



ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

**CHALLENGES AND OPPORTUNITIES OF INVESTMENT ACTIVITIES
IN THE CASE OF BURAYU TOWN**

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JUNE 2021

ADDIS ABABA, ETHIOPIA

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IN THE CASE OF BURAYU TOWN

A THESIS SUBMITTED TO SCHOOL OF GRADUATE STUDIES OF ST.
MARY'S UNIVERSITY IN PARTIAL FULFILLMENT OF THE
REQUIREMENT OF MASTER'S DEGREE IN BUSINESS
ADMINISTRATION

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DECLARATION

The researcher here by declares that the thesis on the title, “challenges and opportunities of Investment activities in Burayu Town”, is my original work and that all sources that have been referred to and quoted have been dully indicated and acknowledged with complete references.

Name: _____

Signature: _____

Date: _____

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a University advisor.

Advisor

External Examiner

Signature

Signature

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ACRONYMS

CSA	Central Statistical Agency
EIA	Ethiopian Investment Authority
EIC	Ethiopian Investment commission
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross domestic product
GDS	Gross Domestic Saving rate
PRS	Poverty Reduction Strategy
PSD	Private Sector Development
SMEs	Small and medium enterprises
SSA	Sub-Sahara Africa
USD	United states dollar
WB	World Bank

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ABSTRACT

The purpose of the study was to investigate the challenges and opportunities of investment activities in Burayu town specifically. Specifically, the study was conducted to identify the types of investment activities involved, to examine the challenges of private investment and to find out the major opportunities of private investment activities. Descriptive research design was employed and mixed research approach was employed where data was collected from 125 firm representatives although semi-structured questionnaires. The findings of the study show that the firms were under three status pre-implementation, under implementation, and at operation. The firms are engaged on 15 different business sectors where the dominant investments were food, textile and textile products, and beverage industry. The findings of the study further shows a request of detail feasibility, inadequate credit and finance and banks bureaucracy was the main dominant problems observed with regard to load access. In terms of infrastructural challenges the most rated investors challenge were Electric power, water and sewerage, telephone and roads authorities. Apart from the sluggish judicial system, the highly boring bureaucratic system to get utilities such as water, electric, bank loans and investment license were highly constrained the investment activities in the district. The study also find out that the newly building infrastructural facilities such as road, communication, network, electric power etc. is a good opportunity for the current and future private investment. The current number of population and economic growth is also the other opportunity as demand in the area growing. In addition the availability of both skilled and unskilled labor force at lower wage rate is the other good opportunity for investment in the study area; the findings of the study also revealed that the availability and easy access to raw materials and easy access to both domestic and international market with a modern banking system, modern technology and large number of consumers is the other good opportunity for investment.

Key words: challenges and opportunity, investment

1. CHAPTER ONE INTRODUCTION

1.1. Background of the study

Both practically and conceptually, economic literatures suggest that investment is the most important factor of economic growth. Economic growth is defined as an increase in a country's output or per capita income. The total output of goods and services of an economy is commonly quantified by gross national product or gross national income, which are used interchangeably. Investment is a source of manufactured goods that can be utilized to make more things. It is the primary foundation for raising literacy levels, improving technology, and increasing capital stock (Hashmi et al 2012).

One of the fundamental elements that distinguish industrialized countries from emerging countries is the rate of investment. Investment is high in high-growth countries, but low in low-growth countries. The implication of low investment is that the productive capacity of the economy fails to increase. As a result, growth and job creation are slower, and poor people have fewer possibilities to improve their lives (White, 2005). According to Sackey 2007, Countries with excellent living standards are those whose economic structures have evolved from traditional and less diverse to more diversified. The essential challenge in the structural diversification process is investment commitment. Economic development has long been a priority in practically every country on the planet, developed or developing. Capital formation, appropriate mobilization and allocation of resources, and the reduction of unutilized resources to the productive sector of the economy are all critical to achieving this goal. Growth necessitates both local and foreign investment, as well as increased internal mobilization, both governmental and private (Todaro, 2005).

Investment activity is critical to a country's economic development. Investment can help a country's productive capacity grow if the money is spent on durable goods with extended useful lives and incorporate the most recent technical breakthroughs. Furthermore, through changing the demand for capital goods, changes in investment expenditure can possibly result in alterations in employment and personal income. Despite the fact that gross fixed capital creation

accounts for a far smaller portion of an economy's overall expenditure than consumption expenditure, it is a highly volatile component that generates significant swings in a country's economic activity (Olga Kosma, 2015).

Total domestic and foreign investment generally exceeds 25% of gross domestic product in high-growth countries (GDP). However, gross fixed capital formation in Sub-Saharan Africa has remained stable at roughly 18 percent of GDP for the past two decades. Investment rates in Asia's emerging economies (excluding China and India) have maintained around 21% since the financial crisis in 1997 (World Bank, 2005b). Inadequate, inadequate, and badly maintained physical infrastructure is one factor contributing to low development rates in emerging countries, particularly the poorest (Migliorisi, s. and M. Galmarini, 2004b:28). More infrastructure investors will invest if the investment climate improves. As a result, infrastructure services will be more broadly available, and other sorts of investment will be encouraged. Recent study backs up the idea that employing ODA to stimulate infrastructure development is a good idea; Over a four-year period, studies have discovered a large, positive, causal association between “immediate-impact aid” – i.e. budget and balance-of-payments support, infrastructure, and help for productive sectors – and economic growth (Clemens, Radelet & Bhavnani 2004).

A diversified and competitive financial sector is also critical for promoting growth in developing countries because it contributes to economic stability, ensures the security of financial transactions, mobilizes external and domestic savings, and allows for the efficient allocation of capital to productive investments. Due to the diminishing marginal benefit of increased investment in physical assets, the World Bank's 2005 World Development Report (World Bank, 2004) emphasized that it is not just the quantity of investment that matters for encouraging growth. The amount to which jobs and capital shift from dying industries to increasing and emerging economic activity, as well as the productivity improvements that result from product and process innovations brought about by investments, are ultimately what matters (Boza, Baatrizand Luke Haggarty, 2006:74). This will allow larger quantities to be invested in the future. As a result, the investment climate must give chances and incentives for businesses to grow, adapt, and embrace better business practices. As a result, one of the most important

determinants in a country's economic growth is investment (OECD,2004 b:42). Therefore, this study intends to assess the challenges and opportunity of investment activities in Burayu town.

1.2. Statements of the problem

According to the World Bank (2013), Ethiopia's economy grew at a pace of 10.7% per year on average over the previous decade, making it one of the world's fastest growing economies. Ethiopia's Gross Domestic Savings (GDS) and Gross Domestic Investment (GDIC) are both on the rise. For example, in 2014, gross domestic saving achieves a record high of 22.5 percent.

For the same time period, the percentage of gross domestic investment in GDP was found to be 34.16 percent. The resource gap is approximately 11.66 percent (calculated as the difference between Gross Domestic Investment and Gross Domestic Saving). As a result, it is easy to deduce from this statistic that funding the essential investments from domestic sources was challenging. Therefore, the country should find alternative sources to finance its investment and sustain its economic growth.

According to an Oakland Institute report from 2010, Ethiopia has created a very attractive investment climate in recent years by providing potential investors with a variety of tax breaks, access to affordable land, a relatively efficient investment process, very affordable land rents, suitable agro-climatic conditions, low labor costs (labor is cheap and plentiful), outstanding incentives, and a relatively efficient investment process such as tax holidays and no duty, relaxed regulations, low corruption compared to other countries, large amounts of "undeveloped" land, strategic location (in terms of markets), abundant water resources, ability to export privileged access to other markets, and a streamlined investment process. In addition, the Ethiopian government has formed a "land bank," which would make the process of acquiring property easier for investors. The ideal strategy for achieving quick economic growth for a country is to use natural resources to export high-value agricultural products.

Despite the opportunities and investment potential in Ethiopia, a number of significant difficulties have surfaced. Infrastructure issues, such as roads, power, and water, a lack of financial and technical assistance for private investors, and a lack of alternative local and regional markets are just a few of the hurdles (World Bank, 2004). Various experts have

extensively researched the benefits and drawbacks of private investment, (Morisset, and Jacques 2000; Basu and Srinivasan, 2002; Salish, and Mohammed, 2003). These and other researchers conducted research in this area, identifying potential and limitations in many countries and regions. Almost all of these investigations, however, were conducted in established and large areas. From such findings it is difficult to generalize the same result in Burayu town. As per the researchers knowledge research studies on the opportunities and challenges of private investment environment in Burayu town remained an ignored area of study. Thus, with these serious shortcomings of the current literature, this study will contribute to the existing literature.

1.3. Objectives of the study

1.3.1. General objective

- The general objectives of the study is to identify the challenges and opportunities of investment activities in Burayu town

1.3.2. Specific objectives

- To identify Investments activities mostly involved in Burayu town
- To identify the challenges of private investment that impairs the development of private investment activities in Burayu town.
- To identify the opportunities of private investment in Burayu town

1.4. Research questions

- What types of investment activities involved mostly in Burayu town?
- What are the challenges of private investment that impair the development of private investment in Burayu town?
- What are the major opportunities of private investment activities in Burayu town?

1.5. Significance of the study

The primary significance of this research lies in its contribution to knowledge through exploring the challenges and opportunities of private based on evidence from Burayu town Ethiopia. In this regard, the study was identified important challenges and opportunities of private investment as well as strategic orientation and explicates how the interplay or interrelationships between these

aspects and investment decisions, learning and improvement capabilities, manufacturing manager's leadership practices, and government support ultimately influence investment performance. The study was also assumed to contribute a better understanding of private investment content by exploring the challenges and opportunities. The findings in the study, thus, might help to fill the gap in the investment strategy literature regarding the challenges of investment performance. Furthermore, undoubtedly, expansion in all types of investment activities is detrimental for a country's growth. The contribution of investment on GDP occupies a sound share in many countries including Ethiopia. Despite this, a number of factors have an adverse effect on it. In order to attract investors, both from locally and abroad, there are certain key elements that are considered highly desirable by potential investors. These include the openness of the economy to international trade and finance, fiscal discipline by the government, political stability, governance and sound economic management, strong banking and financial markets etc. When the presence of all the necessary conditions for investment is low, investment will be badly undermined, since investment promotes economic growth, raises standard of living and contributes to a nation's wealth, the relevance of the study be it implicitly or explicitly is to identify the major factors inhibiting investment and to make the line open for further extended (advanced) research, besides showing some of the investment opportunities for investors, and providing possible solutions to the problems to be observed.

1.6. Scope of the Study

This study falls into the challenges and opportunities of private investment field drawing heavily on investment development, and institutional literatures as well as relevant theoretical perspectives in these areas. The study addresses aspects of investment Challenges (Infrastructural challenges, Incentives by Government, market and etc,) and opportunities. The study only considered private firms operating in Burayu town. These firms often have been categorized, on the bases of nature of products, into distinct groups. Thus, this study could not address the challenge and opportunities of small scale private firms that are not operate in Burayu town. With regard to geographical location the study was limited to collect data with in Burayu town. Therefore, the study couldn't address private firms located outside Burayu town. This study also limited to collect data and complete its time from March 2021 up to May 2018.

2. CHAPTER TWOLITERATURE REVIEW

Under this chapter secondary data source was reviewed and discussed about different definitions and concepts of investment, theories of investment, investment management process, elements of investments, role of private investment for local economic growth was presented. To know the research gap this study was review a different study that has been done before on the issue of challenges and opportunities of investments.

2.1. Theoretical Review

2.1.1. Concepts of Investments

In economics, the concept of investment is use to mean the purchase of capital goods that actually end up improving the welfare of a population i.e. goods which are used in the production of other goods e.g. railroads, a factory, clearing land, or putting oneself through education. In other words, they increase output wasihun (2018).

Ever since Keynes (1936) who was one of the pioneers of investment theories carried out an analysis which showed the ex-post equality between savings and investment, the offshoots of his submission later brought about some other investment theories like accelerator theory of investment, neoclassical, flexible, Tobin's Q and neo liberal theory. Hence, these theories were theoretically identified to modeling investment in the existing investment literature.

The first model was the simple accelerator theory of investment by Clark (1917) which states investment as a linear function of output change in the economy. This theory has not given emphasis to the cost of capital goods, expectation and profit in its model. In addition, the model also assumes that the ratio of desired capital to output is constant, but in reality it varies with a variation in the cost of capital and technology.

Flexible accelerator model was designed by Hall and Jorgenson (1969). It is the partial adjustment model of investment based on the optimal accumulation of the capital. This means, the larger gap between the existing and the desired capital stock reveals the more investment rates. According to this model, output, internal funds, cost of external financing and other variables are treated as the determinants of desired capital stock which are ignored by the simple

accelerator model. However, a particular drawback of this model is that it does not rationalize the rate of investment or movement toward the optimal capital stock.

