in previous empirical works. Identification of both dependent and independent variables for this study was guided by the conceptual framework of the study and review of related literature. Due consideration was given to include relevant variables and appropriate post-estimation tests were made. The duration model was used to estimate the potential effect of each explanatory variable on the condition to continue the private investment status timeline.

Different pre- and post-estimation tests were made to minimize bias, inconsistency and inefficiency estimators. To consider the problem of heteroscedasticity, it was estimated robust standard errors and there is no serious multicollinearity problem that results in the estimation of biased estimators. Prior to running the duration model, the hypothesized explanatory variables has to be checked for the existence of multicollinearity among them. Multicollinearity problem arises when at least one of the independent variables is a linear combination of the others. The existence of multicollinearity might cause the estimated regression coefficients to have the wrong

signs and smaller t-ratios that might lead to wrong conclusions. In order to test whether multicollinearity problem present or not, a simple pair wise correlation coefficient matrix and Variance Inflation Factor (VIF) were employed. Gujarati (1995) established a rule of thumb, which said multicollinearity is a serious problem when the pair wise correlation coefficient is 0.8, or above and the VIF is on average 10 or above (Gujarati, 1995). The appendix at the end of the paper indicates that multicollinearity is not serious problem in the data since all reported pair wise correlation coefficients are less than 0.8. Besides, according to VIF test of multicollinearity, the values of VIF for explanatory variables were less than 10. The result showed that there were no significant multicollinearity problems among the variables considered (Appendix).

The link test was used whether or not the model is correctly specified and whether included irrelevant variable or excluded important variable. When the specification is correct, one is unable to find additional predictors that significantly affect the response variable. To do this, after the regression, a command for a specification test is often used. The predicted value should be a significant predictor since it is the predicted value from the model. This will be the case unless the model is completely miss-specified. On the other hand, if the model is properly specified, the variable predicted value squared should not have much predictive power other than by chance. Therefore, if the predicted value squared is significant, then the link test is significant. That means that it is either an omitted relevant variable(s) or the link function is not correctly specified. The link test result in the case of this study was found to be not statistically significant. All of the duration estimations made on the specification test result in the study, as shown in Appendix, justify that absence of specification problem. Thus, including an explanatory variable in the duration analyses improves the fitness of the model.

The previous section comprehensively pointed out the investment status delay and factors affecting both the implementation and operational groups of private investment status. However, understanding the extent to which these factors determine the private investment status could be pointed out by employing an econometric analysis. For this purpose, as discussed in the methodology section, a duration/hazard model is used to identify the major determinants of private investment status delay for both groups of private investors. The variables which were used in descriptive analysis and found to have more explanatory power are discussed below. The effects of explanatory variables are consistent with the prior descriptive analysis, literature

reviews, and theories. However, some variables either do not have a significant influence or affect at a high significance levels, i.e. a 10% significance level.

#### 4.2.1 Determinants of private investment implementation delay

This model only includes private investors in the implementation and operation statuses. The model sought to establish the impact of variables on investors beyond the pre-implementation phase. The model assumes that when the investors completed the questionnaire, they took into account all the problems they experienced in the previous phase(s).

The estimated result of the duration model is shown in tables 4.2.1. A total of 6 explanatory variables were considered in the econometric model out of which three variables were found to significantly influence the implementation delay status of private investment projects in oOromia special zones surrounding finfine. These were access to credit, problem in infrastructure facilities, and bureaucratic red tapes. The remaining variables were found to have no significant effect on implementation delay status of private projects in Oromia special zones surrounding finfinne.

Table 4-19: Duration model results of private investment status (implementation and operation)

\*\*\* indicate level of significance at 1%,

Variables	Haz. Ratio	Robust Std. Err.	Z	P>z	[95% Conf.	Interval]
Educational level	1.15952	0.1103696	1.55	0.120	0.9621814	1.397336
Access to credit	0.4172294***	0.13449	-2.71	0.007	0.2218186	0.784787
Accessto infrastructure	0.3073067***	0.1006871	-3.60	0.000	0.1616893	0.584067
Access to land	0.9343315	0.2528109	-0.25	0.802	0.1616893	0.584067
Government Bureaucracy	0.3408972***	0.116329	-3.15	0.002	0.174645	0.6654119
Corruption	0.7706445	0.2297066	-0.87	0.382	0.4296707	1.382205

#### 4.2.2 Results and Discussion

The study result have mainly focused on the influence of independent variables on the dependent variables ,the dependent variables where respondents from implementation and operational status

The independent variables were level of education, access to infrastructure, access to land access to credit , bureaucratic red tape and corruption.

