ADDIS ABABA UNIVERSITY

COLLEGE OF DEVELOPMENT STUDIES

INSTITUTE OF REGIONAL AND LOCAL DEVELOPMENT STUDIES

CONTRIBUTIONS, PROSPECTS AND CONSTRAINTS OF AGRICULTURAL PRIVATE INVESTMENT IN METEKEL ZONE: BENISHANGUL GUMMUZ REGIONAL STATE

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A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF ADDIS ABABA UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE IN MASTER OF ARTS IN REGIONAL AND LOCAL DEVELOPMENT STUDIES

JUNE 2009

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Acknologment

Thanks to almighty God, who gave me courage and perseverance to complete this program.

I would like to express my sincere gratitude to Dr. Issac Paul, my advisor, for his advice and guidance starting from the inception of the research topic to its completion. My thanks also go to experts in BGRS Regional Investment Promotion Office and Revenue Authority, Woredas Revenue, Agricultural and Rural Development Offices and Woredas' chief administrators in Metekel Zone, for supporting me in providing valuable information and cooperation.

Further, my acknowledge goes to IRLDS of AAU who support me financially for the research work and also to BGRS Regional Council office who supported me financially, materially and morally throughout the research work.

JUNE, 2009

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Acronyms/ Abbreviation

ART - Anti Retro- Viral Treatment

BGRS- Benishangul Gummuz Regional State

BGRSIPO- Benishangul Gummuz Regional State Investment promotion Office

BGRSRA- Benishangul Gummuz Regional State Revenue Authority

BOFED- Bureau of Finance and Economic Development

CRS- Corporate Social Responsibility

CSA- Central Statistics Agency

ECA- Economic Commission for Africa

EEA- Ethiopian Economic Association

EIA- Ethiopian Investment Agency

FDRE- Federal democratic Republic of Ethiopia

EPRDF- Ethiopian Peoples' Revolutionary Democratic Front

ETB- Ethiopian Birr

FDI- Foreign Direct Investment

FDRE- Federal Democratic Republic of Ethiopia

GDP- Growth Domestic Product

GIS- Geographical Information System

GNP- Growth national product

HASIDA- Hand craft and Small Scale Industries Development Agency

MMWP- Making Market Work for the Poor

NBE- National Bank of Ethiopia

NIAC- Newly Industrialized Asian Countries

OECD- Organization for Economic Co-operation and Development

PPP- Public-private partner

RIS- Regional Information System

SAP- Structural Adjustment Program

SMEs- Small and Micro Enterprises

SPSS- Statistics package for Social Science

SSA- Sub Saharan Africa

UNCTAD- United Nations Commission for Trade and Development

USAID- United States Aid for International Development

USD- US Dollar

VCT- voluntary counseling and Treatment

WB- World Bank

Abstract

This research was done in Metekel Zone of Benishangul Gummuz Region State with the objective of assessing the trend, level of contributions, constraints and prospects of agricultural private investment. The primary data for the research were collected through opinion survey. Questionnaires were filled in by sample investors and government bodies. Additional opinions were solicited through face-to-face interview and focus group discussions. Secondary data were obtained from relevant government offices at various levels.

The analysis showed that the trend of the projects in agricultural private investment showed fluctuation over the years since the commencement of private investment. It was found that agricultural private investment increased from 1993/94 to 1999/000. Conversely, the trend of investment projects showed decline from 1999/00 to 2005/06. From 2006/07 to 2007/08, the trend showed increment and progress.

The study also showed that although the number of workers employed in agricultural private investment sector in the zone was high in number (compared to other investment sectors) the quality of their life and work has not been in a good condition. Facilities in housing and transportation were better offered on the investment sites compared to health care services, subsidized food and drinking water. Many of the investment firms did not sign contractual agreement with the workers. There was also frequent turnover. As the result, the workers in agricultural private investment of the study area felt job insecurity and instability. The overall average contribution of government revenue from agricultural private investment was below one percent to the total annual revenue. The main causes for less contribution to revenue were less volume of the investment, weak tax administration and follow-up, less willingness of the investors to pay and long-term tax holiday allowed for annual crops and exit of investors.

Infrastructure, governance, financial institutions and market were found to be the determinants of agricultural private investment in the study area. Service delivery while obtaining land for investment was much delayed and the number of days it took was far more than the standard set. Road network, telecommunication, electric power and drinking water supply were poor and as such found to be the constraints to the sector in the study area. Road net work was the most highly needed and superior determinant factor for agricultural private investment among infrastructure facilities. Lack of road network resulted in lack of proper market for products, problems in providing supplies to the workers on the investment sites and made investors unwilling to invest in areas away from the woreda towns. The analysis mainly showed that bribe, practice of tax collection and administration, promotion and support for the sector, weak conflict resolution mechanisms and absence or low enforcement of investment related policies and laws were the main governance related constraints which negatively influenced expansion and contribution of agricultural private investment in the zone. Moreover, financial constraints had a negative impact on the utilization of resources such as land and productivity of the investors in the zone in the agricultural sector. Furthermore, the study showed that lack of transportation, distance of investment sites from niche market, lack of full demand in the area and low price were the main market constraints in the study area. Analysis also showed that the investments were not environmentally- friendly.

Regarding the prospects, with the optimistic view of most investors to expand investments and the amended investment law, the study indicated that there is possibility for private agricultural investment to contribute to the development of the region more than what has been achieved so far. Conversely, the various constraints have made some investors hold pessimistic view about the future investments and are thus possible threats to expansion and contribution of the sector.

Finally, the study was concluded by offering some recommendations that may help to overcome the constraints and may assist the government in policy formulation. The recommendations were offered in relation to improving working condition, government revenue generation, solving service delivery and bureaucratic problems, enhancing physical and financial infrastructure and natural resource conservation.

Key words: Government revenue, employment opportunity, physical and financial infrastructure, bureaucracy, enabling investment environment, casual employment, temporary employment, permanent employment, revenue forgone

CHAPTER ONE

1 INTRODUCTION

1.1 Back ground of the study

Investment is an economic activity that substantially contributes to the GDP of a country. Private sector investment contributes to development through transferring knowledge, introducing new technologies, creating jobs, boosting the overall productivity, providing tax revenue for the government, enhancing competitiveness and entrepreneurship and ultimately helping to eradicate poverty through economic growth and development (Asiedu and Brempong, 2008). It is recognized as a means to change the economic performance of a country and to increase supply and demand of goods and services, which in turn expands the domestic market and provides foreign currency through export and import. Besides, private sector economy has an advantage in securing social development by reducing poverty level, increasing income, narrowing regional inequalities and augmenting employment opportunities (Ninan and Lakshmikanthamma, 2001).

However, for a proper contribution of private investment for economic growth and development of a country, creating a favorable investment climate has a vital and decisive role. In East Asian countries, the miracle success of private investment was the creation of business-friendly environment; particularly, hospitable legal and regulatory frame works (Girma, 2004).

In Africa, the private sector investment has contributed less to the GDP of the countries compared to Latin American and Asian countries. The problem is acute in Sub Saharan Africa (SSA). The average investment rate in the sample African countries is 7.94 percent compared to 12.06 percent in Middle East and North African countries, 11.06 percent in other developing countries. Meanwhile, public investment has a larger share of GDP in Sub- Saharan Africa with percentage share of 8.31 than in other developing countries (6.91 percent). The figure excludes Middle East and North African countries, which have 14.1percentage share. But, as the result of Structural Adjustment Program (SAP), private investment in Africa has shown increment in 1990s and raised investment to GDP ratio than the period before (WB, *2000).*

In Ethiopia, before 1974, private investment was characterized by feudal economic system in which land was owned by the feudal lords. The private sector development and economic performance during the period was backward and slow even though the government was paying due attention to the privatization and modernization. From 1974-1991, the economy policy was influenced by the socialist ideology and the practice of private sector investment was undermined. After 1991, the private sector investment started again when the transitional government of Ethiopia issued investment laws and proclamation of privatizing public enterprises (Taye, 1995).

The development of agriculture in most developing and under developed countries is very less and underutilized. For instance, in Ethiopia, the agricultural sector contributes the largest share to the GDP, export trade earning and employment. Before 1974, the government began to promote the private sector and agricultural commercialization. On the other hand, during the Derge regime, the economic policy of socialism undermined agricultural private investment. From 1991 onwards, EPRDF government has introduced agricultural private investment policy and has privatized the state farms (EEA, 2005).

In line with investment promotion in Ethiopia, in Metekel Zone of Benishangul Gummuz Regional State, agricultural sector attracted private investors. Because of abundant natural resources and its suitability for agricultural investment, high number of agricultural private investment has been undertaken compared to the other types of investments. Production of crops such as soya beans, groundnut, sesame, sorghum and maize are the leading agricultural private investment areas in the zone. However, the flow and the operational status of such investments have fluctuated. For instance, since 2006/07, the number of investment projects has shown relatively rapid progress although it is not sufficient compared to suitability of the zone for agricultural investment. Therefore, the purpose of this study is to assess the status of private investment in agriculture in Metekel Zone and to identify the constraints, trends and future prospects.