In addition to flexible accelerator, neo classical model was developed by Hall and Jorgenson (1969). It is similar to the flexible model but desired capital stock is proportional to output and the user cost of capital which in turn depends on the price of capital goods, the real rate of interest, the rate of depreciation and the tax structure. This model was criticized for its limitation in estimating investment function, that is, lack of readily available methods of measuring capital stock and returns to capital for developing countries.

Investment has been regarded as crucial for growth since the formal onset of economics by the optimistic classical economist Adam Smith (1776). The belief of economists including the views of classical optimists and pessimists, Thomas Malthus (1798), David Ricardo (1817), and Karl Marx (1847)), Keynesian, neoclassical and endogenous growth theorists has been consistently the same in that the level of income and living standard of nations is a function of investment and capital accumulation. With the exception of neoclassical view, all the above blocks of thinking agree that economic growth depend on the rates of saving, investment and capital accumulation.

Thirlwall (2003) explains the main essence of Smith's models as "The growth of output and living standards depends first and foremost on investment and capital accumulation. Investment in turn depends on savings..." (P. 127). Despite its prediction on the independence of steady state growth on the rates of saving and investment, neoclassical model also emphasizes the importance of saving and investment in determining the level of per capita income and living standards in the long run (Jones, 2002, P. 32, Thirlwall, 2003, P. 143, Sorensen and Whitta-Jacobsen, 2005, P. 77, Romer, 2006, P. 1819).

Sorensen and Jacobsen (2005) assert

"According to the Solow model, policies to make a nation richer should mainly be policies that can increase the investment share of GDP and bring population growth under control, or policies to improve technology" (P. 87). The new growth theory, on the other h

and, adheres that in the long run savings and investment ratios influence growth, positively. The general set of implications of endogenous growth theory is societies that save and invest more will grow faster in the long run (Barro, 1991, P. 429, Plosser, 1992, P. 67).

The main criticism of q theory is that its use tends to be chosen on an informal basis rather than on optimization theory. In addition, the model is confronted with such problems as measuring marginal rather than average user cost of capital, accounting for intangibles that affect market value and incorporating tax factors. The last investment theory is the neoliberal view of investment which was developed by McKinnon (1973) and Shaw (1973). This view gives emphasis to the importance of financial deepening and high interest rates in stimulating economic growth. According to them, if economy was free up from repressive conditions, this would induce savings, investment and economic growth. Finally, the same criticisms of neo classical also applied to this model.

Investment behavior is primarily influenced by profit motive and always characterized by risk and uncertainty. Risk is explained as a measurable possibility of losing money or not gaining interest on one's investment. Though investment is considered as a risky venture, individuals invest with the hope of earning a capital gain at the time of sale Weirich (1983). Again, people invest because they want a return to compensate them for the time, the expected rate of inflation (a general increase in the price of goods and services over time)

output (Y), i.e. $K_t = kY_t$ such that net investment is proportional to change in the desired output:
 $K_t - K_{t-1} = I_t = kdY_t$

Where k is the desired capital-output ratio, Y_t is output, I is net investment, and K_t is the capital stock in period t while K_{t-1} is the stock of capital at the end of period $t-1$. However, the simple accelerator approach is criticized for assuming that firms respond to changes in demand such that investment is always sufficient to keep the desired capital stock equal to the actual capital stock which is not necessarily true. In addition, the model also assumes that the ratio of desired capital to output is constant, yet it varies with a variation in the cost of capital and technology. The theory does not consider investors' expectations, profitability, and the cost of capital as determinant of investment behavior.

Due to the above limitations of the simple accelerator, Keynesians have traditionally favored a more general form of the accelerator model called the flexible accelerator model designed by and Hall and Jorgenson (1971) which is also known as the partial adjustment model of investment based on the optimal accumulation of the capital suggested by Goodwin (1951) and Tread way (1974).

2. Flexible accelerator theory

The theory assumes that capital adjusts towards its desired level by a constant proportion of the difference between desired and actual capital. The basic notion behind this model is that the larger the gap between the existing capital stock and the desired capital stock, the greater a firm's rate of investment. Therefore firms plan to close a fraction of the gap between the desired capital stock (K^*) and the existing stock of capital goods left over from the past period (K_{t-1}). Hence the net investment equation can be written in the form of: $I = K_t - K_{t-1} = \lambda (K^* - K_{t-1})$

This theory again has other drawback by its underlying assumption of perfect competition which disregarded or over looked the role of dynamic expectations of investors behavior regarding the future prices, interest rate and output, where K is actual level of capital; K^* is the capital stock desired by domestic firms; K_{t-1} is the last period's capital stock and d is the partial adjustment coefficient (Adugna, 2013).

3. Neoclassical Investment Theory

The restrictive assumptions behind the accelerator theory led Jorgenson et al (1967), Jorgenson, to formulate the neoclassical approach. In this approach, which is a version of flexible accelerator model, the desired (or optimal) capital stock depends on the level of output and the user cost of capital (which in turn depends on the price of capital goods, the real interest rate, and depreciation rate). Lags in decision making and delivery creates a gap between current and desired capital stocks, giving rise to an investment equation, that is , an equation for the change in the capital stock.

The foundation of this approach has been criticized on the ground that: the assumptions of perfect competition and exogenously given output are inconsistent, the assumption of static expectations about future prices, output, and the interest rate is inappropriate since investment is essentially forward-looking, and the lags in delivery are introduced(Birahanu ,2004)

4. The Tobin Q theory of investment

Another theory of investment is the Tobin's q model advanced by Tobin (1969). Tobin argues that firms' investment level depends on the ratio of the present value of installed capital to the replacement cost of capital. In the Tobin Q theory of investment, the ratio of the market value of the existing capital stock to its replacement cost (the Q ratio) is the main force driving investment (Chirinko, 1993, Ghura and Goodwin, 2000). That is to say, enterprises will want to invest if the increase in the market value of an additional unit exceeds the replacement cost. This ratio is Tobin's q. The q theory of investment assumes that firms will want to increase their capital when $q > 1$ and decrease their capital stock when $q < 1$. If $q > 1$, additional investment in the firm would make sense because the profits generated would exceed the cost of firm's assets. Under those conditions, firms reap profits by investing in more capital, so we expect investment to be high. If $q < 1$, the firm would be better off selling its assets instead of trying to put them to use or the present value of the profits earned by installing new capital are less than the cost of the capital, therefore investment levels are expected to be near zero if $q < 1$. The ideal state is where q is approximately equal to one denoting that the firm is in equilibrium which is also called the general equilibrium theory or 'q' theory.

The model is presented as follow: $q = (\partial/\lambda)$ Where ∂ stands for stock market value of a firm and λ stands for replacement cost of capital. The q model has been regarded as both a modified version of the neoclassical model (Hayashi, 1982) and as a profit model because of its emphasis on the role of profitability. In relation to private investment, Rodrik (1991) introduced an element of policy uncertainty as a factor that drives private investment. He stated that when a policy reform is introduced, it is very unlikely that the private sector will see it as one hundred percent sustainable.

A number of reasons may be adduced, among them is the expectation that the political economic configuration that supported the earlier policies may resurface. There is also the fear that unexpected consequences may lead to a reversal. Investors must respond to the signals generated by the reform for it to be successful. This will therefore call for prudent measures to be taken to withhold investment until much of the uncertainty regarding the eventual success of the reform is eliminated i.e. if the anticipated loss is high it will discourage private investors and vice versa.

Also, the rational choice theory influence private investment. This is an economic theory that assumes that individuals always make prudent and logical decisions that provide them with the greatest benefit or satisfaction and that are in the best self- interest. It is a framework for understanding and often formally modeling social and economic behavior. Hence, it enables private investors to compare the costs of their activity against benefits to arrive at an action that maximizes their personal advantage. Rational choices theorists believe that most human decisions as in private businesses are based on maximizing a person's own benefits, while minimizing that which can hurt them. Private investors usually adapt this theory of rational choice into their business models to enable them predict and explain future consumer spending decisions and whether to engage in such business ventures.

According to Acosta and Loza (2004), the theory of investment irreversibility also affects private investment. This theory suggests that the cost of investing in machinery and equipment is usually not recovered by a future resale. However, stable prices improve the informative content of the price system, allowing a favorable allocation of resources. Emerging countries are usually characterized by a high degree of uncertainty. Hence, for investment decisions to be made to yield the desired results uncertainty factors of such economies must be taken into consideration, since any sharp decline in aggregate demand would generate an unsustainable excess in installed

capacity (Caballero and Pindyck 1996). This accounts for the reason why advanced countries with lower uncertainty rate have high levels of private investment, as compared to developing economies with a higher uncertainty rate. The inflationary rate is normally use as a proxy for measuring uncertainty (Beaudry, 2001).

Again, private investment is hindered by restrictions on investment financing. Loungani and Rush (1995) suggested that small and medium enterprises (SMEs) are usually unable to finance their activities directly through open market debt. Hence, they resort heavily to the bank credit markets, which are also characterized by imperfections due to information asymmetry between lenders and borrowers. Developing countries are normally faced with the challenge of accessing credit due to the absence of futures market and poor access to long term financing.

Foot and Stein (1991) argued that depreciation of the exchange rate can also stimulate private investment. They suggested devaluation does not only favor the export sectors but also enable foreign companies to acquire local assets at a much lower price to increase investment. However, McCulloch (1989) opposed the relationship between private investment and exchange rate, because he believed it is the rate of return that determines investment but not the price of the local asset. He suggested that when a country's currency is depreciated in real terms, both the price of the asset and the nominal gain of the investment fall. This effect becomes particularly relevant in sectors producing non-exportable goods.

2.1.3. Investment management process

According to Kristina (2010) Describes Investment management process is the process of managing money or funds. The investment management process describes how an investor should go about making decisions. Investment management process can be disclosed by five-step procedure, which includes following stages:

1. Setting of investment policy.
2. Analysis and evaluation of investment vehicles.
3. Formation of diversified investment portfolio.
4. Portfolio revision
5. Measurement and evaluation of portfolio performance.

Setting of investment policy is the first and very important step in investment management process. Investment policy includes setting of investment objectives. The investment policy should have the specific objectives regarding the investment return requirement and risk tolerance of the investor. For example, the investment policy may define that the target of the investment average return should be 15 % and should avoid more than 10 % losses. Identifying investor's tolerance for risk is the most important objective, because it is obvious that every investor would like to earn the highest return possible. But because there is a positive relationship between risk and return, it is not appropriate for an investor to set his/ her investment objectives as just "to make a lot of money". Investment objectives should be stated in terms of both risk and return.

The investment policy should also state other important constraints which could influence the investment management. Constraints can include any liquidity needs for the investor, projected investment horizon, as well as other unique needs and preferences of investor. The investment horizon is the period of time for investments. Projected time horizon may be short, long or even indefinite. Setting of investment objectives should be stated in terms of both risk and return.

currently appear to be mispriced. There are many different approaches how to make such analysis. Most frequently two forms of analysis are used: technical analysis and fundamental analysis. Technical analysis involves the analysis of market prices in an attempt to predict future price movements for the particular financial asset traded on the market.

This analysis examines the trends of historical prices and is based on the assumption that these trends or patterns repeat themselves in the future. Fundamental analysis in its simplest form is focused on the evaluation of intrinsic value of the financial asset. This valuation is based on the assumption that intrinsic value is the present value of future flows from particular investment. By comparison of the intrinsic value and market value of the financial assets those which are underpriced or overpriced can be identified.

Formation of diversified investment portfolio is the next step in investment management process. Investment portfolio is the set of investment vehicles, formed by the investor seeking to realize its' defined investment objectives. In the stage of portfolio formation the issues of selectivity, timing and diversification need to be addressed by the investor. Selectivity refers to micro forecasting and focuses on forecasting price movements of individual assets. Timing involves macro forecasting of price movements of particular type of financial asset relative to fixed-income securities in general. Diversification involves forming the investor's portfolio for decreasing or limiting risk of investment.

2 techniques of diversification:

- Random diversification, when several available financial assets are put to the portfolio at random;
- Objective diversification when financial assets are selected to the portfolio following investment objectives and using appropriate techniques for analysis and evaluation of each financial asset. Investment management theory is focused on issues of objective portfolio diversification and professional investors follow settled investment objectives then constructing and managing their portfolios.

Portfolio revision: This step of the investment management process concerns the periodic revision of the three previous stages. This is necessary, because over time investor with long-

term investment horizon may change his / her investment objectives and this, in turn means that currently held investor's portfolio may no longer be optimal and even contradict with the new settled investment objectives.