The duration model is used to quantify the impact of independent variables on the dependent variable

This econometric result also proves that access to credit has a significant and negative effect on the significant level of 1%. The hazard ratio of access to credit is 0.4172294 which indicates that the absence of credit facilities causes private investment status delay, thus the null hypothesis (Ho1) is not rejected. Private investors that have access to credit started operations prior to those that did not have access to credit. This is consistent with findings from previous studies by Suhendra & Anwar (2014); Munir, Awan & Hussain (2010); Harupara (1998); Record & Davies (2007); Nainggolan, Ramli, Daulay & Rujiman (2015); Hussien (2000) and Michael & Aikaeli (2014).

In these status group, problem in infrastructure facilities has a significant and negative effect on the private investment implementation delay in Oromia special zones surrounding finfinne with a hazard ratio of 0.3073067, meaning that the access to infrastructure facilities increases the probability of time elapsed in the implementation and operational status.

There for low level of infrastructure facility may discourage investment flow and delay activity required from operation.

Thus the null hypothesis (Ho1) is not rejected. The results indicate that a low infrastructure is likely to increase the duration of implementation status in the zones for all forms of agro processing firms. This result is consistent with the study result of Soneta, Bhutto, Butt, Mahar & Sheikhet (2012) and Seruvatu & Jayaraman (2001).

In addition, bureaucratic red tapes have a negative and significant effect on the Investment implementation delay with a ratio of 0.3408972, thus the null hypothesis (Ho0) is rejected and the alternative hypothesis (Ho1) is accepted. It indicates private investors project are likely to delay in implementation status due to the presence of bureaucratic red tapes. This is consistent with the findings of Busia (2007); Seruvatu & Jayaraman (2001) and Mbugua (2000)

Access to credit, access to infrastructure and bureaucratic red tape had a significant and negative influence on the progress of investment status.

## CHAPTER FIVE

### 5. CONCLUSION AND RECOMMENDATION

#### 5.1 Conclusion

First, the result of the econometric and descriptive analysis shows that access to infrastructure facilities, access to credit, and bureaucratic red tapes have a significant and negative impact on investment implementation delay. The result also shows that variables like education level of the investors, access to land and corruption have no statistically significant positive influences on the investment implementation delay in the study.

In the following, final section, recommendations are put forward to investors and concerned bodies of the government for further inputs in the development and encouragement of private investment.

#### 5.2 Recommendations

The availability of domestic credit is believed to promote private investment statuses. However, the study confirmed that there is very restricted access due to strict collateral requirements, lengthy paper work and insufficient amount of credit.

- Access to credit for private investors should be made more accessible by banks and should be on time and through the establishment of fair collateral requiring credit schemes, efficient bank paperwork, and the supply of a sufficient amount of credit.
- Private investors should also prepare a sound financial application in line with financial institutions' policies and procedures and the credit requested should only be the amount required and used for the intended purpose.
- If the private sector is to play a major role in economic growth and development, they must receive the greatest share of domestic credit allowed by financial institutions so as to enable them to render their services efficiently and avoid delays in their investment implementation. In addition, the government should increase its budget and efforts

towards assisting the private sector through the issuing of credit which goes a long way to boosting private investment.