1.2. Statement of the problem

In spite of the efforts that the Ethiopian government has made in promoting private investment, the contribution of agricultural private investment has not been to the desired level. Although the investment in the sector has showed improvement since 1991 compared to the previous period, it has not adequate in relative to the abundant natural resources in the country. For instance, the total percentage share of investment project in agricultural private investment out of total private investment in the country was 20 percent in the years 2005/2006 (EIA, 2008). The share even declined to 17 percent in 2006/07 (NBE, 2007). The corresponding figure for Metekel Zone was 19.35 percent in investment projects, 60 percent in employment and 72.5 percent in investment capital in 2004/05 and was declined to 9 percent in investment projects, 55.3 percent in employment opportunity and 40.5 percent in investment capital in the year 2005/06 (BGRSIPO, 2008). This shows that less volume and declining trend of agricultural private investment in the country in general and in the study area in particular, and hence its contribution for development has been low.

Furthermore, in Metekel Zone of Benishangul Gummz Region, the number of private agricultural investment projects before 2005/06 was very small. As BGRSIPO (2008) data revealed that the maximum number of agricultural private investments throughout the years 1993/4-2005/06 was 12 whereas the minimum was one. Besides, employment opportunity and investment capital has fluctuated overtime. This can be evidenced by decline of number of investment projects from 12 in 1998/99 to 3 in 2005/06. Similarly, employment opportunity and investment capital have also declined from 10,862 to 2,177 and 161, 141,463 to 12,701,100 respectively in the same period above. This shows that most of the investors who were registered and started operations in the earlier periods terminated operation in the following years (Ibid). The underlying causes or constraints leading to such exit of the investors after investing for few years in the sector and reasons for absence of addition of more projects in spite of suitability of the zone in terms of climate and natural resource has not been researched so far.

On the other hand, official data of the Regional Bureau of Finance and Economic Development (BOFED, 2008) as of the year 2006/07 revealed that about 124 projects were registered for investment in Metekel Zone. However, the operational status was 60 percent

showing that not all the projects started operation or have proceeded according to the intended plan and that their operational status has been very low. Further, according to (BGRSIPO, 2008) most investors utilized less than quarter of the obtained land and some investors have terminated or have been dismissed and others have taken a long period for preparation. The constraints behind the problems have not been well identified and need further research.

Different research results depicted various reasons for less volume and declining trend of private investment in general and agricultural private investment in particular. According to ECA (2008), the factors that have impeded the growth and contribution of agricultural private investment in Africa are misguided policies, poor access to financing and insufficient investment, poor infrastructure, inadequate development/management of the natural resource and poor access to agricultural innovation. Everhart and Sumlinski (2000) stated that the trend of private agricultural investment in SSA showed a declining trend in most cases and remained constant in some others mainly due to prevalence of corruption and weak government service delivery. Furthermore, Getachew (1995) suggested that infrastructure, governance, corruption, financing and system of enforcing legal and regulatory systems are major constraints of private sector investment in Ethiopia. Girma (2004) stated that absence of incentive scheme, poor infrastructure facilities, and less promotion abilities are considered to be the main obstacle for private investment in Ethiopia. Besides, EEA (2005) revealed that the realization to develop the agricultural investment sector in Ethiopia has not been as expected compared to huge resource endowment for agriculture mainly due to lack of security of land tuner, problems related to peace and security and poor infrastructure.

The various reasons forwarded for low contribution of private agricultural investment to development and its stagnant nature were not convergent as discussed above. Besides, as privatization is a recent phenomenon in the country, adequate researches have not been done on agricultural private investment. Hence, this study attempts to contribute to the efforts of filling the stated research gap.

In Ethiopia, direct tax revenue generated from agricultural sector is only 3 percent while 85 percent of the population is depending on the sector (EEA, 2005). It is needless to say that

this fact is partly a reflection of low level of agricultural private investment. Likewise, the overall share of government revenue from agricultural private investment in BGRS was estimated to be less than 1 percent per annum since its commencement (BGRSRA, 2008). On the other hand, the percentage share of employment in the agricultural investment sector in the country was very large. In the fourth quarter of 2007/08, it accounted 67.2 percentage share at the country level (NBE, 2008) and 91.4 percentage share in Metekel Zone in 2007/08 (BGRSIPO, 2008). This shows that unlike government revenue, employment opportunity created/contributed from agricultural sector has larger than the other sectors both at the country level and in the study area. However, the work condition of employees, the actual distribution of workers per project, whether the planned employment opportunity has actually been utilized or not have not been assessed and hence need further research.

1.3. Objectives

1.3.1. General Objectives

The general objective of the study was to analyze the contribution of agricultural private investment for development (revenue and employment opportunity), and to find out the constraints that prohibit the agricultural private investment not to perform well and support the economic development of the zone. Besides, it tried to assess the prospects and opportunities of agricultural private investment in the development endeavor of the zone.

1.3.2. Specific Objectives

The specific objectives of this research were:

- To examine the trend of private agricultural investment over the past 15 years,
- To assess the employment opportunities that agricultural private investment created, and the level of workers' satisfaction,
- To assess the level of government revenue that has been generated from agricultural private investment,
- To analyze the opportunities and prospects for agricultural private investment growth in the zone,
- To identify the constraints that hindered the growth of agriculture private investment in the zone.

1.4. Research questions

The main research questions were:

- What is the trend of agricultural private investments during the past fifteen years?
- To what extent agricultural private investment has created job opportunities for the people in the study area?
- Are workers in the investment projects satisfied with the employment?
- What is the level of government revenue that has been generated from agricultural private investment?
- What are the prospects of agricultural private investment in the study area?
- What are the constraints that impede the growth of agriculture private investment?

1.5 METHODOLOGY

1.5.1 Sources and Types of data

The data were collected from two sources; primary and secondary sources, which complement each other. The data from both sources included qualitative and quantitative data. Primary data were collected through questionnaires, interview, focus group discussion and direct observation. The secondary data were collected from books, journals, official reports, UN working papers, websites, legal documents, CSA reports and from unpublished study documents.

1.5.2 Study Design and Data collection method

Sampling, sampling Procedure and Sample size

Sampling: The sample frame of the study was seven woredas in the zone and investors in these woredas. Among theses woredas three woredas were selected as sample area of the study. The sampling frame selection criteria were based on the list of investors from the regional investment promotion office in the three sample woredas (Pawi, Dangur and Guba woredas). The selection criteria depended on registered investors who have started operation and who have not started operation. These two categories were further stratified into sub-sectoral distribution of cash crop producers[1] and non cash crop producers or both[2]. This helped to get detailed information in

[1] Cash crops are sesame, ground nut and soya bean

[2] Non-cash crops and both (cereal crops such as maize and sorghum and other include animal husbandry),

various forms to examine the impact and depth of constraints and employment absorbing and retention capacity of the investors. In addition, it helped to know the willingness and capacity of investors to pay government revenue according to the sectorial variation.

The reason why the zone was chosen as universe of the research area from the three zones of the region was from the suitability of the zone for agricultural investment with different ecological zones, adequate arable lands, high potential for productivity and high number of investment projects are observed. Further, the area's accessibility for the researcher and the researcher's familiarity with the zone are additional reasons for selection of the study area.

Similarly, the three sample woredas were chosen as representative sample among the seven woredas in the zone. Because, agricultural private investment in these woredas have been registered in a different ways. They were chosen to represent high number of agricultural private investment area, medium investment project area and low number of investment project area. To this end, Guba woreda was chosen as the largest agricultural private investment project area, while Pawi woreda was selected as the few number of agricultural private investment projects area. In the same way, Dangure woreda was selected as the woreda with average number of agricultural private investment projects relative to other woredas but where frequent termination of this investment sector have been observed. Accessibility issue was also taken in to consideration.

Sampling Procedure: The procedure of data collection from the sample survey was stratified probability sampling. The reason for the selection of stratified sampling method is that selecting investors according to their operational status and sub-sectoral distribution, that is, investors who do not start operation and who have started operation / proceeding production. The two stratums were further categorized in to two major sub sectors, only cash crop producers and non –cash crop producers or both and then the representative investors were selected randomly from the stratums according to their proportion assigned by percentage. For the respondents from government bodies, key informants, selected community members and group discussants at woreda and regional level, the selection criteria were purposively done by selecting those who have information and accessible to agricultural private investment activities. After the groups of investors were selected as per their stratum, representative sample size of 70 percent was systematically selected with the proportion number in their stratum.

1.5.3 Methods of data collection

The research method used in this study was multi-stage cross-sectional survey design. It was chosen in order to collect data from sample investors in the sample woredas and helped to get more information from large areas in a particular period. The data were also gathered from respondents including government officers, experts in government offices, private sector workers and selected community members in addition to sample respondents' survey to strengthen and substantiate the data collected from sample respondents. The size of the sample survey was selected from registered investors in the zone. Then representative sample investors were selected from the three sample woredas to identify the associations of the variables and to depict the achievements and draw backs of agricultural private investment. To strengthen the reliability of the data that were collected through primary source, secondary data from woreda and regional government offices was collected. It includes reports of government revenue generated from agricultural private investment, expected employment opportunity and number of investors registered to invest and proceed operation per the plan, number of investors who have terminated and/ have been dismissed after registration or during operation and trends of agricultural private investment in the zone.