Measurement and evaluation of portfolio performance: This the last step in investment management process involves determining periodically how the portfolio performed, in terms of not only the return earned, but also the risk of the portfolio. For evaluation of portfolio performance appropriate measures of return and risk and benchmarks are needed. A benchmark is the performance of predetermined set of assets, obtained for comparison purposes. The benchmark may be a popular index of appropriate assets – stock index, bond index. The benchmarks are widely used by institutional investors evaluating the performance of their portfolios.

It is important to point out that investment management process is continuing process influenced by changes in investment environment and changes in investor's attitudes as well. Market globalization offers investors new possibilities, but at the same time investment management become more and more complicated with growing uncertainty.

2.1.4. Elements of Investments

Under this section the study was discussed the three important elements of investment. The elements are: 1. Return 2. Risk and Return 3. Time

I. Return

Investors may buy and sell financial assets in order to earn returns on them. The return better known as reward from investments includes both current income and capital gains or losses which arise by the increase or decrease of the security prices. The capital gains or the income earned are then treated as a percentage of the beginning investment. Return, therefore, may be expressed as the total annual income and capital gain as a percentage of investment. Satisfactory returns are different for different people. Two rational investors may be satisfied by different levels of anticipated return and estimated risk. Rational investors like return but are risk averse. They try to maximize their utility by buying, holding or adjusting their portfolio to achieve 'maximum utility'. Return, in other words, is the 'yield' on a security. Yield of the stock will be

the price of the stock divided into the current dividend. This is known as current yields. There is no compounding of returns Deeksha (2019).

II. Risk and Return

Risk and return are inseparable. To ignore risk and only expect returns is an out-dated approach to investments. The investment process must be considered in terms of both aspects risk and return. Return is a precise statistical term; it is not a simple expectation of investor's return but is measurable also. Risk is not a precise statistical term but we use statistical terms to quantify it. The investor should keep the risk associated with the return proportional as risk is directly correlated with return. It is generally believed that higher the risk, the greater the reward but seeking excessive risk does not ensure excessive return. At a given level of return, each security has a different degree of risk. The entire process of estimating return and risk for individual securities is called 'Security Analysis'. Ambachew, (2018).

The ultimate objective of the investor is to derive a portfolio of securities that meets his preferences for risk and expected return. Securities represent a spectrum of risks ranging from virtually risk-free debt instruments to highly speculative bonds, common stocks and warrants. From this spectrum, the investor will select those securities that maximize his utility, managing securities may be viewed as comprising two functional areas. First, the Risk and Return coincident with individual securities must be determined Deeksha (2019).

III. Time

Time is an important factor in investments. Time offers several different courses of action. It may involve and range from trading to buying and selling at major turning points in the market. It may also consider the time period of investment such as long-term, intermediate or short-term.

Time period depends on the attitude of the investor. As investments are examined over the time period, expected risk and return are measured. The investor usually selects a time period and return that meet expectations of return and risk. Since Equity should be considered, the investor can follow a 'buy and hold' policy and analyses to make successful decisions during the longer-term framework. Some professional analysts think that three-year periods are best to analyses stocks and bonds as it is long enough to eliminate the effects of business and market cycle on

security prices. Such a period is also just right to achieve economics results from new products, new developments and new ideas. As time moves on, analysts believe that conditions change and investors re-evaluate expected return and risk for each investment. The management of investments is thus a complex study of maximizing return. Ambachew, (2018).

2.1.5. The role of private investments for Local economic growth

Private investment is an investment which is invested by individuals or group of individuals and it plays its own role in the economic growth within a state. Here, there are different factors applied for the purpose of economic growth which is act by the government but the performance of the government is very limited and it cannot achieve the growth independently. According to this point the government gives the opportunity for the private sector as well. So, Private investment can be get the opportunity in order to play its own role in the economic growth. In addition to the government economic activities, the contribution of the private sector is high and this helps the economy by creating employment opportunities, income generation, market stability and in general on poverty reduction . Sustained economic growth and in terms of employment opportunities and income generation is necessary for poverty reduction and require enhanced private sector investment resulting in economic growth, reduction in poverty and improved quality of life for the majority of the population. Private initiative, unleashed in competitive markets is key to promoting growth and poverty reduction in parallel with public sector efforts. Tax revenues generated by private markets and employments are critical to support public expenditure programs. Private Sector Development (PSD) is about enabling the enhanced utilization of labor and other resources of the country through the growth of private businesses by providing predictable and enabling environment both in domestic and overseas markets. PSD is about the maintaining a good balance between the complementary functions of the state and the private sector about judicious refocusing of the role of the state not about indiscriminate privatization but about sound government policies that provide room for private initiative and that set a regulatory framework which channels private initiative in ways that benefit society as a whole. One of the major contributing factors to the economic crises of Ethiopia during the 1980s was the restrictive policy imposed on the activities of the private sector. At the beginning of the transition period i.e. 1991/92, it was obviously clear that without changes in the policy regime of the 1980s efforts to realize socio-economic recovery and

sustained development would be futile. As a result, the New Economic Policy took the creation of an enabling environment for both domestic and foreign private investment as one of its objectives. The series of reforms since 1992/93 have shifted the policy regime of the 1980s and did go a long way to create enabling environment for private sector investment. Thus, the Poverty Reduction Strategy (PRS) now proposes to build on these reforms and broaden them into a comprehensive strategy for private sector development that is meant to foster a qualitative jump in the role of private activity in generating growth and supporting poverty reduction. (MoFED Annual Report 2012)

2.1.6. Private investment in developing Country

According to Wasihun (2018) from the different types of investment theories and models of private investment, Accelerator Model of investment has been widely applied in developing countries. The other model of private investment has not been widely applied due to the assumption underlining their application. The direct application of those models except simple accelerator model to understand investment behavior in developing countries is difficult due to the following two reasons.

The first one is related with technical aspects and is related to scarcity of data on key variables such as wage rates, capital stock, real interest rates and stock market prices. The second one is related with incompatibility of the institutional and structural peculiarities of developing countries with the underlying assumptions of the basic models such as in the perfectly competitive markets, little or no government intervention and absence of liquidity constraints. These assumptions are hardly tenable in the context of developing countries making the models less relevant to apply (Shiferaw, 2002).

Due to difficulties with the measurement of key variables in developing countries and the expected influence of public investment, the application of flexible accelerator model require the identification of variables included as determinants of private investment in developing countries. As Blejer and Khan (1984) stated variable that are taken as determinants of private investment should be based on the specific realities of the country. That means the theory and variables that are found to be valid in developed country may not yield the same results in

developing countries due to difference in the economic environment and institutional setup of the countries.

2.1.7. Ethiopian Investment laws

Ethiopia's investment policy is regulated by the constitution and other laws. The investment policy of Ethiopia is to achieve sustainable socio-economic development and improving the living standard of the society. The objective of the investment law is to increase the economic growth of the country and to develop the natural resource and domestic markets. The country also expects increase in foreign earnings and advance technological transfer. Investments are created in the following forms like sole proprietorship, business organization, public enterprise and cooperative society formed in accordance with the relevant law. There is also a requirement for investment permits for both domestic and foreign investors (Ethiopian Investment commission, 2015).

The following shall be required to have investment permits

- 1, foreign investors
- 2, domestic and foreign investors investing in partnership
- 3, foreign nationals, not Ethiopian by origin, treated as a domestic investors
- 4, domestic investors investing in areas eligible for incentives and who are seeking to be beneficiaries of such incentives.

The investment proclamation also states that domestic investors, excluding foreign nationals who are not of Ethiopian origin, shall have the right to invest, without having an investment permit, in conformity with the relevant laws of the country: a) in areas not eligible for incentives; or b) waiving their right of entitlement in those areas eligible for incentives. The other issue is that when it comes to a foreign investor intending to buy an existing enterprise in order to operate it as it stands or to buy shares of an existing enterprise shall obtain prior approval from the Ministry of Trade. These has also stated as a factor for investment inflows that require establishing in an existing enterprises. Because approval is required it is seen as a control mechanism for uncontrollable foreign control of domestic firms Ephrem (2018).

When we see the law in light of issuance of investment permits it states that Issuance of Investment Permit upon receipt of an application made in accordance with Article 13, Article 14 or Article 15 of the investment Proclamation, the appropriate investment organ shall, after examining the intended investment activity in light of the Proclamation, and regulations and directives; it issue investment permit upon receipt of the appropriate fee, where the application is found acceptable and notify the investor of its decision and the reason thereof in writing, where the application is found unacceptable. The appropriate investment organ shall be duty bound, after issuing the investment permit, to notify the concerned institutions as to enable the latter to conduct the necessary follow up. The law also states that a holder of an investment permit may not be required to obtain a business license until the commencement of production or rendering of service upon completion of his project and that an investment permit may not be transferred to another person without prior written approval of the appropriate investment organ. If an investment permit is transferred to another person or where any change is made in its content, it shall be submitted to the appropriate investment organ for approval. No investor may, at any time, be allowed to invest by holding both a domestic and a foreign investment permit. (EIC, 2015).

The law has also the procedures for suspension and revocation of permits when an investor violates the relevant investment laws. These are the investor obtained the permit fraudulently, misuse and illegal transfer incentives, failure to renew permit without good cause, felling to submitted progress report and failure to make investment operational in due time. But there are practical issues when it comes to taking land from investors that had not implemented the investment to other investors that need the land. Ibid

Investment (Amendment) Proclamation No 116/1998 and Regulations No 36/1998

These laws were enacted with a view to encouraging and facilitating investment (both domestic and foreign). Thus, the amendment was made with the aim of opening more investment areas to the private sector. It also aimed at providing additional investment incentives. These laws resulted in the following essential changes to the proclamation No 37/1996 and Regulations No 7/1996.

The status of foreign nationals of Ethiopian origin: A number of Ethiopians were forced to leave Ethiopia and went abroad for political and other reasons (especially in the past regime). It is felt important to give them a chance to invest in their country and to contribute in the economic development by investing their capital and know-how that they acquired abroad. Thus, Proclamation No 116/1998 provides that foreign nationals of Ethiopian origin are at liberty to choose to be treated as domestic investors or foreign investors. If they opt to be considered as domestic investors they must apply to the then Ethiopian Investment Authority (EIA) and fill a form which is taken as a promise not to be considered as a foreign investor. Thus, they are relieved from a capital restriction on a foreign investors and be able to take part in investment with a capital of 250,000 Ethiopian Birr rather than 500,000 USD, 300,000 USD or 100, 000 USD. In addition, they will acquire a right to invest in areas exclusively reserved to domestic investors by Regulations No 35/1998. On the other hand, they will lose the rights of foreign investors. Thus, they may not claim to repatriate their profits and capital outside Ethiopia, because such a right is given to foreign investors. Once an investor is considered a domestic investor, s/he/it may participate in investment areas exclusively reserved for Ethiopian nationals such as banking and insurance (Investment Proclamation 769/2012).

2.2. Empirical review

Here below the study was discussed an empirical studies that has been done on the challenges and opportunities of private investments.

2.2.1. Challenges in involving on Investment activities

2.2.1.1.Plant Capacity and Technology Utilization

Even if innovation is understood as introduction of a known product, production technology or process that is only new to the local environment, the rate of innovation is low. As Oyelaran

Oyeyinka (2007) points out, although innovation happens in every country, the nature of innovation and innovation processes varies according to a given economy's stage of development. All countries of SSA are at a development stage where existing innovative activities are focused on minor improvements in products or processes and largely confined to learning by using existing foreign technologies. Very few firms pursue systematic research and

development activities (Gamba, 2005). Innovation processes in SSA are thus largely related to diffusion and only rarely to inventions

2.2.1.2.Domestic and Foreign Market policies and challenges

In the Importance of industrial policy in addressing distortions that constrain structural change, the first distortion relates to the presence of market failures; the second to coordination failures; and the third to technological accumulation and the acquisition of knowledge. The traditional view in economics was that markets are efficient and state interventions should not influence the allocation of resources across sectors. However, there is a growing consensus ²² that markets do not necessarily lead to efficient or desirable outcomes and the state has a role to play in this regard. One of the well-known market failures that industrial policy can address is information and cost discovery externalities (UNCTAD and UNIDO, 2011).