The analyses revealed that the availability of infrastructure facilities was an important determining factor in delaying private implementation. Therefore:

- There is still a need for the regional state and federal government to develop the infrastructural base of the economy and so boost the private sector. Furthermore, shortages of electricity and water supplies have been cited as the major obstacles which delay the investment implementation in the town. All this needs continuous improvements. Therefore, improving the availability of road infrastructure and quality of utilities such as electricity, water, and telecommunications is important to minimizing the delay of status of private sectors.
- The substandard construction of public infrastructure affects private investment progress and the corrupt tender system aggravates this. In addition and because of corruption, the public services are not efficient and are exposed to a grave misuse of resources. In general, the government should rise to the challenge and invest some of its available resources in the provision of infrastructures which will ultimately decrease private investment delay.
- The federal government and oromia investment office should allocate development funds for infrastructure, especially roads, electricity and other public facilities that facilitate the progress of investment implementation and act as an incentive for private investors to invest and start operation as per the standard.

The analyses revealed that the bureaucratic red tapes were an important determining factor in delaying private implementation. Therefore: the regional government and the federal government should design implement strategies that can minimize the bureaucratic red tapes in the special zones.

- In order to encourage the investment status progress of private investors, the government should act to eliminate the time consumed by bureaucratic procedures in the public services. For example, problems securing investment permits can be minimized by

assigning employees who have the required skills and experience to assess all applications.

- To simplify the application and approval process of public services, decisions should be quicker and more transparent. This refers to investment licensing, the bank loan process, and utility services. Policy makers and leaders (like investment and municipality officials) should observe and discuss what is done on the ground with the private investors.
- Furthermore, the commitment of private investors and government employees should be promoted in order to encourage investment at a regional level.



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# Appendix

## Appendix 1

3-user Stata network perpetual license:

Serial number: 501306208483

Licensed to: Teddy

St.Mary's

Notes:

1. (/v# option or -set maxvar-) 5000 maximum variables

. \*(42 variables, 63 observations pasted into data editor)

. pwcorr educationalllevel dacquiringlone dinfrastructuralfacilites daccessingland dbureaucraticredtape dcorruptin

	educat~l	dacqui~e	dinfra~s	daces~d	dburea~e	dcorru~n
educationa~l	1.0000					
dacquiring~e	-0.2036	1.0000				
dinfrastru~s	-0.0906	0.3627	1.0000			
daccessing~d	-0.1388	0.0484	0.1157	1.0000		
dbureaucra~e	-0.2140	0.4587	0.6422	-0.0458	1.0000	
dcorruptin	-0.1378	0.2244	0.0601	-0.1183	0.1510	1.0000

## Appendix 2

. vif

Variable	VIF	1/VIF
dbureaucra~e	2.02	0.495750
dinfrastru~s	1.80	0.555355
dacquiring~e	1.35	0.743205
educationa~l	1.11	0.900104
daccessing~d	1.09	0.916598
dcorruptin	1.09	0.918523
Mean VIF	1.41	

## Appendix3

### Econometrics

```
. stcox educationalllevel dacquiringlone dinfrastructuralfacilites daccessingland dbureaucraticredtape dcorruptin
```

```
      failure_d: 1 (meaning all fail)  
analysis time _t: duration
```

```
Iteration 0: log likelihood = -203.79824  
Iteration 1: log likelihood = -179.31819  
Iteration 2: log likelihood = -178.91623  
Iteration 3: log likelihood = -178.91533  
Refining estimates:  
Iteration 0: log likelihood = -178.91533
```

```
Cox regression -- Breslow method for ties
```

```
No. of subjects =          63          Number of obs =          63  
No. of failures =          63  
Time at risk   =          2374  
  
LR chi2(6)      =          49.77  
Log likelihood = -178.91533      Prob > chi2      =          0.0000
```

_t	Haz. Ratio	Std. Err.	z	P> z	[95% Conf. Interval]	
educationalllevel	1.159522	.1103696	1.55	0.120	.9621814	1.397336
dacquiringlone	.4172294	.13449	-2.71	0.007	.2218186	.784787
dinfrastructuralfacilites	.3073067	.1006871	-3.60	0.000	.1616893	.584067
daccessingland	.9343315	.2528109	-0.25	0.802	.5497729	1.587884
dbureaucraticredtape	.3408972	.116329	-3.15	0.002	.174645	.6654119
dcorruptin	.7706445	.2297066	-0.87	0.382	.4296707	1.382205