1.5.4 Data collection Instruments

The primary data collection methods included questionnaire, interview, focus group discussion and direct observation. The questionnaire was designed consisting of closed and open-ended items and distributed to the sampled investors, government officials and experts at woreda and regional level who are working in concerning bureaus. It was managed in two ways. The first type was prepared for the representative sample investors and the second for the government bodies. The questionnaire for the sample investors was mainly focused on capacity of the investors and how the investors treat the workers in the investment sites, status of government revenues collection, the willingness to pay taxes, constraints observed in the sector and prospects of agricultural private investment in the zone. In the same way, the questionnaire prepared for the respondent government bodies mainly included causes of less revenue generation in the zone, constraints of the investment and condition of government tax administration and control.

Besides, semi- structured interview was prepared for the informants, such as officials and experts at the region and woreda level, key informants from selected investors and workers in

agricultural private investment and thirdly for the selected community members. Mainly, it included how the workers make their living, state of deforestation and natural resource conservation, causes for the termination and/or dismissal of the investors, reason for declining and recently increasing trends of the investment and future prospects and included other related issues. There was also focus group discussion with the community members selected from the sampled woredas. These group discussions included mainly, way of natural resource conservation, community participation while offering lands for investment and status of security. Further, the researcher carried out direct observation in the sampled woredas. The observations focused on living condition of the workers at the investment site, deforestation and status of investment land utilization.

3.1.4. Sample size and type of respondents for data collected by the different data collection Instruments

Questionnaire

The sample size for the investors in the study area was selected by taking the three sample woredas and 70 percent of the sample respondents from the total investors in the agricultural private sector. Since the total number of the investors in the sector in the sample woredas is not large (120 investors), for representative sampling 70 percent of the total investors was taken for sample size for strengthen its representativeness. The respondents were selected according to their stratum in the three sample woredas.

The proportion of the investor respondents that were selected for filling the questionnaire from each category and sub category was also done by assigning 70 percent for each stratum, which were then added to get the total respondents. Accordingly, 84 respondents were selected from the total investors as can be referred in annex 2.

In addition to respondents from the investors, data were also collected through the questionnaire from government bodies from the woreda and regional offices to strengthen the data collected from the respondent investors. Such as chief administrators, heads of Agriculture and Rural developments, two experts in the offices of Agriculture and Rural developments, heads of woreda revenue offices and two experts in the offices with 21 respondents were selected to

respond to the questionnaire. Similarly, six experts (3 from each regional government bureaus of Investment Promotion and Revenue authority) were selected for the questionnaire. In general, 27 respondents were selected for questionnaire from government offices at woreda and regional level. These respondents were selected to support the data collected from sample investor.

Totally, 111 respondents (84 investors and 27 government bodies) were selected and the questionnaires were distributed from both groups. From these questionnaires, 72 questionnaires were properly filled and collected from sample investors, 25 questionnaires were filled, and collected from the government employees. From 111 distributed questionnaires 97 questionnaires were properly collected and the analyses were made separately on the questionnaire collected from the sample investors and government bodies (the summarized respondent selection method for the questionnaire is included in annex 2).

Interview

In collecting the data through interview, the size of the interviewees was as follows. In the three sample woredas, 15 key informants were interviewed with five key informants from each sample woreda from the selected investors and workers in the investment projects. Furthermore, interviews were made with six individuals from woreda government offices (woreda administrations and revenue offices) and with four experts from Regional bureaus of investment promotion and Revenue authority offices (two from each bureau). In addition, interviews were made with nine community members in the three sampled woredas. In general, interviews were conducted with 34 individuals (10 from government offices, 15 from the investors and workers and 9 from community members).

Focus group discussions

Three focus group discussions were held by the researcher in the three sample woredas. In each focus group discussion, there were five discussants with the compositions of selected community leaders (prominent persons), individual farmers, investors or businesspersons and government employees. The discussants were chosen from prominent persons or informal community leaders, farmers who were permanently live in the woreda, investors were selected by taking those who invest at least for two years and know the area, and concerned experts in Woredas agriculture and rural development offices.

The data from primary sources were collected and managed by training and employing four enumerators, who distributed and collected the questionnaire and the interview helping the researcher. The data from focus group discussions were gathered by the researcher only.

1.5.6 Data Analysis and interpretation

After collecting and editing, the data were coded and analyzed using Statistical package for Social Sciences (SPSS version 15). Descriptive statistical tools like percentage, ratio, mean and correlation were used in analyzing the data. Variables such as Characteristics of the respondents, trends of agricultural private investment, condition of work, status of revenue and determinants of agricultural private investment were computed mainly using percentage and mean. The relationship between annual revenue, land utilization and land acquisition were analyzed using bivarate correlation method. Finally, status of natural resource and prospects of agricultural private investment were analyzed by percentage and qualitative description using information gathered through interview, focus group discussion and direct observation. The data were summarized descriptively using graphs, tables and inferences were made depending up on the analysis.

1.6 Scope of the study

The research was limited to an assessment of agricultural private investment in Metekel Zone of Benishangul Gummuz Regional State. It focused on agricultural private investment registered at the regional and federal level in the zone for the business purpose in the form of private limited share company, sole proprietor ship and partnership. Specifically, it attempted to assess the contributions of agricultural private investment for development with special emphasis on government revenue and employment opportunity and depicted the constraints in relation to the investors' termination and/or dismissal, administration/ governance, infrastructure, financial institution, market and natural resource conservation.

1.7 Significance of the Study

Since there are no explicit studies on the topic in the region in general and Metekel Zone in particular, it is expected to give valuable information for the regional government about the status of private investment in Metekel Zone. Recommendations of the research could help concerned government bodies look for different options for maximizing the opportunities from

agriculture private investment. Furthermore, it might serve as a springboard for other researchers and academicians as a base line for further studies in the area.

1.8 Limitation of the Study

Some important secondary data such as the segregation of investors in to sub- sector in agricultural investment, the gap between planned and actual employment opportunity was not found adequately. Besides, since the data collection period was at the winter season most investors were not at the investment sites and thus it took many days to get some of the investors and there were investors whom the researcher could not contact for a similar reason.

1.9 Organization of the paper

The paper was organized into five chapters. The first chapter consisted of the introductory part, which contains background of the study, statement of the problem, objectives of the study, the research question, the scope of the study, significance of the study, limitation and organization of the paper. In the second chapter, review of related literatures is presented which deals with theoretical and conceptual frame works, contributions of private investment to development at international and national level, theoretical and empirical evidences of private investment, features of private investment in Ethiopia, and other related literatures. In the third chapter, methodology of the study and description of the study area were presented. In the fourth chapter, data interpretation, discussion and findings were presented. Finally, chapter five includes conclusions and recommendations of the study.

CAPTER TWO

2 LITRATURE REVIEW OF PRIVATE INVESTMENT AND DEVELOPMENT

2.1 Concepts and Definitions of Private Investment

2.1.1. Definitions of Key Concepts

Investment

Investment is the action of people in the present to ripe a benefit in the future and it involves physical and financial components. It is a series business that determines the future living condition of the people. It can be a tangible or intangible asset, which provides a periodic return or has the potential to increase in value (winger and Frasca, 1995). Thirlwall (1974) stated that investment implies the sacrifice of something now for the prospects of something in the future. It involves forgoing the consumption of goods today in order to achieve greater consumption in the future. It needs sacrifices first and the return comes later with different magnitude which is uncertain.

Adrian (1998) defined investment as the cash out lay in the near future in exchange for the cash gained in the more distant future, either domestically or internationally. It is the expense of money in expectation of additional return after some elapse of time.

Jones (1991) explained investment in terms of physical and financial aspects in which machine and infrastructure are the main components of physical investment. When investment is in the form of finance, it is putting money in to bond, common stock and mortgage.

Getachew (1997) defined investment as the flow of spending in a given period that adds to the physical stock of capital. It is augmenting the capital power of the economy by increasing the capital stock of investment spending.

Private Sector Economy

Private sector includes the successful local conglomerate, small and medium size enterprises, cooperatives, amorphous and vital informal economies. It creates job opportunity for the poor, uneducated and for people who do not have access to niche labor market in the rural areas in the form of small and micro enterprises where government and big companies do not dare to reach. In this way, it contributes to national economic growth (Deborah and John, 2006).

Taye (1995) stated private sector economy as business ventures such as wholesale trade, contract construction, retail trade, service industry, finance, real state, mining, transportation and communication, public utilities (energy and water), manufacturing, agriculture and others similar sectors.