According to Hausmann and Rodrik (2003), information externalities deter firms from exploring new economic activities, especially in developing countries where property rights are not enforced. This arises because the first firm to invest in cost discovery bears all the costs, while rival firms learn from the outcome of the first entrant. Due to this free riding problem, investment is minimal as no firm is willing to make any effort in the discovery of new products. Industrial policy can thus be used to promote entrepreneurial entry, survival and compensation for innovation through patent rights and copyright laws (Lin and Chang, 2009). Another type of market failure relates to environmental externalities. These arise because firms, motivated by profits, do not incorporate pollution and environmental degradation costs in their investment decisions. Industrial policy can be relied upon to correct this, by supporting the development of green technologies, as well as production processes that are environmentally friendly, resource efficient and low carbon intensive (Hallegatte et al., 2013).

The second need for market policy arises due to the presence of coordination failures (Pack and Saggi, 2006). Coordination failures occur because the feasibility and profitability of most economic activities is contingent on the existence of complementary investments. This implies that a firm is willing to invest in a particular sector if there are other firms that support its production process. In the absence of such an environment, entrepreneurial and domestic production may be adversely affected. Therefore, the state has a responsibility to promote and coordinate collective investment decisions from independent actors and firms (Altenburg, 2011).

In an analysis of manufacturing firms in Ethiopia, Gebreeyesus and Mohnen (2013) provide evidence that supports the importance of firm coordination and networks in promoting technological innovation. The authors show that local business relations constitute the key channel through which firms acquire knowledge on market opportunities, new products, competitors and production techniques.

2.2.1.3. Institutional and Industrial policies and challenges

Besides the need to correct market and coordination failures, industrial policy can address deficits in technological accumulation and learning among firms. In developing countries, domestic firms rely on existing technologies to boost their technological capabilities. Empirical evidence tends to confirm that the income convergence of East Asian countries towards that of developed countries was accelerated by industrial policies that promoted constant learning and knowledge accumulation among firms (Rodrik, 2009). This is in line with firm-level evidence that shows that patent rights have a positive and significant impact on the ability of firms to allocate their investment resources to research geared at developing new production techniques (Allred and Park, 2007). In a case study of the flower sector in Ecuador, Hernandez et al. (2007) highlight how industrial policy fostered coordination between production on the one hand and the transportation of flowers to foreign markets on the other. The authors highlight the role of the association of flower exporters in convincing the government to increase the number of cargo flights by its national airline in order to promote the production and export of flowers. Empirical evidence from Teixeira et al. (2014) shows that sub-Saharan Africa fails to ignite industrialization due to the support for production processes that are beyond its human and financial capacities. The authors argue that most countries failed because they promoted capital intensive sectors rather than capitalizing on their comparative advantage in labour and natural resources. Hornsby (2012) critically examines Kenya's industrialization history in manufacturing private vehicles in the mid-1980s. Chang (2013) examines four common industrial policy challenges argued to be the most binding in the African context. These include structural impediments such as climate, geography, culture and history; the abundance of natural resources; political economy issues; and bureaucratic capabilities. The institutional constraints arise due to interaction of firms with government to comply government regulations (World Bank, 2003). This has effects on the activities of firms like the infrastructure and financial constraints. The influence of institutions on economic development is highly acknowledged. Rodrik et al. (2002)

finding shows that the direct effect of good institutions on income is positive and large. There indirect effects of institutions are also numerous. It can increase investment, manages conflicts and ethnic diversity and hence an incentive for higher productivity and efficiency (Baumol 24 1990).

Alaba (2006), Lyakurwa (2007), Biggs (2007) are among the studies on that showed the effect of poor institutions on the manufacturing sector in SSA. They found that delays associated with license and work permits, larger number of documentations and signature requirements are some of the features of institutions in SSA. Ownership structure can be government, private, foreign or joint ventures. While the effects of foreign ownership on growth of firms are controversial, government owned firm growth is generally poor (Beck et al., 2005). Most the studies conducted in Ethiopian are consistent with other literatures. Kefyalew and Tsegabirhan (2010) show dissatisfaction of exporting firms with the quality of infrastructure, finance and institutional services. However, their study revealed modest improvements over time with the exception of power supply. The econometric result revealed a positive effect of R&D and foreign/joint venture ownership. Admasu (2005) examined the distribution of productivity with in an industry to determine whether patterns of firm entry, exit and survival are driven by efficiency differences. The study found that markets of Sub-Saharan Africa, as represented by Ethiopia, are efficient in selecting efficient firms and the tolerance of inefficient firms declines with exposure to international market competition. However, despite their validity, Chang (2013) argues that these arguments are largely theoretical and lack any empirical support. Chang argues that what African countries need is a deeper understanding of how to get industrial policy right by implementing sound and timely government interventions.

2.2.1.4. Infrastructure

Infrastructure is one of the major factors for industrial development. Power, transport and communication are its key elements. It matters a lot for competitiveness of firms. Acquiring information, input procurement and getting market require more resources of the firm in countries of poor infrastructures (WB, 2003). It increases the cost of operation and reduces the degree of competitiveness and at a worst case it can be an entry barrier (Mahmood, 2006; WB, 2003). Getuhailu(2014) studied on Impact of Private Manufacturing Investment on Local Economy a Case Study at Mekelle zone the author found that constraints include high land lease rate, bureaucratic hurdles to secure land and absence of infrastructure service. Hulten, Bennathan

and Srinivasan (2006) found a strong link between physical infrastructure and manufacturing productivity in India. Adenikinju, (2005) showed that the poor state of electricity supply imposed significant costs on the business sector in Nigeria. The study further showed that the small sale operators are heavily affected due poor financial position to deal with power interruptions.

Finance Cost

Benefit analysis whether to invest or not works only in enterprises that have no credit constraint (WB, 2003). This depends on the development state of financial sectors. Mahmood (2006) stated health financial sector improves access to finance and by then allows expanding production as per the expected potential. Firms in developing countries suffer largely from shortage of finance. Harhoff and Korting (1998), Saibal (2007) argued that lack of external sources of finance is a major constraint for investment. Saibal (2007) listed three major problems associated with the external sources; information asymmetry between lenders and borrowers, managerial agency problem, and high transaction costs. Gale and Hellwig (1986) also emphasized the problems of adverse selection and moral hazard as a cause for credit rationings. Binks and Ennew (1996) highlight the importance of collateral as a means of mitigating the information asymmetry to credit access at bank. In the case of Sub-Saharan Africa, Biggs (2007) argued collateral values and interest rates are very high and loan approval processes are inefficient. Mbekieani (2007) emphasized the inadequacy of trade finance as another constraint for exporter's capability. His study further emphasized high transaction costs, lack of expertise in financial markets and lack of information communication technologies is a feature of the financial markets in SSA.

2.2.1.5. Access to Raw Materials and Technology Utilization

High dependency on imported raw materials and intermediate goods has remained the distinguishing feature of the Ethiopian manufacturing sector. The main reasons for high dependency on imported raw materials were unavailability of raw materials in the local market and lack of sufficient local supply. Inadequate and poor quality imported raw materials and technologies, along with low level of technical skills, top the lists of the problems facing the sector. Series of surveys conducted by the Central Statistical Agency (CSA) on the manufacturing sector consistently reported that more than 50pc of firms claim that their first 26 major reasons for their low capacity utilization is inadequate and poor quality raw materials. This calls for a concerted effort both by government and other stakeholders to seek ways and means

of enhancing domestic production of manufacturing raw materials thus reducing the outflow of the scarce foreign currency. The positive effect of human capital is confirmed in many studies. Almus (2002) found a significant effect of university degree or above on fast growing German firms. Poor education status of managers is a special human resource problem especially in technology adoption and selection (Maunda, 2005). Maunda (2005) further added that less educated managers face difficulty of considering consumer needs/preferences especially overseas markets. Admit and Getnet (2002) showed that the main source of output growth in the medium and large scale industries is capital followed by labor.

2.2.2. Opportunities of Investment

2.2.2.1. Institutional and Legal Environment

An Investment code was issued in 1992, which created space for private investment with a number of incentives. Investment Offices were also established at federal and regional levels to coordinate and facilitate private sector investment. A one-stop arrangement was also put in place to reduce the cost of doing business and expedite private investment implementation. Furthermore, the investment code was revised several times to improve the investment environment. The last revision was made in May 2002. Improvements introduced by the new Code that would help enhance the investment climate are the reduction of the minimum threshold for FDI to US\$ 100,000 for wholly foreign-owned ventures, to US\$ 60,000 for joint ventures, to US\$ 25,000 for joint investment in the areas of engineering, architectural, accounting and audit services, project studies or consultancy, and no minimum investment requirement for those exporting at least 75% of output.

2.2.2.2. Access to Land

Expedient access to land is an important input to enhance investment. However, it is recognized that impediments exist for the smooth progress of investors' desire for the implementation of projects. Such constraints include high land lease rate, bureaucratic hurdles to secure land and absence of infrastructure services. In consideration of these constraints, the Government is taking steps to considerably reduce the minimum lease rate and increase the supply of land to minimize escalation of prices during auction, streamline the bureaucracy involved in the identification and delivery of land, and prepare/develop infrastructure on plots to be offered for lease. Moreover, the Government plans to improve governance in all major towns and put in place a transparent

and investor friendly system to minimize the bureaucratic impediments in the delivery of land. The government and the private sector was continue to be engaged in consultations to reach an understanding on how to further improve the land lease system. Issues for future consultation was relate to lease policy collateralization of land held under lease and assisting investors in large-scale commercial farms to have access to agricultural land with basic infrastructure.

2.2.2.3. Peace and Stability

Peace and stability is a key factor for investment attraction and sustained economic development. Investors need free and fair conditions to be able to pursue productive activity. They also need to have conditions where contracts and property rights are respected and corruption is kept at its lowest possible level. The Federal Democratic Republic of Ethiopia (FDRE) constitutes a federal system of government where both economic and political responsibilities have been considerably decentralized giving more autonomy to regional and Woreda administrations with the objective of deepening the democratization process and bringing about improved governance. In order to deepen the decentralization process, implementing powers and responsibilities for resources allocation are being designed for Woreda and Kebele level administrations. The civil service reform program, which includes the judicial system, is being implemented. Overall, the democratization process has helped to create peace and stability in Ethiopia.

3. CHAPTER THREE RESEARCH METHODOLOGY

3.1. Research Approach and Design

The objective of this study was to examine the challenges and opportunities of investment activities in Burayu town. Therefore in pursuit of addressing the stated objectives mixed research approach were adopted to identify the key the challenges and opportunities of investment activities in Burayu town. Furthermore, for the purpose of this study descriptive research design was adopted to explain the challenges and opportunities of investment.

3.2. Population, Sampling Design and Technique

The population of the study encompasses firms that exist at Burayu town. As it is impractical to asses all existing firms found in Burayu, a simple random sampling were found to be the most appropriate for this study approach, because ‘information- rich’ cases can be selected so as to learn much about the issues that are important to the study (Patton, M. Q, 1990). The total population of the study is the total number of investments that exist in Burayu; accordingly, there were 786 investment activities in Burayu town, and hence, the population for this study is 786 firms.

Using Yamane (1967:886) (cited by Israel 2013) formula the specific sample size were determined. Totally, there were 1400 corporate level customers;

----- Equation 3.1

Where, n = the sample size

N= the size of population

e =the error of 8 percentage points

By using Yamane’s formula of sample size with an error 8% and with a confidence coefficient of 95% (Yamane, 1967), the calculation from a population of 786firms came up to a sample of 130 firms. Therefore, 130 firms were selected randomly.

3.3. Data Collection Methodologies

Semi- Structured questionnaires were used to get primary data from firm representatives. As secondary sources of data published journal articles, publications, books, websites and others will be used as found appropriate to the study. More specifically, a survey data on the challenges and opportunities were collected both from the firm owners, managers and both firm owner and manager to determine the challenges and opportunities of investment activities. Furthermore, descriptive analysis was used to describe the characteristics of the population.

3.4. Data Analysis Methods

The study was both quantitative qualitative data analysis techniques. Descriptive statistics such as tables, frequency tables and percentage were employed to describe the given data. Furthermore, SPSS version 21 was employed for the purpose of encoding and analyzing the data.

3.5. Reliability Test

Reliability is the degree to which an assessment tool produces stable and consistent results, Cronbach's Coefficient Alpha method was used to test the reliability of the data, and therefore, the data was 79.6% reliable

Case Processing Summary

		N	%
Cases	Valid	125	100.0
	Excluded ^a	0	.0
	Total	125	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.796	61

4. CHAPTER FOUR RESULT AND DISCUSSION

4.1. Introduction

There were a total of 786 investments in Burayu; the report of the district investment bureau shows 786 investments have got license in Manufacturing, Agro processing, Social service, Hotel & Tourism, and Real estate in a land size of 576, 0421m²Hektarwith a registered capital of Birr 8,400,340,000.130 questionnaire were distributed and 125 were successfully returned whereas 5were not returned

4.2. Demography of respondents

There were 125 respondents where all of them where males; in terms of education 3.2 percent of the respondents were PhD degree holders, 20.8 percent of the respondents were MSc/MA degree holders, 65.6 percent of the respondents were BSc/BA degree holders and the remaining 10.4 percent of the respondents were diploma holders. Furthermore, majority of the respondents were mangers of the firms followed by owner and owner and manager which account 31.2 and 25.6 percent of the respondents. In addition to these the average age of respondents was 35.89 where 50 and 25 were the maximum and minimum range of age of respondents.