2.1.2. Conceptual Frame Work of Private Investment and Development

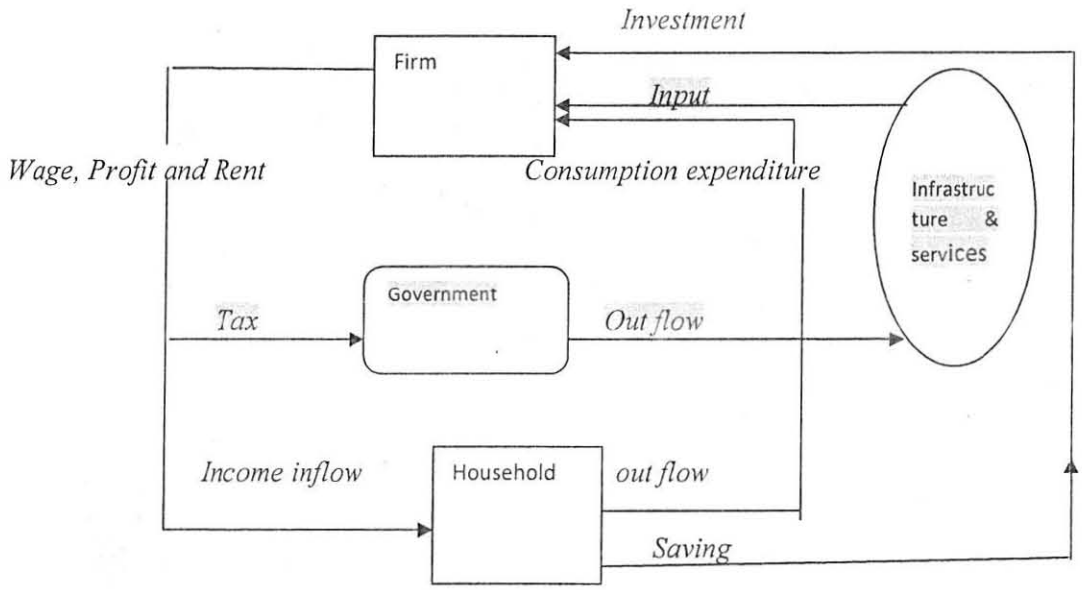
Private investment as the way to growth is the concept that is as old as human civilization. Saving and investment first began when the primitive people saved time from activities related to current consumption by hunting and then invest in making stone for collecting more food for the future hunting. In traditional agrarian society, the farmer was investing some grain and seed for future to acquire more grain, and some amount of grain was sold to purchase hoe, as the capital goods to gain more output from agriculture in the future. In the centrally planned economy, the government collected revenue and spent on construction of infrastructures and other public utilities. In modern capitalist society, bulk of saving and investment are mobilized by the households and firms (Debraj, 1998). Households save and firms invest. The households save by decreasing current consumption and hold their saving in the form of bank balance, share or bond. The investors fill the resource gap through bank borrowing, individual loan, government and stock market. This cyclical relationship between consumption, saving, investment and production leads to economic growth of a country (ibid).

Private investment, particularly FDI, is a vital complement for growth and development. It contributes to sustainable economic growth over the long term in the form of knowledge and technology transfer, job opportunity, improved productivity, and enhanced competitiveness. In addition, it develops entrepreneurship and ultimately contributes to poverty reduction through economic growth and development (Asiedu and Brempong 2008; UNCTAD, 2008). Private

investment has a substantial positive effect on social and economic development in which the contribution is creating the path from poverty through job opportunity and generating income. It has been depicted as the major source of job in many developing and transitional countries, especially for those who are operating on small and micro level, which is considered as a pro-poor economy. This is because of the accessibility of the sector in the local areas and attainable within the capacity of the localities (Debora and John, 2006).

Moreover, private sector investment and trade tend to stimulate and increase economic activity by increasing the income and saving of a country. Less local saving and less or non-investment has retarded the growth of countries (Anyana, 1985).

Figure 2.1: Conceptual framework of private investment and its contribution to development.



Adapted from Debra (1998)

The conceptual framework shows that investment in the private sector plays a pivotal role for the development of a country in general, and for the poor in some disadvantaged areas in particular. When private investment is opened up, it can reduce poverty through creating employment opportunities, providing tax revenue for the government and contributing to foreign exchange. In this, government generates tax revenue at the firm level and at household level to provide infrastructure and services to the firm directly and strengthen the income of the household through profit and labor market indirectly.

2.2 Theoretical Perception of Private Investment and Development

Theories of private investment date back to 1930s when Keynes stated "General Theory of Investment". In this theory, Keynes observed that investment depends on the prospective marginal efficiency of the opportunity cost of the investment fund. It was also stated the need of investment by private sector as one means and potential source of growth (Workie, 1996).

Generally, there are two leading approaches in private investment theories. The first one refers to the neo-classical theory of investment which originated from the work of Jorgensen (1963), and the second approach attributed to Tobin's q theory of investment (1969).

2.2.1. The Neo- classical theory of investment

According to this theory, variables that determine profitability of the firm link to investment. It states that the demand for capital is positively related to the firm's output and inversely related to the user cost of capital (Asmelash, 2007). Each factor utilizes up to the point where the value of its marginal product equals its price or alternatively where the marginal product equals the real price of the factor. Whenever the value of the marginal product exceeds the rental cost of capital, it is profitable to increase the capital stock. Among the assumptions of this theory, competitive markets and unitary elasticity of substitution between labor and capital are highly significant. However, the empirical work conducted by Eisner (1968) and Nadiri (1970) criticize the method Jorgensen used to explain firm's output and user's cost of capital. According to this empirical study, the assumption that the elasticity of substitution is less than one and thus this Jorgensen's method of investment behavior overstates the response of investment to the user cost of capital.

2.2.2. The Tobin q theory of investment

According to this theory, investment is a function of the increase in the market value of the firm because of installing or acquiring new capital/equipment relative to the cost of the equipment, the ratio called q *(*Workie, 1996*)*. This *q* theory forecasts that when the value of the firm exceeds the replacement cost of investment because of increased capital installation firms increase their capital stock. The *q* theory links investment activity to the asset markets and particularly, the stock and bond markets usually upon which the theory relied to provide a measure for the firms' value. However, this *q* theory empirically proved to be a modified version of the standard

neoclassical theory. From an empirical point of view, the q theory has not enjoyed much success. The neoclassical theory has received more attention than this q theory of Tobin. The Tobin's q (marginal q) is not observable practically. It can be observed only average q (that is, the ratio of the market value of the existing capital to its replacement cost) (www.tulip.tskuba.acdp/lemido/dlam/B/6/689214/4pdf.11/15/2008)

In developing countries, these investment theories and principles are constrained and lack consistence as the result of financial repression, foreign exchange shortage, lack of infrastructure, economic instability and government intervention in economic decision-making. Therefore, the investment theories of developing countries should consider the different characteristics of these countries. In the same way, the private investment situation of Ethiopia like the aforementioned theories operating under various constraints and has not clearly articulated which approach is best suited (Workie, 1996).

2.3 Private sector investment and development nexus

Private sector investment, employment and income source for the poor are interrelated activities. It is the order of free market economy in both developed and underdeveloped countries since few decades ago. The employment opportunity and income source from private sector should be fueled by investment and entrepreneurship. Creating huge number of employments in private sector helps to generate government's revenue, which needs to expand access to health, education and infrastructure services. These improved services in turn increase productivity and lead to rapid economic growth. It also benefits the country at large and the poor by creating market and providing income-generating sources. To achieve these goals, it is necessary to mobilize resources for investments from domestic savings, changing some of the remittance fund to investment and attracting inward investment from abroad that enhance utilization of the existing resources efficiently and competitively (OECD, 2005).

The government can increase efficiency and reduce the cost of production by service delivery and privatizing public enterprises and offering appropriate support for the private sectors. Paul et'al (1998) asserted that privatizing public sector production and services are efficiency based, that is, market oriented approach is the key for competition and entrepreneur development and further enables efficient resource allocation. Moreover, in market oriented economy, the

development of private sector is the main engine for economic growth in the society. In addition, it has had cumulative effect in raising purchasing power of the people. Greater private sector investment also has had an impact on increasing investment in public utilities as well. These utilities can be attained through either direct involvement of private sector developers in production or through partnership between private and the public sector. This kind of investment on the public utilities is believed to enable developing countries to improve service delivery to the people at large and create enabling investment environment. Instantly, these improved service delivery and enabling environment for investment would attract FDI to the host countries which would increase productivity and job opportunity (UNCTAD, 2008).

In addition, in Africa, empowering private sector economy is considered as a new type of democracy. These assumptions arise from the notion that maximum efficiency can ensure proper utilization of the resource by the private owners than public properties (Moeletsi, 2006).

The standard arguments that support the presumption of private sector economy as an important element for development than government control are as follows. First, without restriction, market can allocate maximum products for the consumers and maximum productive inputs among the producers according to their preference. If the government handles these complex allocations of tasks, it needs high governmental responsibility and incurs decision cost. Second, it has ability for more flexibility than governmental control. In the private economy, it is possible to make the market flexible within the dynamic condition. The adaptive nature of private sector to the changing condition of the economy automatically provides incentive for growth, innovative and structural change. Whereas when the economy is in the hand of government, it will be either unable to manage the dynamic condition of the market or slow to achieve the change. Third, it provides greater scope for dispersion of economic power for the private sectors. Allowing this greater scope in turn encourages democratic government through pluralizing the economy and ensuring individual liberties (Gillis et al., 1996). Private companies have to provide corporate social responsibilities (CSR)[3] while operating investment activities for the community that provides public services while contributing to government revenue. The author pinpointed that in Zambia in the year when copper prices are good in international market,

[3] *Organization's obligation to maximize its [positive] impact on stakeholders and minimize its negative influences (the author).*

mining contributed 50percent of country's foreign exchange rate and two- third of central government revenue (Lungu, 2008).