Table 4.1 demographics of respondents

		Frequency	Percent
Gender	Male	125	100.0
	Female	0	0.00
	Total	125	100.0
Education	PhD	4	3.2
	MA/MSc	26	20.8
	Degree	82	65.6
	Diploma	13	10.4
	Total	125	100.0
Job position	Owner	39	31.2
	manager only	54	43.2
	owner and manager	32	25.6
	Total	125	100.0
	Mean	Maximum	Minimum
Age	35.89	50	25

4.3. Business characteristics of the sampled firms

With regard to the business nature when this survey was performed the firms were in three statuses pre-implementation, under implementation, and at operation. Accordingly, 30.4 percent of the firms were at pre-implementation stage i.e. not yet started construction but acquired investment license and/or land, 16.8 percent of the firms were under implementation i.e. under construction and/or installation of machineries) and the remaining 52.8 percent of the sampled firms were at operation i.e. at production stage. Furthermore, the firms had four types of legal forms, sole proprietorship (17.6%), partnership (14.4%), PLC (64.8%) and Share Company (3.2%).

The sampled firms are engaged in different business sectors food industry (29%), beverage industry (15%), textile and textile products industry (17%), leather and leather products industry (7%), wood product industry (8%), paper and paper products industry (8%), chemical and chemical products industry (7%), rubber and plastic industry (10%), computer, electrical and optical products industry (4%), electrical industry products (4%), basic pharmaceutical products (2%), Education sector (3%), printing and packaging industry (3%), Soap and detergent industry (4%) and Hotel industry's (4%). Furthermore, these firms create a job opportunity for a number of individuals, accordingly, 20.4 percent of the firms create a job opportunity for 1 to 20 employees, 27.2 percent of the sampled firms had 21-50 employees, 23.2 percent of the respondents had 51-100 employees and the remaining 11.2 and 8 percent of the sampled firms had an employee of 101-250 and above 250 respectively.

Table 4.2 **business characteristics of the sampled firms**

		Frequency	Percent
Operation Status of the firm	At pre-implementation stage i.e. not yet started construction but acquired investment license and/or land	38	30.4
	Under implementation i.e. under construction and/or installation of machineries)	21	16.8
	At operation i.e. production stage	66	52.8
	Total	125	100.0
Legal form	Sole proprietorship	22	17.6
	partnership	18	14.4
	Plc.	81	64.8
	Share company	4	3.2
	Total	125	100.0

Investment type	Food industry	29	23.2
	beverage industry	15	12.0
	textile and textile products industry	17	13.6
	leather and leather products industry	7	5.6
	wood product industry	8	6.4
	paper and paper products industry	8	6.4
	chemical and chemical products industry	7	5.6
	rubber and plastic industry	10	8.0
	computer, electrical and optical products industry	4	3.2
	electrical industry products	4	3.2
	basic pharmaceutical products	2	1.6
	Education sector	3	2.4
	printing and packaging industry	3	2.4
	Soap and detergent industry	4	3.2
	Hotel industry's	4	3.2
	Total	125	100.0
Range of employees	1-20	38	30.4
	21-50	34	27.2
	51-100	29	23.2
	101-250	14	11.2
	above 250	10	8.0
		Total	125

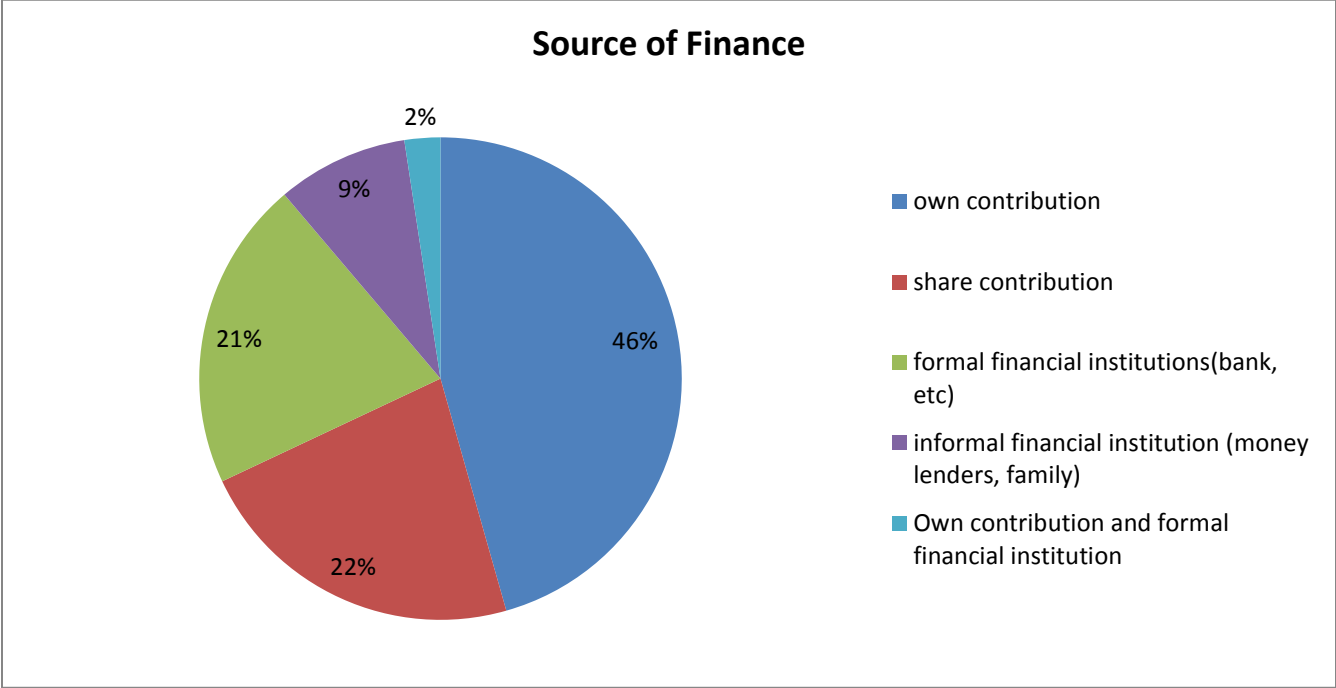
4.4. Challenges of investment in Burayu

4.4.1. Source and access of finance

Though the firms are engaged in different sectors, their starting funds had different sources; accordingly, 45.6 percent of the respondents confirmed that they establish and run their business using the fund coming from their own contribution, 22.4 percent of the respondents establish with share contribution and 20.8 percent of the firms were runs and establish with the fund sourced from formal financial institutions such as banks and microfinances. Furthermore, 8.8 and 2.4 percent of the respondents were establish and run their business using the money comes from informal financial institution and own both own contribution and formal financial institutions. Among those who took money from financial institutions replied that for 11.2 percent of them, it was easy to get the loan and money, for 66.4 percent of them it was moderately difficult to get the money, and for the remaining 16.8 and 5.6 percent of the respondents it was difficult and very difficult to have the money. Apart from this, after getting the investment permit 74 percent

of the firms were asked a loan from financial institutions whereas, 25.6 percent of them were not asked; however, among those who asked loan 64 percent of them asked difficulty, while the remaining 36 percent didn't get difficulty.

Figure 4.1 source of finance of firms



Respondents were also asked that if there were difficulty to access loan what were the problems and reasons that create the difficulties. Accordingly, among those respondents, 38.4 percent of them believed that collateral requirements of banks/financial institutions were the main reason for the difficulty, whereas, 61.6 not believe it is. For 45.6 percent of them bank paper work, bureaucracy, and delay in loan delivery are the reasons for the difficulty. Also, 40.8 percent of the respondents argue that the high interest rate the banks charged is the main critical reason for the difficulty, although, 59.2 percent of them didn't agree with regard the interest rate. Furthermore, 45.6 percent of the respondents also confirmed that inadequate credit/finance is the other critical factors for the difficulty of accessing loans, 56 percent of the respondents also feel that banks require detailed feasibility study information on customers, is the other difficulty that makes firms to access loan. In terms of ranking the factors, detail feasibility, inadequate credit

and finance, and bank bureaucracy are the first three important factors that constraint firms to get loan from the financial institutions.

Table 4.4 list of problems for loan accessibilities

Problems	Yes	No
Collateral requirements of banks/financial institutions	38.4	61.6
Bank paper work/bureaucracy/delay in loan delivery.	45.6	54.4
High interest rate	40.8	59.2
Corruption of bank officials:	8.0	92.0
Inadequate credit/finance	45.6	54.4
Banks require detailed feasibility study information on customers:	56.0	44.0

4.4.2. Quality and integrity of public service (infrastructural facilities)

Under this sub-topic, whether the overall quality and efficiency of infrastructure facilities and services delivered by different public service authorities and agencies create investment status delay in the study area. Accordingly, there were eight public organizations were identified which basically believed to have a connection with investment activities, Roads department/authorities, Telephone Authority, Electric power co/agency, Water/sewerage agency, Port service office, Investment Office, Municipality and Customs and revenue authority. Among the respondents 51.2 percent of them argues that road authorities are the cause of delay, while, 48.8 percent not believe; 52 percent of the respondents say telephone authority is also the cause for investment delays, 68 percent of the respondents also say electric power authority is the other factor for the delay of investment services in the district, 52.8 percent of the respondents also replied that the service water/sewerage agency are the other delay factor for investment activities, while 47.2 percent of the respondents didn't agree on that. The investment service office was also the other factor mentioned by respondents as a delaying factor for investment activities which was replied by 44 percent of the respondents, in this regard 56 percent of the respondents didn't agree with this, meaning that the investment office is not the factor for the delay. Furthermore, with regard to the municipality, 39.2 percent of the respondents replied that the municipality is one of the reasons for the delay of investment activities in the study area. In addition to the above mentioned the other government authority is customs and revenue authority

concerning this government institution 39.2 percent of the respondents confirmed that it is one of the factor that cause a delay investment activities in the study area.

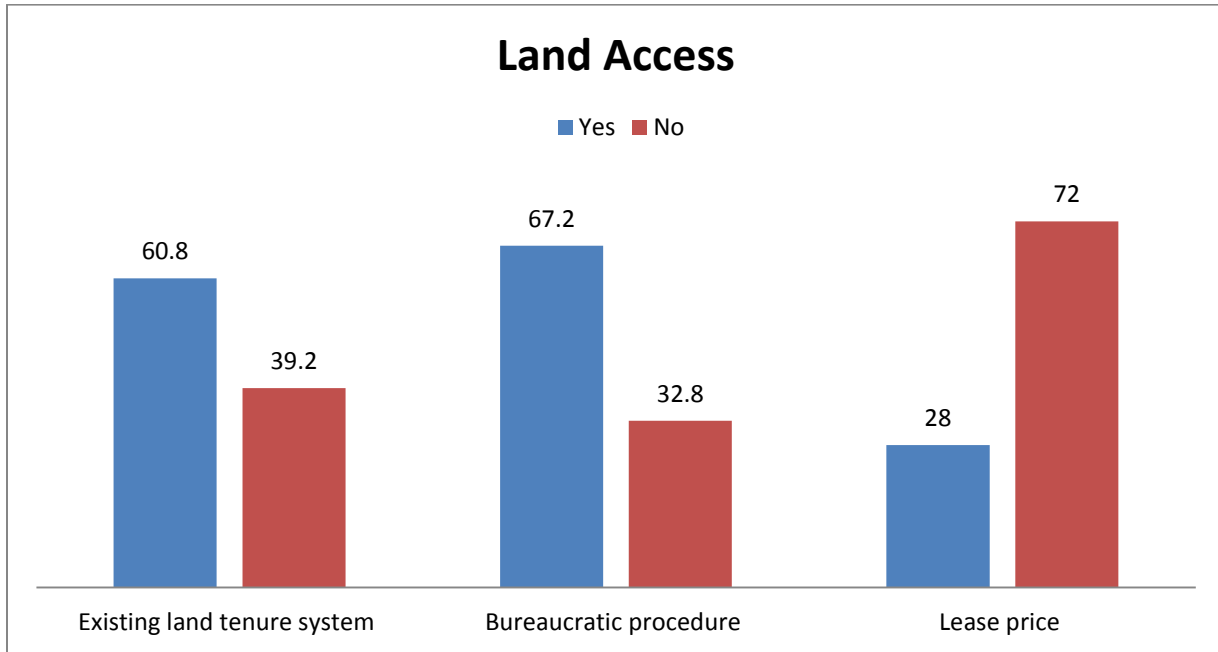
Table 4.5 public agencies service and investment delay

Public agencies or services	Yes	No
Roads department/authorities	51.2	48.8
Telephone Authority	52.0	48.0
Electric power co/agency	68.0	32.0
Water/sewerage agency	52.8	47.2
Investment Office	44.0	56.0
Municipality	39.2	60.8
Customs and revenue authority	39.2	60.8

4.4.3. Access to land

The firm representative also asked specifically about land related issues which is in related to land access, size, and lease price in getting land for investment. Accordingly, 68 percent of the representatives replied that they got a difficulty in land service regarding accessibility, lease price and size. Among the difficulties of land access it is replied by 60.8 percent that existing land management system is the cause for the delay of investment activities at the study district, on the other hand, 39.2 percent of the respondents replied that the existing land management system was not the problem. 67.2 percent of the respondents also said that the existing bureaucratic procedure is the other main cause of delay in investment activities; on the other hand, 32.8 percent of the respondents said that bureaucratic procedure was not any more factors for the delay. Apparently, 28 percent of the sampled firm representative replied that lease pricing was one of the main factors for the delay of investment activities. In terms of ranking investment delay factors the number one factor that constraint investment activities in Burayu is bureaucratic procedures of government organizations followed by the existing land tenure system and lease pricing.

Figure 4.2 land accessibility



4.4.4. Judicial/Legal System

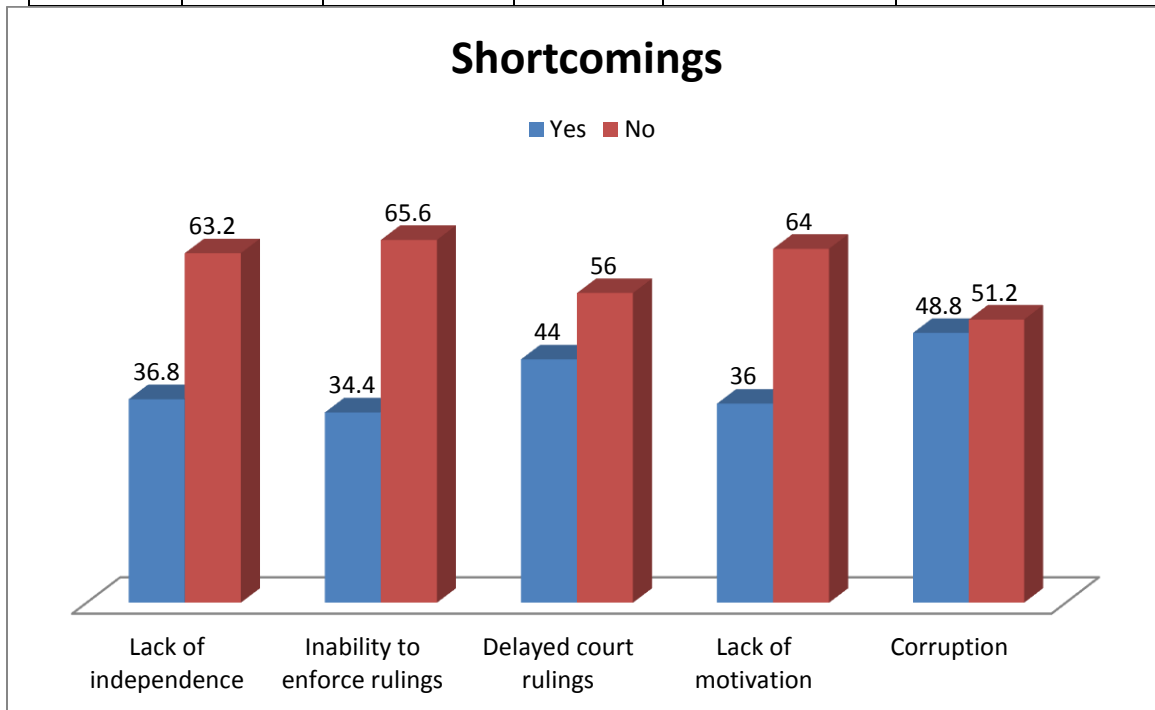
Judicial and legal system is one of the critical factors in investment activities, licensing, and permission. In line with this, the firm representatives were asked if the judicial system like independency, motivation and corruption of employees and enforcing of rules in their investment region create investment status delay or not. Accordingly, out of the total respondents 52 percent of them agreed that the judicial and legal system such as corruption, law enforcement in the investment region and independency were the factors of investment status to delay in the study area. On the other hand 31 percent of the respondents didn't believe the judicial system is a cause or investment delay; apparently, 29 percent of the respondents of the sampled respondents neither agree nor disagree with regard to considering legal system as a factor for investment delay.

65 percent of the sampled respondent replied that judicial and legal system was the factor the makes the investment activities to delay; among the components of judicial system, 36.8 percent of the respondents infers that lack of independence was the reason why the investment activities are delayed; whereas, 63.2 percent of the respondents didn't support this argument. 34.4 percent of the respondents also replied that inability to enforce rules were the contributing factor of legal system for investment activities to delay, in relation of this 65.6 percent of the respondents didn't

agree. In addition to these, delays in court rulings were also the listed factor by 44 percent of the respondents, while the rest 56 percent of them said no with regard to considering court ruling as an investment delay factor. Apparently, 36 percent of the respondents replied that lack of motivation is a factor that makes investment activities to be delayed; while 64 percent of them were not agreed on this. 48.8 percent of the respondents also said that corruption is the main factors that contribute to delay investment activities in the district. In terms of ranking the factors, corruption was the number one factors that determine the delay of investment activities which was selected by the respondents followed by delayed court ruling and lack of independence.

Table 4.7 judicial system and shortcomings

		Frequency	Percent	Valid Percent	Cumulative Percent
Judicial	Yes	31	24.8	24.8	24.8
	No	65	52.0	52.0	76.8
	Neutral	29	23.2	23.2	100.0
	Total	125	100.0	100.0	



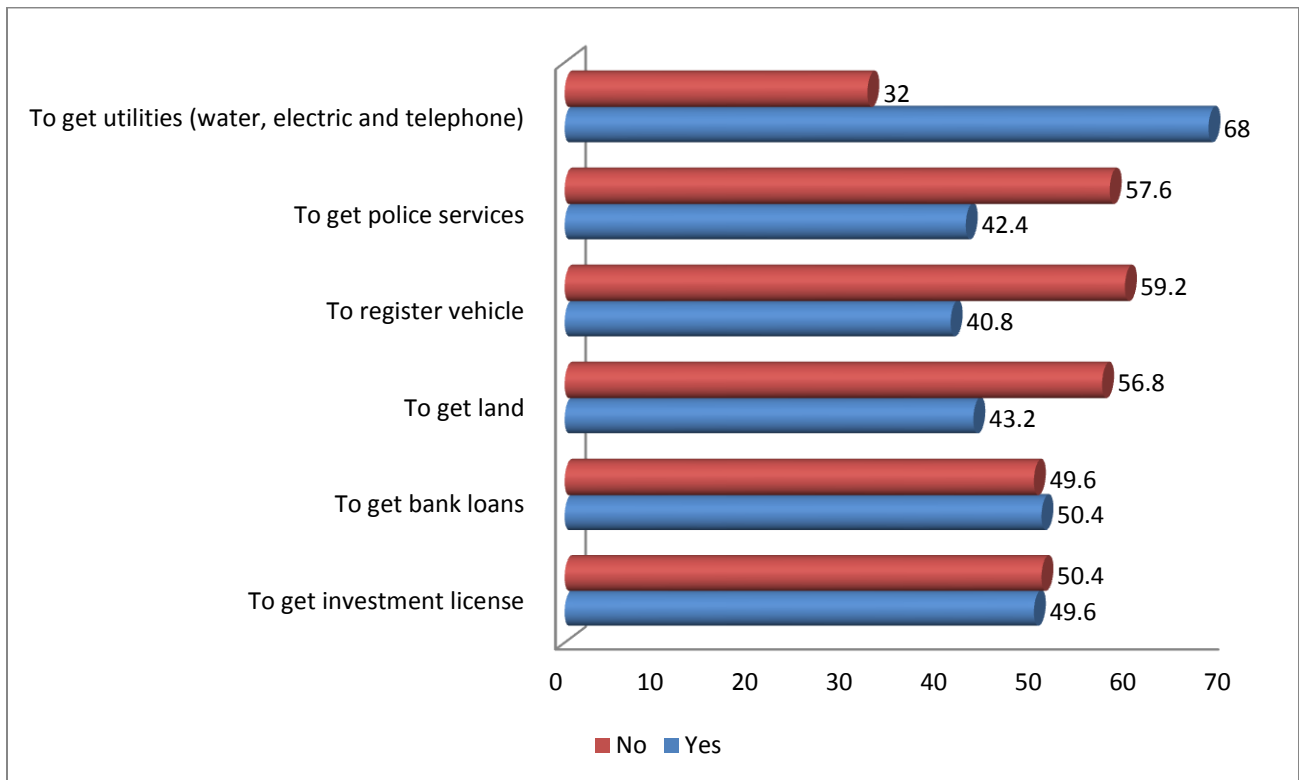
4.4.5. Bureaucratic red tape

Bureaucratic red tape is mostly claimed to be excessive, rigid or redundant or bureaucracy claimed to hinder or prevent action or decision making, in line with this, the study tried to

analyze whether the firms have been subjected to delays in getting public services like investment license, bank loans, land, and infrastructure utilities due to the bureaucratic red tape. Accordingly, 77.6 percent of the sampled firm representatives were replied yes, which imply their investment activities were subjected to delay in public services such as investment license, bank loans, land, and infrastructure utilities due to bureaucratic red tape. On the other hand, 22.4 percent of the respondents replied that bureaucratic was not anymore a problem for their investment activities.

In the previous paragraph it's been mentioned that majority of the respondents confirmed that their investment activities were red taped by bureaucratic system of the government authorities; in this regard the number one delayed services due to bureaucratic red tape was utilities such as electric, water and telephone service; the second service which was mentioned by the respondents which is delayed due to bureaucratic red tape was bank loan followed by investment license and land access. The first factor was selected by 68 percent of the respondents, and the second factor was selected by 50.4 percent of the respondents. The third factor which was investment license was selected by 49.6 percent of the respondents. The remaining factors were vehicle registration and police service which was selected by 40.8 and 42.4 percent of the respondents.

Table 4.8 bureaucracy and investment delay



4.4.6. Investment incentive structure

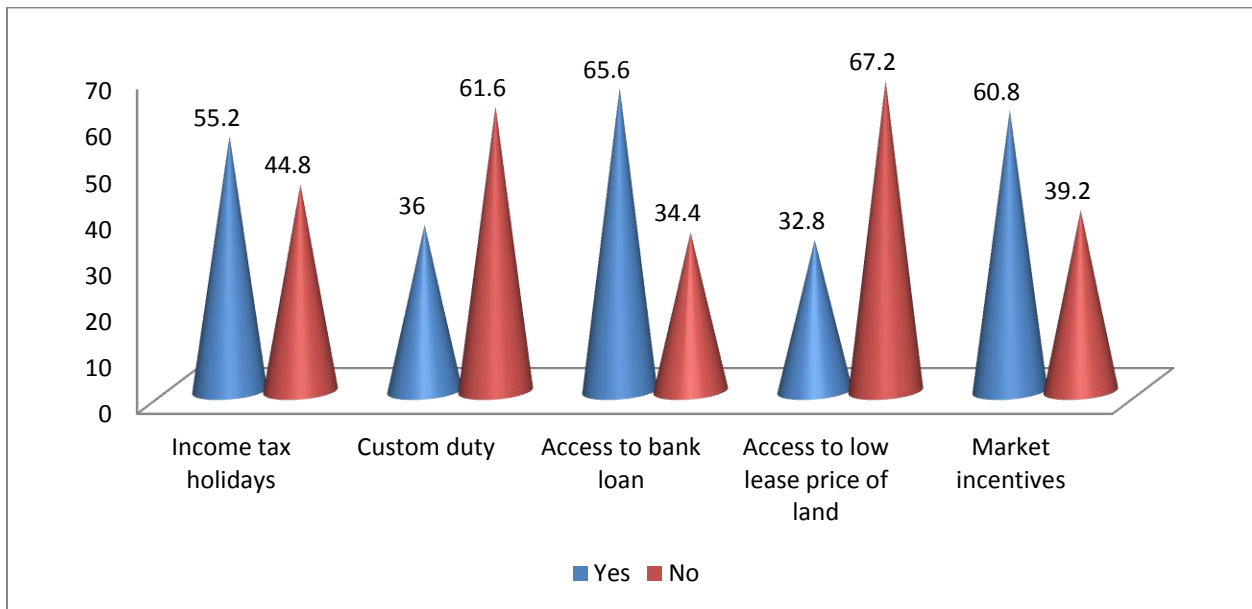
In many countries investment incentives is common to attract investors and encourage investments; likewise, under this study analysis were also performed whether or not firms delay the progress of their investment status due to not getting investment incentives like income tax holidays, custom duty free, and access to bank loan and land. In line with this, out of the total respondents, 54.4 percent of the respondent were replied that because of firms didn't get incentives such as income tax holidays, custom duty free, and access to bank loan and land they delayed their investment activities, on the other hand, 45.6 percent of the respondents replied they didn't delay their investment activities due to absence of investments.