However, there are some other arguments which indicate private sector economy is not the only strong solution for development. Marieke de Ruijteldewildt et al. (2006) argued that parallel to the involvement of private sector in economic development, the role of the government is needed in checking whether the development is making market work for the poor (MMWP). Similarly, government has an indispensable role for training and preparing the human power for the private sectors according to the sectoral variation and as per needed. Furthermore, investment in some basic public services is not worthwhile and efficient for private sector investors. It needs the involvement of the government to provide adequate and equitable service for the whole people. Debora and John (2006), argued that private sector failed to make sustainable return on their investment in some basic public services in developing countries. As a result, trying to privatize these basic public services has widely encountered political oppositions due to inefficiency and inadequacy of the services.

In the least developed countries, especially in Africa, the withdrawal of public sector from the market by eliminating all kinds of the parastatals showed the gap that has not been adequately filled by the private sectors due to high transitional cost and risk characteristics of some of these investments (WB, 2005).

Intervention of government in private sector economy directly in production of goods and services of some public utilities and indirectly enabling investment environment for the private sector is very important in under developed and developing economies. This conclusion substantially challenges the theoretical assumption of private sector investment and the neoclassical theory of free market economy without government intervention in these developing and under developed economy. In Ethiopia, the efficiency of private sector economy has tended to decline than the public sector undertakings (Worku, 2000).

According to the proponents of this idea, government intervention in private sector economy to support investment in developing economy strengthens and ensures the sustainability and profitability of the private sector, but not replacing it. The interventions are desired because of the existence of imperfect market and externalities. Therefore, the government should strengthen

the private sector economy by providing supports in the form of research and development, investing on pure public goods, averting risk and uncertainty, reducing information asymmetry and providing information and investment promotion (Anwar, 1995).

In general, the intervention of the government is not contradicting with private sector development and not denying the benefit of the sector, but makes it more efficient and productive.

2.4 Empirical Evidence of private sector investment and Development

Prioritizing private sector developers in public service delivery and efficient production of goods and services were well defined in 1980s and 1990s. In 1980s privatization of public owned enterprise began to be recognized and used as the tool for economic change in Latin America, Asia and some African countries.

In Buenos Aires, Argentina, privatizing water sector for water supply and sewerage system had recorded a positive increase than the period before privatizing the sector. As the result, investment in this water sector through privatization finally was permitted 100 percent coverage in water supply and 93 percent in sewerage system. It represents additional population of 4 million to 4.5 million that benefit water supply and sewerage services (Emanuel and Klas, 1995).

In China, power generation projects were given to private developers in 1980s and 1990s. By midd 1998, 34 larger power supply projects[4] and about 200 small power supplies were carried out by the private sector.These power supply reforms, which were developed by the private sector developers highly increased Chinese power supply even in excess of the existing demand (WB, 2000).

In the way to promote private sector, China took some reforming measures to enhance private sector in power generation such as clear, unambiguouse, transparent and more stream line process, tariff approval and adjustment, credit worthness, ensuring contractual compliance and enforceblity and reducing foreign exchange risk (Ibid).

[4] Greater than 100 MW Generating capacity

In the same way, there is also empirical evidence that substantiates the importance of private sector in the development of countries. According to OECD (2005), donor countries have spent significant share of their aid (an average of USD 21 billion a year between 1998 and 2002) believing that mobilizing private investment would contribute for country's development. This amount was funded to improve the investment climate in developing and transition countries and this was about 26 percent of all foreign assistance. More of these donations were gone to infrastructure development and mostly provided as loans. In addition, donors spent an average of USD 3 billion a year on firm-level assistance, principally support for microfinance and business development services.

Moreover, the distribution of private investment is also varying throughout the world. It is less in SSA compared to North African and Asian countries. The average investment rate in the sample of African countries was 7.94 percent compared to 12.06 percent in Middle Eastern and North African countries, and 11.60 percent in other developing countries. Meanwhile, public investment has a larger share of GDP in Sub-Saharan Africa (8.31percent) than in other developing countries (6.91percent) excluding Middle Eastern and North African countries (14.1percent). The combination of relatively low private investment and relatively high public investment means that the ratio of public sector investment to private sector investment in Sub-Saharan Africa is substantially larger than in most non-oil producing countries. It is also considerable investment distribution variation across African countries than in other regions. In addition, real domestic interest rates and credit availability to the private sector are lower in Sub-Saharan Africa than in other non-oil producing developing countries while there is not much visible difference in average growth rates across regions (WB. 2000).

Apart from sectoral distribution, countries of the world had also achieved great development goal through producing and exporting primary agricultural products. The United States, Canada, Australia and Denmark had become developed countries by following primary agricultural export path. Argentina had gone through the same path in the way to development. Similarly, many countries in the third word such as Colombia. Mexico. Ghana. Nigeria. Malaysia and the Philippines had undergone significant changes even though only part of the development way has been achieved (Gillis et al., 1996).

Agricultural firms employ the largest number of people in many developing countries. As seen in China and Vietnam since 1980s, these private firms in agriculture had reduced poverty (Debora and John, 2006). Furthermore, liberalizing investment policy towards FDI can increase employment and country's development. Empirical study in Africa revealed that liberalizing investment policy by the countries could increase employment for unskilled workers located in the rural areas where agricultural investment took place. In addition, it ensured that the policy would reduce income inequality in the countries and diversify the investment opportunity across the regions. On the contrary, multilateral investment in Africa concentrated in primary sector and natural resource which tended to generate very little employment and therefore had limited effect on poverty reduction (Asiedu and Brempong, 2008).

Although private sector economy has been argued for as highly preferred for having high performance than the public sector investment, some empirical evidences on the relevance of ownership suggests that there is no statistically significant difference between the efficiency in performance of public and private operators in public utilities, like water and energy supply. In 2004 the Asian Development Bank conducted a survey of 18 cities in Asia, which included two cities with private sector privileges (Manila and Jakarta) found that they were performing significantly worse than most public sector operators on some indicative measures such as coverage, investment, and leakage. Accordingly, the percentage of households connected to water supply in Manila and Jakarta is lower than all other cities except one (Ulaanbaatar). The percentage with access to sewerage in Manila and Jakarta is lower than in any of the other cities except one (Vientiane). The percentage in capital expenditure (US dollars per connection) in Manila and Jakarta is much lower than in cities such as Delhi and Dhaka (David and Emanuel, 2005).

In general, from the above literatures, it can be concluded that the performance of private sector investment is more efficient in production than public utilities. Among public utilities and public goods, public investment or public-private partnership (PPP) and the interference of government are more efficient and important.

2.5 Contributions of Agricultural sector for Development

Agricultural development plays a vital role in determining the overall development of the developing countries. This is because the people of poor countries make their living from the land. Further, agriculture is an industry with a different holding capacity than the others and accounts 60-70 percent of employment opportunity in developing economies. Therefore, it is crucial and need considerable understanding that the leaders of these countries concern for their people's welfare through improving the status of agricultural development to the extent at grass root level (Gillis et' al., 1996). In Malaysia, the export of agricultural products accounted substantial role for development. From the year 1965-1992 onwards, as the result of huge primary products, which support the manufacturing sector, Malaysia economy has sustained a high growth over 6 percent per annum (Ibid).

Agriculture sector is a strategy for SSA in the long-term development program, since the region is highly dependent on agriculture for income, employment and export earnings. That is the reason why the sector attracts attention from multilateral and unilateral donors as the possible strategy for development. It contributes about 35 percent of GNP, 40 percent of total export earnings and two-third of the population's income (WB, 2000).

To raise the future investment in agriculture, the host country's government needs to give due attention to some established princeples for successful development such as sound policy framwork which can attract investment, long-term institutional development, focus on some core public goods (forexample, research and development and Road net work), empowernment of the private sector investment and individual farmers are crosscutting themes in agricultural investment (WB, 2005).

2.6 Constraints of Private sector investment

Investment is best suited under favorable investment climate. This suitable climate attracts and promotes investment, perceiving that it is the driver of economic growth and development. Marieke et'al. (2006) stated that the enabling investment environments are the key role to attract foreign investment and motivate the domestic investors such as the policy, legal and regulatory framework, external trade policy and macroeconomic policies. In addition, Governance and institutions, physical security, the social and cultural context of business, access of firms to

financial and business services, and the availability of physical and social infrastructure services can be the main enabling environments that a country should make effort in order to attract and promote private investment.

Geeta et al. (2003) stated that macroeconomic, infrastructure and institutions are the three main factors that influence investment climates. Unfavorable investment climate leads to inefficiency of private sector and reduce the vibrant efforts of private sector investment. Specifically, the commonly observed constraints of business and investment climate throughout the world are tax and regulation of the country, financial viability, policy uncertainty and instability, corruption, governance and quality of public services. Besides UNCTAD (2008) explicitly pinpointed that infrastructure is the leading constraints of private investment (mainly economic infrastructure, such as telecommunication, electricity, water and sewerage, airport, road, railway and seaports). The impacts of these constraints are varying according to the development level of the countries, business type and regional location.

Tax regulation of the country

Tax and regulation impositions are severe impediments on private investment throughout the world. Nevertheless, the degree of its impact differs across countries based on the level of development in context to tax administration, firm specific, regional variation and experience of the countries in administering tax and regulatory frame works. Inadequate design and administration of tax and regulatory frame works likely reduce the firms' ability to grow. Likewise, countries with proper tax administration and favorable regulatory frameworks can attract investment and support their economic growth (Geet et al., 2003).

Constraints of financing

The other leading constraint of private investment is finance. Financial constraints across the world are high interest rate by the financial institutions and lack of long- term- access to credit, high collateral requirement, bank paperwork and lack of credit information (ibid).

Policy Uncertainty and instability

The uncertainty and instability of countries' investment policies markedly affect the private sector investment. Investment that is made in poor policy environment produces poor result.

Macro economic instability (inflation and exchange rate) is considered as the main policy constraints to investment. The other component of policy instability or uncertainty is government's ability to predict, consistence and transparent in generating economic and financial policy. Moreover, policy uncertainty and stability is associated with the laws and regulations that the government adopts and it can affect the firms positively or negatively. Even though in most countries, markets are more open and most parastatals downsized to the private sector, changing the policy reform from the first generation to the second generation of private hegemony to enhance competitiveness and growth is remaining (WB, 2005).

Corruption

In a preliminary measure, corruption can be administrative/ bureaucratic bribe. In a grand manner, corruption can be related with cases that can affect the firms in the way towards business formation, that is, the amount of revenue the investors pay illicitly to the officials or individuals for obtaining services. Similarly, leaning laws, policies and regulations by the individual investors towards their advantages are considered as grand corruption. The officials in most developing countries commonly ask bribes to deliver services that incur the cost over the legal payment. It shows that at firm level, in various sectors, bribing is a series problem, which retires private sector investment. The amount and frequency of bribe asked for offering services can determine the degree of the constraints. Moreover, corruption leads to weak governance in a way that when on every occasion investors influence laws and regulations by bribing and rent-seeking activities (Geeta et al., 2003).

Governance

Good governance is a prerequisite for well functioning markets, attractive investment conditions and a sustainable allocation of investment capital. The principal elements of good governance are accountability, transparency, efficiency and effectiveness, responsiveness, forward vision and the rule of law. Lack of these elements or their being hampered by corruption hinders the system of tax collection and administration. Good governance reflects the capacity of the government in implementing policies and programs with transparency and accountability. In the rural areas where majority of the population of developing and under developed countries are living, the quality of governance is low. This is due to low level of education, lower qualification of civil

servants and deep rooted traditional way of life and paternalism (WB, 2005). These impose the scope and development of public investment and result in less performance of the government in providing economic infrastructure for private investments. Weak governance can lead to inaccessibility of firms to tax compliance, operate unofficially and tax evasion as well.

Quality of public services

Quality and efficient public service delivery improves the efficiency and productivity of the firms whereas poor service delivery system diminishes the growth of the firms. Quality of public service is a key dimension of the business environment and it is an indication of good governance. Providing service with neutral ethics for all service users is considered as the best kind of service delivery. Public service delivery is measured as government efficiency and quality of specific public services.

Infrastructure provision

UNCTAD (2008) asserted that provision of quality infrastructure is the prerequisite for economic and social development. In developing countries, the infrastructure need of private sector is greater than the provision by the government. As a result, private investments in these countries have highly stagnated. In addition to the impediments, frequent disputes have aroused with the investors on the accessibility and availability of infrastructure. These infrastructure facilities are scarce and the gap between need and provision is widening as the result of various factors such as its capital-intensive investment and complex work, its monopolistic and oligopolistic characteristic, its public good characteristics in which all the citizens claimed to get the services as the right without exclusion. Moreover, it relates to human right, the society regarded access to infrastructure as political and social issues, and finally, infrastructure is the key determinants of economic development and transformation. Therefore, countries with less economic growth cannot provide sufficient amount of infrastructure as per the need. In turn, it put high pressure on private sector performance and countries' development.

2.7 Historical perspectives of private Investment in Ethiopia

The private sector economy in Ethiopian viewed in three main phases, i.e., pre-1974, 1974-1990 and post- 1991.

Pre-1974, Private sector investment in Ethiopia

During this period, the economic system was a feudal economy where land was the main source of economy and reflection of the status and dignity. To achieve the desired economic goal through private sector development the government issued commercial code with proclamation number 166/1960, with the aim of ensuring stability, security and providing sufficient, clear and flexible framework within which trade and commerce flourished and grow in the country (Negarit Gazeta of the Empire of Ethiopia, proclamation N°.166/1960). This promotion urged a number of private sectors to operate in different firms including insurance companies, banks, factories, construction industries, and mining.

Although the banks were serving the business community, they were concentrated in Addis Ababa. Many of the merchants were foreigners from Armenia, India and Arabia who were engaged in export commodities. In 1963, the private sector economy accounted more than half of the overall investment activities and more than three- fourth of construction sector (Taye, 1995).

Even though, the attempt of the government was for modernization and desired to change the economic condition of the country, the private sector investments were very less and mainly operated by the foreigners. The feudal system of the economy and poor attitude of the educated people towards entrepreneurship and private sector development were the main problems of private sector economy and retarded the attempt of the government policy towards privatization and modernization. Those educated people considered private sector as the area left for uneducated citizens while government work was seen as the sign of dignity. In the same way, lack of entrepreneurship ability contributed to less development of private sector and the feudal lords were highly opposed the capitalist system from penetrating and properly operating in the country. In addition to the aforementioned impediments, lack of interest by the foreign investors due to insecurity and fear of risk hindered the growth of private investment in Ethiopia (Ibid).

Private sector investment from 1974-1991 in Ethiopia

The overthrow of Emperor Haile Sellasie I in 1974 changed the economic policy of the country. In 1974, the government nationalized private owned enterprises to the public ownership. Furthermore, the policy also nationalized all the financial sectors and majority of the industries in the country. In 1975, proclamation was issued that prohibited persons who have permanent job from having industrial or commercial licenses, private sectors were not allowed to involve in more than one business activities, having more than one license except foreign trade activities and having/forming business branches (Asmelash, 2007). Besides, private foreign investors were not allowed to involve in investment separately or jointly with domestic investors. However, this policy had loosen when the government interested to invite foreign investors to invest jointly with the Ethiopians public enterprises with proclamation No 235/1983 in 1983.

Generally, the overall situations of private sector in the year 1974-1991 had not convenient for private investors as the result of command economy policy. The situation seems changed in 1989/90 when the government changed its economic policy from command to Mixed economy. However, as the result of the abdication of the government ('Derge') in 1991, the new economic policy was not functioned more long (Taye, 1995; Workie, 1996).

Private sector development post 1991 in Ethiopia.

In 1991 with the new government came to power, the command economic policy was overthrown and replaced by free market economy. In November 1991, the free market economy had issued and the government restricted itself to the essential self-sustained industrial bases, unattractive sectors for private and/or those beyond the capacity of private domestic investors. This free market economy promoted the private ownership and privatized the public sector economy (EEA, 2005). Similarly, in order to encourage, promote and expand private investments, the Government has issued a liberalized investment code and established the Ethiopian Investment Authority (EIA) in 1992 by the proclamation No 15/1992 and Regional Investment Bureaus. During the period, private sector economy promoted and public sector economy has privatized through step- by- step withdrawal of the government from controlling the sectors. Besides, privatization proclamation No. 87/1994 issued to establish the Privatization

Agency that facilitated privatizing public enterprises and promoted the free market economy (Taye, 1995).

Moreover, since 1991, promotion of investment and private sector have done practically through different investment incentives and enabling suitable environments. These incentives are tax exemption from the payment of import customs duties and other taxes levied on imports of all capital goods including plant machinery and equipment, import spare parts free of custom duties whose value is less than 15 percent of the total value of imported capital goods. As far as tax holiday concerns, an income tax holiday ranging from 1 to 5 years and allow an additional year/s for the business enterprises that incur losses during the tax holiday period. Depending upon the choice of the investor either a straight line or an accelerated method can employ for the calculation of depreciation allowances. Any investor foreign or local is entitled to have deduction of expenses incurred for research, improvement studies or training from his taxable income. In addition, any remittance made by a foreign investor from the proceeds of the sale or transfer of shares or assets upon liquidation or winding up of an enterprise exempted from the payment of any tax. Urban land may also grant freely or without public tendering which is to be utilized for investments that the government encourages or for social services establishment or for other purposes which is directly benefited the public (FDRE Negarit Gazeta Proc. No., 84/ 2003).