Apparently, although majority of the respondents replied the incentive provided by government had strongly matter their investment activity. The firms were mention which of the investment incentives promotes them much to invest; Accordingly, the number one factor where investing firms need an incentives to provide for them was Access to bank loan, which was replied by 65.6 percent of the respondents; which indicate firms highly eager to had a loan from some financial

institutions for their investment activities. The second identified factor which is demanded by investing firms to incentivize them by the government was market incentives and accessibility, in this regard, 55.2 percent of the respondents need market incentives which is they need if the government create and establish some market chain for their products. Next to market, the investment owner firms need as an incentive is income tax holidays and custom duty which was selected by 55.2 and 36 percent of the respondents.

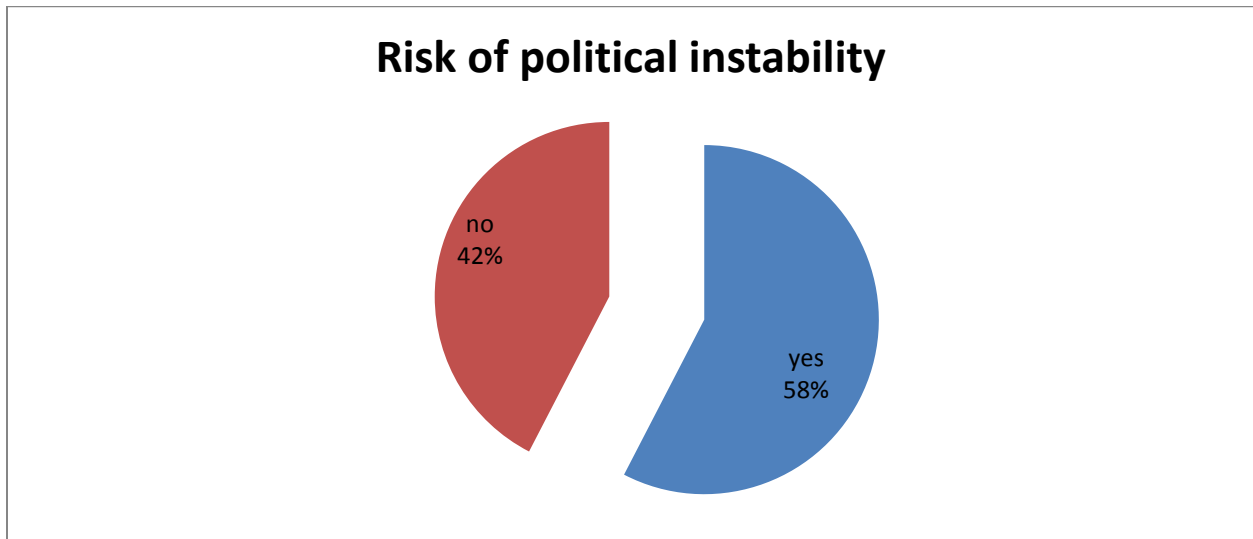
Table 4.9 investment and invectives

		Frequency	Percent
Investment status due to not getting investment incentives like income tax holidays, custom duty free, and access to bank loan and land	Yes	68	54.4
	No	57	45.6
	Total	125	100.0



4.4.7. Political stability

Political stability is the most significant factor for any investment activities; accordingly, the analysis is also consider whether or not the risk of political instability like border conflict, security system and trade restrictions exist and create investment status delay in the region. Accordingly, 57.6 percent of the respondents confirmed that the risk of political instability like border conflict, security system and trade restrictions exist and create investment status delay in the region. On the other hand, 42.4 percent of the respondents didn't believe that the political instability create investment delay.



Respondents were asked how they rated the joint efforts among government institution or stakeholders in supporting and facilitating the activities of private investment in the locality; 4.8 percent of the respondent's rate as very weak, 8.8 percent of them rated as weak, 71.2 percent of the respondent's medium; and the remaining 15.2 percent of the respondents rated as strong. This implies as majority of the respondent choose medium scale the firms believed that the risk of political instability like border conflict, security system and trade restrictions exist and create investment status delay in the region moderately. Apparently, respondents were also asked how you got the service provisions of the investment offices and others that are found at different levels of administration; 6.4 percent of the respondents rate the service provision of investment offices as very poor, 16.8 percent of the respondent's rate as poor, and 40.8 percent of the respondent's rate as medium. Furthermore, 27.2 and 8.8 percent of the respondents rated the service provision of the investment offices as adequate and very adequate. Overall, the

descriptive analysis shows that majority of firm representative replied that the service provision of the investment offices rated as medium and adequate which implied the service of the investment as good.

Furthermore, firms visit investment offices and its administration offices at different times and period; the firm representatives were asked how did they see the competence of service providers of government institution found at different administration level of investment office; accordingly, majority of the respondents which accounts 45.6 percent of the respondents replied the service competence of the investment offices are less competitive; 45.6 percent of the respondents also said that they are uncertain about the competence of service providers at the office; however, the remaining 8.8 percent of the respondents confirmed that the competence level of service providers are competitive.

Efficiency is also the most important factor in delivering quality and satisfactory services for customers; in line with this respondents were asked how would they generally rate the efficiency of government in delivering services such as public utilities; accordingly, 2.4 percent of the respondents said that the government service delivery was very inefficient, 20.8 percent of the respondents rate as inefficient, and the remaining 44 and 32.8 percent of the respondents rate the service delivery of government as somewhat efficient and efficient respectively. As a conclusion the result of the descriptive analysis shows that the service delivery of the government was somewhat moderately efficient.

Table 4.10 political stability and investment

	Very weak	Weak	Medium	Strong	Very strong
How did you rate the joint efforts among government institution or stakeholders in supporting and facilitating the activities of private investment in the locality	4.8%	8.8%	71.2%	15.2%	0%

How did you get the service provisions of the investment offices and others that are found at different levels of administration?	Very poor	Poor	Medium	Adequate	Very adequate
	6.4	16.8	40.8	27.2	8.8
How did you see the competence of service providers of government institution found at different administration level of investment office	Uncompetitive	Less competitive	Uncertain	Competitive	Very Competitive
		45.6	45.6	8.8	
	Very inefficient	Inefficient	Somewhat efficient	Efficient	Very efficient
How would you generally rate the efficiency of government in delivering services (such as public utilities)	2.4	20.8	44.0	32.8	

4.5. Opportunity and favorable condition

Under this sub topic the opportunities and favorable conditions that exist in the district of the study area would be discussed in detail. The opportunities and favorable conditions were analyzed using twelve different items and questions. Accordingly, more than 60 percent of the respondents agreed that relatively better access to infrastructure such as road, communication, network, electric power etc. which gives an opportunity for private investment to grow, expand etc. on the other hand, 16.8 percent of the respondents replied that there is no infrastructural opportunity such as road, electric and network for private investment. The remaining 22.4 were uncertain about the infrastructural opportunity in the area.

More than 47.2 percent of the respondents agreed that there is an opportunity as demand in the area growing as population is growing which is favorable for manufactured and social service; on the other hand around 38 percent of the respondents didn't consider the growing population as an opportunity for their manufactured and social services. In this regard 14.4 percent of the

respondents were uncertain. Furthermore, 41.6 percent of the respondents agreed that there is an opportunity of demands for goods and service would be increase as economy of the country is growing, while, 24 percent of the respondents didn't agree on this. The remaining 34.4 percent of the respondents neither agree nor disagree with regard to the population growth and demand growth.

With regard to tax and administrative issue, more than 42 percent of the respondents confirmed that the other opportunity which is provided by the study area is tax level and administration competitiveness which is competitive to encourage the expansion and growth of private investment in the region; on the other hand, 36 percent of the respondents replied that tax level and administration is not competitive to encourage the expansion and growth of private investment in the region; the remaining 21.6 percent of the respondents were uncertain about the tax and administration issue.

More than 40 percent of the respondents also replied that Incentive packages available at regional and federal level are favorable for the growth and expansion of private investments in the study area; however, 31.9 percent of the respondents replied that incentive packages available at regional and federal level was not favorable for the growth and expansion of private investments; the remaining 26.4 percent of the respondents were uncertain about the issue. In addition to these, 39.2 percent of the respondents confirmed that political stability of the country and the region is favorable for the growth and expansion of private investments; although, 42 percent of the respondents didn't agree with this idea. Availability of both skilled and unskilled labor force at lower wage rate is the other good opportunity for investment in the study area; this was confirmed by more than 52 percent of the sampled respondents; in the regard around 29 percent of the respondents didn't agree with the existence labor as an opportunity.

More than 37 percent of the respondents also agreed that availability and easy access to raw materials and easy access to both domestic and international market is the good investment opportunity in the study area. However, 29 percent of the respondents neither agree nor disagree or they were uncertain about raw material and market accessibility. More than 41 percent of the respondents also agree that access to modern banking system, modern technology and large number of consumers with relatively better purchasing power is the other good opportunity for

investment in the study area, although, considerable number of respondents didn't agree with this.

Table 4.11 opportunities of investment

	Variable	SD	D	U	A	SA
1	Relatively better access to bas infrastructure such as road, communication, network, electric power etc. in the study area. Therefore, there un opportunity for private investment to grow, expand etc.	0.0	16.8	22.4	50.4	10.4
2	Demand area growing as population is growing which is favorable for manufactured and social service	16.8	21.6	14.4	17.6	29.6
3	Demands for goods and service as economy of the country is growing	12.8	11.2	34.4	22.4	19.2
4	Tax level and administration is competitive to encourage the expansion and growth of private investment in the region	12.8	23.2	21.6	34.4	8.0
5	Incentive packages available at regional and federal level is favorable for the growth and expansion of private investments	3.2	29.6	26.4	24.0	16.8
6	Political stability of the country and the region is favorable for the growth and expansion of private investments.	12.0	30.4	18.4	28.8	10.4
7	Availability of both skilled and unskilled labor force at lower wage rate	17.6	12.0	17.6	28.8	24.0
8	Availability and easy access to raw materials	8.0	34.4	29.6	19.2	8.8
9	Easy access to both domestic and international market	9.6	20.8	29.6	31.2	8.8
10	Access to modern banking system and modern technology	14.4	18.4	25.6	31.2	10.4
11	Large number of consumers with relatively better purchasing power	24.8	18.4	14.4	28.8	13.6
12	Proximity to export market	22.4	16.8	21.6	27.2	12.0
SD = strongly disagree, D = disagree, U = uncertain, A = agree, SA = strongly agree						

4.6. Discussion

Investments are demanded by most nations and countries to make their growth sustainable and as well as creating different job opportunity and increase the national and per capital income of the population; however, the investment activities were not go smoothly, although, still much efforts had taking places. According to Eresso (2018) the role of investment to the development of a nation is very large. Investment increases the productive capacity of an economy. It is a very

important to utilize untapped resource to create job opportunity for citizen, to increase foreign currency through import substitution and export promotion of a nation and facilitate the communication and cultural exchange of society. Likewise in Burayu, the investment activities are engaged in different business sector, the food, textile and beverage industry are the dominate investment activities; this investment activities are in different stages, some are in pre implementation, some are under implementation and others are on operation which they start production. In whatever stages are investments they face different challenges, likewise the investments which exist in Burayu area are challenged by different constraints although the extents are different; although feasibility studies are important for and project, in the study are the number one constraint to invest is investors requested very sophisticated investment feasibility study followed by inadequate financial resources. In line with this the study of Eresso (2018) also found out in Ethiopia difficulties of finance and lack of credits when investors started their business, and low encouragement from the investment offices are the major challenges of investment.