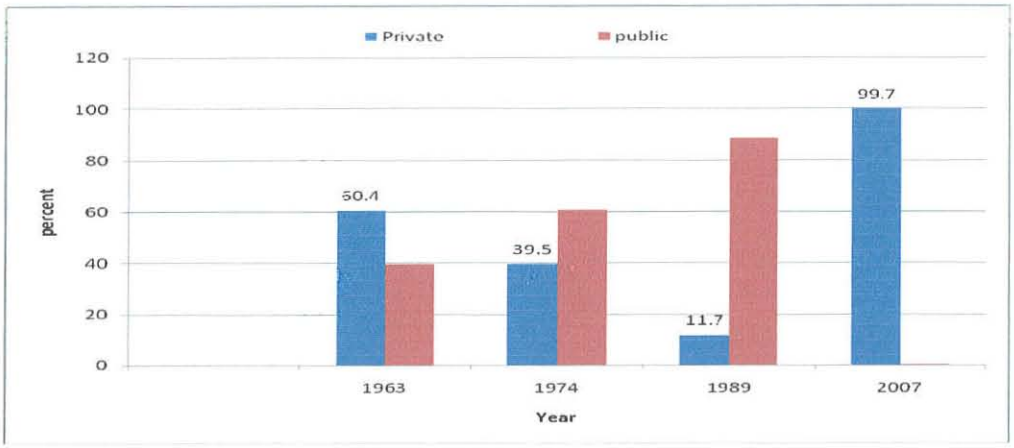
2.8 Share and Trends of Private Investment in Ethiopia

Share and trend of private investment in Ethiopia

Private sector investment in Ethiopia laid a ground before 1974, during the regime of Haile Sellasie I, and retarded from 1974-1991 when the economic system of the country ruled under the command system of socialist ideology. After 1991, the free market economy policy of the government has promoted the private sector investments and as a result number of registered projects, investment finance and employment opportunity have been increased (Workie, 1996). Further, the same source depicted that before 1974, the share of private investment was greater than the public. In 1963, the private sector economy was owned 60.4 percentage share of the overall investment, and 79 percent in construction sector. On the other hand, public sector investment owned 39.6 percentage share of the overall investment in the country. At the end of 1974, the share of private investment to total investment was 39.5 percent and dropped to 11.7

percent in 1989. The overall contribution of private investment to the GDP of the country from 1974-1996 was 3.3 percent per annum (ibid).

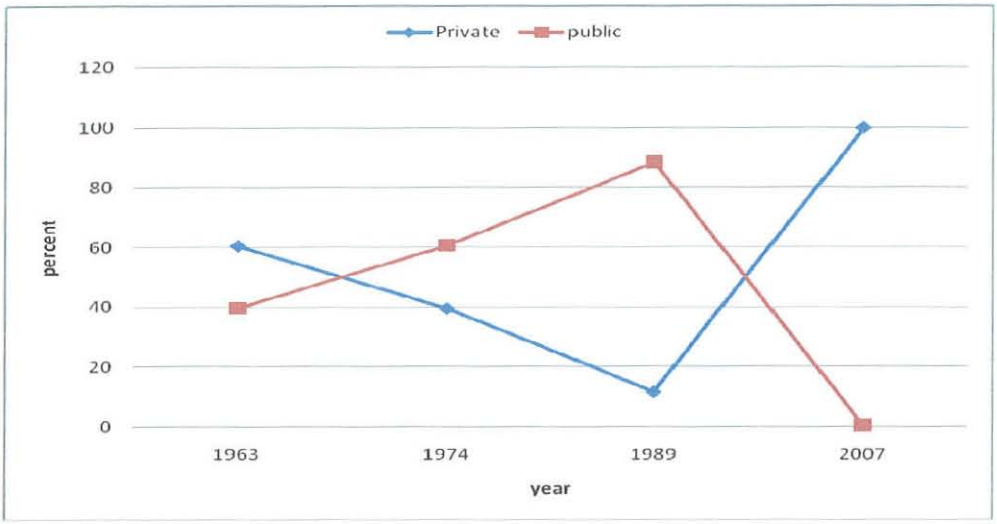
Figure 2.2: Share of private investment in Ethiopia in comparison with public sector investment



Source: computed from workie, (1996; NBE, 2008; EIA, 2008)

According to NBE (2008), number of private investments has increased over the time following favorable investment environment created at the Federal and Regional level. From 1992/1993 to 2006/2007, 25,835 investment projects were registered at federal and regional level. The amount of investment capital registered to run the projects was Br. 322.86 billion ETB. In 2008, the figure increased to 37,211 in investment project, 551.691 billion ETB in investment capital in which 87 percent were domestic investors, 12.7 percent were foreign investors and 0.3 percent of the projects were public enterprises. The total investment projects registered between the years 2002/2003 to 2006/2007 were 72 percent of the projects which were registered from 1992/1993 to 2006/2007 with the capital amount of 75.8 percent. The overall share of private investment in the country increased before 1974, decline through 1974-1991 and conversely increased with high increasing rate after 1991. In 2007, the share of the private sector rose up to 99.3 percent (ibid).

Figure 2.3: Trend of private investment in Ethiopia in comparison with public sector investment



Source: computed from the (workie, 1996; NBE, 2008; EIA, 2008)

2.9 Major constraints of private sector Investment in Ethiopia

Getachew (1995) stated that in Ethiopia before 1974 and from 1974-1991, private sector investment was weak and not at a considerable growth level compared to post 1991. The author indicates that, before1974 less ability of entrepreneur, the feudal system of the economy and poor perception of the society towards private sector economy were highly contributed for less growth of the private sector investment. From 1974-1991, the command economic system under the socialist ideology hampered the growth of private sector investment in the country. This was resulted in the private economy had no access to foreign exchange, there was investment capital ceiling and poor credit policy that crowding out the private sectors while motivating the public enterprises and co-operatives. This poor credit policy in turn made the private sector depended on traditional credit services that charge excessive interest rate. In addition, there were market and distribution constraints during the period and the sector faced competition from cheap import with those that have comparative advantage from the government subsidy. Furthermore, adaptation of fixed exchange policy, over valuation of the domestic currency, which created the shortage of foreign currency for import of inputs and consumer goods were the substantial constraints of private investment in the country. The Fiscal policy of the country was also strong impediment for the private sector investment in which the overall progressive tax system and the business tax reached up to 89 percent and calm down the private sector. This fiscal policy in turn

highly encouraged the government to involve in all sectors of the economy while crowded out the private sector.

After 1991, inadequate infrastructure, length of business start up time, trade liberalization and infant industries, low saving as the result of depressed economy for small and medium scale enterprises, high interest rate and weak organizational systems were the main constraints and challenges of private sector investment. In spite of the constraints and challenge are not yet completely solved, private sector investment of the country has showed improvements recently. It is believed to be as the result of efforts exerted to enable investment environment and tried to set appropriate legal and regulatory systems for promoting investments at Federal and Regional levels. However, the major constraints such as infrastructure, governance, corruption, financing and enforcing legal and regulatory systems, insecurity of land tuner and prevalence of insecurity are still the prevailing constraints (Getachew, 1995; EEA, 2005).

2.10 Features of Agricultural Private investment in Ethiopia

According to Getachew (1995) in Ethiopia, agricultural private investment was started during the regime of Emperor Haile Sellasie I. At the end of 1960s there were some educated persons and government officials of the country involved in agricultural investment under modern farms of some cash crops. During socialist regime of 1974-1991, state farms were given due attention and the private farms were crowed out. After 1991, the sector stipulated as incentive taker investment, which was issued in the investment codes of the country. EEA (2005) stated that the creation of investment promotion institutions at Federal and Regional level and incentives such as import of farm machines as well as tax holiday allowed notably motivated domestic investors and attract foreign investors in the sector. Nonetheless, the realization to develop the sector is not as expected in compared to huge resource endowment. This may relate to insecurity of land tuner, lack of peace and security and poor infrastructure.

Recently, in spite of the fact that relatively stable and enabling environment has observed the rate of growth is low with the average increasing rate less than 2 per year as indicated in annex 5. As the data, the agricultural sector investment projects account 20 percent share in the year 2004/2005 and 24 percent in the year 2007/2008. In capital share, it accounted 23 percent in 2004/05 and 22.7 percent in 2007/08. Similarly, the employment opportunity created in

permanent and temporary workers accounted 27 percent and 89 percent in 2004/2005 and 42 percent and 67 percent in the year 2007/2008 respectively. The rate of increment in the sector was positive over the given years on average. Besides, the capacity of agricultural private investment sector in creating employment opportunity accounted the largest amount even more than the average employment opportunities observed in the total investment throughout the four years (EIA, 2008, NBE, 2008).

CHAPTER THREE

3 Description of the Study Area

3.1 General Profiles of The region

The Constitution of Ethiopia, under article 46 sub articles 2 of FDRE constitution, established the Benishangul-Gummuz Regional State (BGRS) in 1994. It constitutes one of the nine federated regions of the country. The region stretches along the Sudanese border between 09.17^0 and 12.06^0 N. The Western and Eastern limits are given by the longitudes 34.10^0 and 37.04^0E, respectively. The Amhara, Oromiya and Gambella National Regional States are bordering the region in the North, East and South directions respectively (BOFED, 2008).