In addition to this, the existing infrastructural facilities are not good enough to operate the investment activities as well as operational activities such as electric service, telephone service and proper sewage systems. In support of this finding, the study of Tesfaw and Birhanu (2019) which is done in east gojam zone reflects the major bottlenecks of investment in East Gojjam zone are Administrative and policyrelated factors, Infrastructure related factors Macro economic variables which have a nationwide effect,unavailability of foreign exchange reserves and exchange rate fluctuations and Market related factors. The stud of Ayana (2017) in Jimma zone also identified factorsthat contribute to low investment activities, but, the general problems are seen from,government side, investors themselves and naturalfactors. The government has not made sufficient surveyon natural resources, has not gave much attention onthe development of infrastructural facilities, has not gavefair treatmentor incentives (i.e. based on politicalinvolvement), has not strengthen the exchange ofinformation and consultancy services for investors andothers. Therefore, problems of investment seem same in most places of Ethiopia although this study refers to current investigations. Apart from the above mentioned problems the study area had encircled with other factor those pullback investment activities such as the sluggish judicial system, the highly boring bureaucratic system to get utilities such as water,

electric, bank loans and investment license and to some extent lack of investment incentives and political instability.

5. CHAPTER FIVE CONCLUSION AND RECOMMENDATION

5.1. Conclusion

Investment activities among others are one of the basic factor that contribute for the development of a nation; constrains should be investigated and cleared periodically to late comfortable the investment ground to the investors. This study was conducted to investigate the challenges and opportunities of investment activities in Burayu town specifically. To more specific the study was intended to identify the types of investment activities involved mostly, to examine the challenges of private investment that impair the development of private investment and to find out the major opportunities of private investment activities in Burayu town. As a methodology descriptive research design was the main input used as a design and mixed research approach was employed where both quantitative and qualitative data were employed and narrated. Data was collected from 125 firm representatives although questionnaires were distributed for 130 firms. The questionnaires were a semi structured where both closed and open ended questions were included.

The findings of the study show that the firms were under three status pre-implementation, under implementation, and at operation. The firms are engaged on 15 different business sector where the dominant investment were food, textile and textile products, and beverage industry. Apparently the businesses are established on own funding source and some in collaboration with financial institutions. The findings of the study further shows a request of detail feasibility, inadequate credit and finance and banks bureaucracy was the main dominant problems observed with regard to load access; although feasibility is important. In terms of infrastructural challenges the most rated investors challenge in the woreda is Electric power, water and sewerage, telephone and roads authorities. Apparently, accessing land for investment activities is found the other problems of the study area. Apart from the sluggish judicial system, the highly boring bureaucratic system to get utilities such as water, electric, bank loans and investment license were highly constrained the investment activities in the district. To some extent lack of

investment incentives and political instability were the other obstacles for the low performance of investment activities in the study area.

The study also find out that the newly building infrastructural activities such as road, communication, network, electric power etc. is a good opportunity for the current and future private investment to grow and expand. The current number of population, population growth and economic growth is the other opportunity as demand in the area growing as population is growing which is favorable for manufactured and social service. In addition the availability of both skilled and unskilled labor force at lower wage rate is the other good opportunity for investment in the study area; the findings of the study also revealed that the availability and easy access to raw materials and easy access to both domestic and international market with a modern banking system, modern technology and large number of consumers with relatively better purchasing power is the other good opportunity for investment in the study area.

5.2. Recommendation

Based on the findings of the study the researcher forwards the following recommendations:

- One of the findings of the study is Limited access to finance to boost investment. Thus, the government should alleviate this problem by coordinately working with financial service providers found both within Ethiopia and abroad in order to make available funds for investment sector in addition to giving due attention to reserve foreign currency that useful for importing raw materials and capital goods.
- The inadequacy of infrastructure has been one of the major constraints for the investment in the study area. This study has identified that roads, energy, water supply and sewage system, and other facilities are not well developed to support the development of the investment and hence, the concerned body in the woreda should give due emphasis to solve this problem at least turn by turn.
- Serious effort is needed to improve and shorten the bureaucracy for the private sector. In this regard, the merits and qualification of people employed by government need to be assessed very carefully. Furthermore, business entry regulations and processes should be simplified to promote a dynamic and thriving private sector.

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APPENDIX

Survey Questioner

**ST. MARY'S UNIVERSITY Institute of Agriculture and Development Studies
Department of Development Management**

**TITLE OF THE STUDY: Challenges and Opportunities of Investment activities in the cause of
Burayu town**

1. Dear Sir/Madam

I am a master student in development Management in St marry university. I am conducting this research in fulfillment of the requirements for the Degree of Masters of Development Management. The purpose of the study is to determine the Challenges and opportunities of investment. The successful completion of the study and the realization of its objectives, in this regard, considerably depend on your genuine participation and cooperation in providing the necessary data through this questionnaire. The response you give in the questionnaire would be so valuable and hence, I extremely appreciate your effort and time taken in filling the same and returning it as soon as possible. Your willingness to participate in fact not only helps to complete this study but also benefits the sector in the country as well as in Burayu town.

Let you also feel free in providing the required data as all the information you give will remain confidential and only statistical summary and analysis to be reported in the study. In particular, I would like to assure you that your firm's name, your name, your position, and other personal information will remain anonymous (undisclosed) in any way in the study. In the future, if you need knowledge and professional advice regarding aspects of Investment practices, and performance, I would be very glad to do my best to work with you and your organization. You can use my telephone and e-mail address mentioned below for further contact. Thank you in advance for your cooperation and help!

Alemayhu, MS Candidate, St marry University

Address: Cell phone: ; e-mail:

Background Information

1. Name of the enumerator/interviewer: _____

Sign: _____ Date: _____ Mobile No. _____

1.1. Approved by Researcher: _____ **Sign:** _____

Comment, if any _____

1.2. Name and address of the firm: Name: _____

Address: kebele _____

1.3. Position of the interviewee (Please circle one):

1) Owner only 2) Manager only 3) Owner and Manager

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

1.5. Age of the respondent: _____ years

1.6. Educational level of the respondent (Please circle one):

1) PHD 2) MA/MSA 3) Degree 4) Diploma and Under

2. Basic business information

2.1. What is the status of your firm/organization? Please circle one.

1) At pre-implementation stage i.e. not yet started construction but acquired investment license

and/or land

2) Under implementation i.e. under construction and/or installation of machineries)

3) At operation i. e production stage

2.2. When did you get your investment permit for your firm from investment bureau? (Duration)

Date _____, Month _____, Year _____

2.3. If you are in the implementation and operation statuses, when did you start implementation status? (Duration) Date _____, Month _____, Year _____

2.4. If your answer in question No. 2.1 above is at operation phase (i.e. No. 3), when did you get your business license? Date _____, Month _____ Year: _____

2.5. What is this company's current legal form? Please circle one.

1). Sole proprietorship 2). Partnership 3). Private Limited company

4). Share Company 5). Others (specify) _____

2.6. What are the investment areas (types) of your firm? Please circle one or more if they are in one license.

- 1) Food industry
- 2) Beverage industry
- 3) Textile and textile products industry
- 4) Leather and leather products industry
- 5) Wood products industry
- 6) Paper and paper products industry
- 7) Printing industry
- 8) Chemical and chemical products industry
- 9) Rubber and plastics products industry
- 10) Other non-metallic mineral products industry
- 11) Basic metals industry (excluding mining of the mineral)
- 12) Fabricated metal products industry (excluding machinery and equipment)
- 13) Computer, Electronic and optical products industry
- 14) Electrical products industry
- 15) Machinery/Equipment industry
- 16) Vehicles, trailers and semi-trailers industry
- 17) Basic pharmaceutical products and pharmaceutical preparations industry
- 18) Others (specify) _____
- 19) Range of Number of Employees that you have: please tick (✓) street to you have

1-20 employees	21-50 employees	51-100 employees	101-250 employees	More than 250 employees

3. Source and access of Finance

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

- 1) Own contributions
- 2) Share contributions
- 3) Formal financial institutions (banks and Micro finance)
- 4) Informal financial sources (e.g. money lenders, family/friends)
- 5) Others (specify) _____

3.2. If your answer in question No. 3.1 above is other source in addition to the formal financial institutions (i.e. No. 4), can you judge their level of difficulties?

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

3.3. Please explain for your answer in question No. 3.2 above:

3.4. After getting your investment permit, have you ever asked financial institutions like bank for loan? 1) Yes 2) No

3.5. If your answer in question No. 3.4 above is yes, go to question No. 3.6. But, if your answer is no, after explaining the reason go to question No. 5.1.

3.6. If you asked to get a loan from financial institutions (like banks), have you experienced any difficulty in acquiring loan that create investment status delay (access to credit)?

1) Yes 2) No.

3.7. If practiced any difficulty in acquiring banks loan, what were the problems? (Please tick(✓) one from listed number under Yes or No)

No.	Problems	Yes	No
1	Collateral requirements of banks/financial institutions		
2	Bank paper work/bureaucracy/delay in loan delivery.		
3	High interest rate		
4	Corruption of bank officials:		
5	Inadequate credit/finance		
6	Banks require detailed feasibility study information on customers:		
7	Others specify		

4. Cost of Finance

4.1. If you asked for loan, does the level of interest payment for the loan from financial institutions like banks had high delay? 1. Yes 2. No

4.2. Please explain for the answer to question No. 4.1 above:

5. Quality and Integrity of Public Services (Infrastructure facilities)

5.1. Does the overall quality and efficiency of infrastructure facilities/services delivered by the following public agencies or services create investment status delay? Please Tick(✓) one from listed number under Yes or No)

No.	Public agencies or services	Yes	No
1	Road department/authorities		
2	Telephone Authority		
3	Electric power co/agency		
4	Water/sewerage agency		
5	Postal service/agency		
6	Port service office		
7	Investment Office		
8	Municipality		
9	Customs and revenue authority		
10	Others (explain) if any....		
11			
12			

6. Access to land

6.1. Do you encounter any delay problem like procedure to access, size and lease price in getting land for investment?

- 1) Yes 2) No

6.2. if your answer is no, please provide your reason -----

6.3. To get land for your investment, what were the problems;

No.	Land access	Yes	No
1	Existing land tenure system		
2	Bureaucratic procedure		
3	Lease price		
4	Other (specify) _____		

From the problems to get land for investment in question No. 6.3 above, List from the first to the third most severe problem. (Please fill the number on the given black space)

_____,
and _____

If your answer in question No. 10.1 above is yes, go to question No. 10.3. But, if your answer is no, after explaining the reason go to question 11.1.

11. How did you rate the joint efforts/harmonization! among government institution or stakeholders in supporting and facilitating the work/activities/ of private investment in the locality?

a) Weak ----- b) very weak----- c) medium ----- d) strong -----e) very strong ---

12. If your answer for question No I above is "Yes", please specify the kinds of services you got and the benefits you achieved as a result-----

13. How did you get the service provisions of the investment offices and others that are found at different levels of administration? to assuming good governance service

a) Very poor----- b) poor ----- c) medium -----d) adequate -----e) very adequate

14. How did you see the competence of service providers of government institution found at different administration level (investment office)

a) Competitive ----- b) less competitive --- c) uncertain --- d) uncompetitive -----

15. Please comment on the service provisions of investment office to what extent they are transparent, responsive, and accountable to their activities and respect the rule of law?

16. How would you generally rate the efficiency of government in delivering services (such as public utilities)

Very inefficient ----- b) inefficient-----c) somewhat inefficient---- d) efficient ----- e) very efficient -----

opportunity and favorable condition related questions

The followings are opportunities and favorable conditions related questions 10 boosting investment activities in the area (Burayu). Please, rate them according to your perceptions

Where, 5=strongly 4=disagree, 3=uncertain, 2= agree and 1 = strongly agree.

S/N	Variables	strongly	Disagree	uncertain	Agree	Strongly agree
1	Relatively better access to basic infrastructure such as road, communication, Network, electric power etc. in the study area. Therefore, there is an opportunity for private investment to grow, expand etc.					
2	Demand area growing as population is growing which is favorable for manufactured and social service					
3	Demands for goods and service as economy of the country is growing					
4	Tax Level and Administration is competitive to encourage the expansion and growth of private investment in the region					
5	Incentive packages available at regional and Federal level is favorable for the growth and expansion of private investments					
6	Political stability of the country and the region is favorable for the growth and expansion of private investments.					
7	Availability of both skilled unskilled labor force at lower wage rate					
8	Availability and easy access to raw materials					
9	Easy access to both domestic and international market					
10	Access to modern banking system and modern technology					
11	Large number of consumers with relatively better purchasing power					
12	Proximity to export market					

Please state any problem that you think as constraints in running business or investment activities in Burayu city Administration -----

& any favorable conditions or opportunities in investing in the area both for potential and existing investor