The region is divided into 3 zones 19 woredas and 1 "special" woreda. The total area of the region estimated to be about 50,380Km^2. The Blue Nile (Abay River) divided the region in to two parts. The Northern part, Metekel Zone comprises an area of 26, 560 Km^2, and the Southern part, Assosa Zone, Kemashi Zone and Mao-Kommo special Woreda comprising an area of 23,820 Km^2. The region's elevation ranges from 580 to 2,731 meter above sea level. The major part of the region, about 75 percent is lowlands (Kolla, below 1500m above sea level), 24 percent is midland (Woyna Dega, 1,500-2,500m above sea level) and only 1 percent is highland (Dega, above 2,500M above sea level) (Ibid).

According to the population census of 2007, the region has population size of 670,847 and out of this, 85.4 percent reside in rural area and 14.6 percent in urban area. Gross education coverage of the region is 107 percent and the net enrollment is 77.9 percent at the end of 2006. In similar circumstance, the health coverage of the region is 56 percent in the same year.

Benishangul-Gummuz has suitable agricultural land and mineral resources. It is proved that the region is rich in gold and base metals such as zinc, lead, copper, and considerable reserves of marble, silica and clay soil. Gold and marble are the most significant mineral resources of the region. Based on the regional potential, most of the region investment is in agricultural sector, Education, Incense and Gum production, Hotel and Marble extraction.

According to BGRSIPO (2008), 419 investment projects have registered and/or started operation with a total investment capital of 1,256,105,923.00 ETB. These investment projects are expected to create 61,193 permanent and temporary job opportunities. Most of the investment activities in Benishangul-Gummuz Region take place in the agricultural or agro-industrial sector (including incense and gum). This sector accounts for 86 percent of the operational and pre-operational projects and 97 percent of the investment volume in the region (ibid).

In general, the region is predominantly agrarian with about 85.4percent of the population living in rural areas. Small-scale agriculture (family farming) is dominating. The subsistence agriculture is the livelihood for the majority of the population of Benishangul-Gummuz. Farming is the major source of food and cash income. Sorghum and maize are the staple cereals. The contribution of livestock to household economy is small, due to difficulties in livestock rearing because of rampant livestock diseases. Larger agricultural investments have been started only in most recent times. It still does not account for a larger share of the agricultural production and development as the result of new venture in the sector.

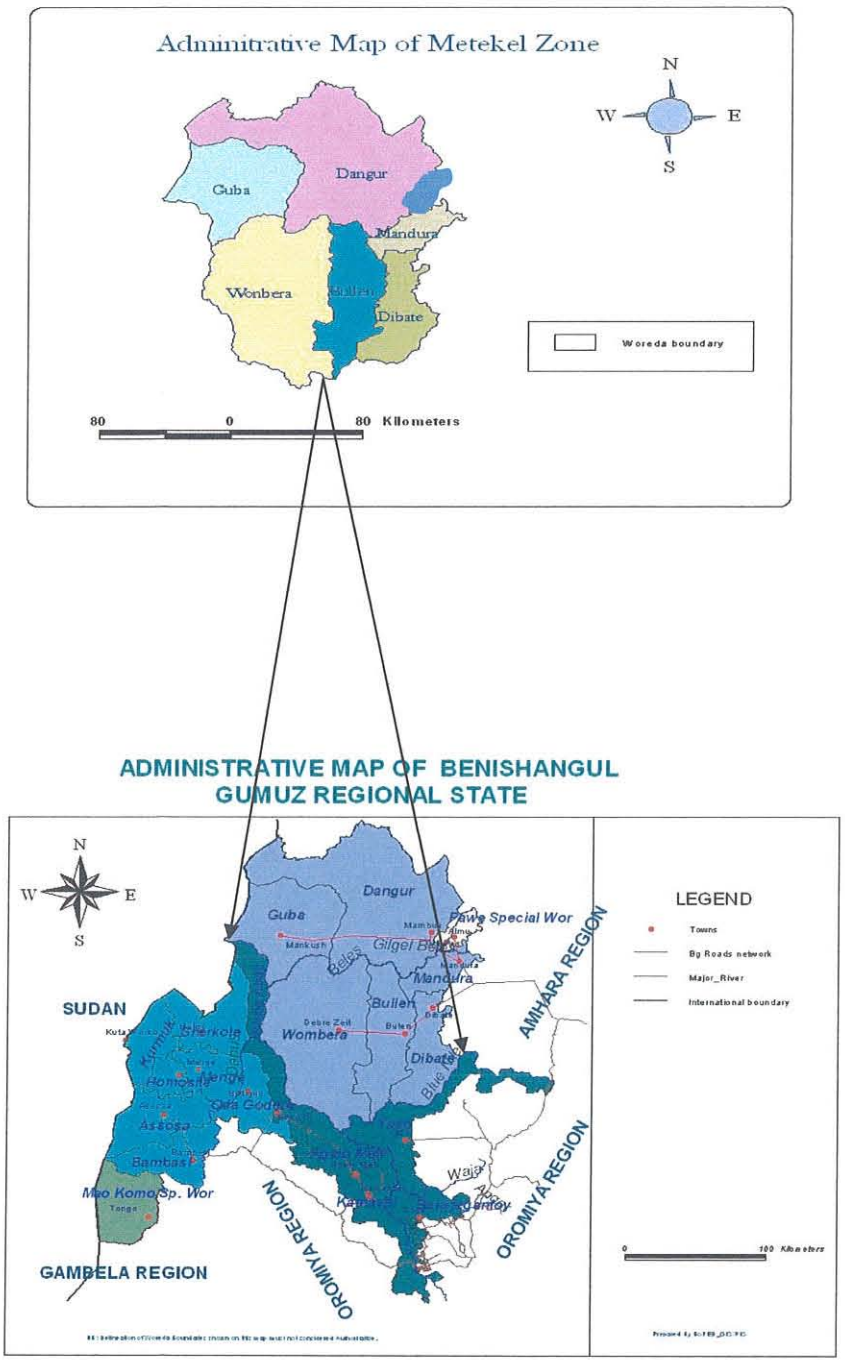
3.2 Description of Metekel Zone

3.2.1. General profile of the zone

Metekel Zone is one of the three zones of Benishangul Gummuz Regional State that comprises 7 woredas and 130 kebeles. The total land cover of the zone is 26,560 km^2. The administrative structure of the zone has not recognized legally as administrative tires of the government. It is part of the regional administrative organ that has been delegated the administrative functions to facilitate between regional and woreda governments.

According to the census result of 2007, the total population of the zone is 273,349; it is 41percent of the total population of the region with 10.5 population density per km^2. Gender wise 50.42percent are male and 49.58 are female. In spatial distribution, 15.7percent and 84.23 percent are residing in urban and rural areas respectively. In the zone, there are various ethnic and language compositions. Mainly Amahara, Shinasha, Gummuz, Oromo, Agewe, Kambata, Hadiya and Tigre are settled. Among these ethnic groups, Gummuz and Shinasha are the indigenous ethnic groups.

Figure 3.1 **Administration map of the study area**



Source: BGRSBOFED (2008)

3.2.2. Social Sector

Education sector

Education is the most important sector for regional economic, social and political development of the society. The regional government has made many efforts to enhance high level of education coverage in the region. In the zone, there are 139 schools with the total of 49,556 students enrolled in primary and secondary education. The ratio of teacher- student in the zone is 1:44 and 1:70 in primary and secondary schools respectively whereas the classroom student ratio is 1:60 in both primary and secondary schools. The educational activity of the zone has highly increased recently compared to the previous period. Before 1991, the number of schools in the zone was very small. Only 2 secondary schools and about 50 primary schools had serving the society over long periods (Education Department of Metekel Zone, 2008).

Health sector

Health care services are the main and crucial issue for the health work force. The region in general and Metekel Zone in particular have high vulnerability with malaria disease. To combat this disease, the regional government has made a good effort since few years. Taking these efforts into consideration, currently there are 24 clinics, 32 health posts, 9 health centers, 7 V.C.T/ART centers, 1 hospital and 1 health training institution are available in the zone.

According to BOFED (2007), infant, child and under five mortality rates are very high. Almost every fifth child born in the region dies before it reaches an age of five. This figure is well above the Ethiopian average. About 29 percent of the population does not have a health facility within an accessible distance. The limited access to health service further indicates the low coverage of maternity care and child vaccination. Mainly the inaccessibility of the health services is becomes a serious problem as the result of sparsely human settlement of the population in the zone and less capacity of the regional government to provide the services in sufficient manner.

3.2.3. Economic sector

The livelihood of the majority of the population of Benishangul-Gummuz is based on subsistence agriculture. Farming is the major source of food and cash income. Sorghum and

maize are the staple cereals. The contribution of livestock to household economy is small due to rampant livestock diseases.

In Metekel Zone, cultivated land covers less than 5 percent of the total land cover. In especial condition, the zone is one of the area in which gold deposit abundantly exists in addition to suitable arable lands. The prominent area where gold deposit found is around the Korka River and its surrounding areas in Bullen Woreda (BOFED, 2007).

Potable water coverage

The zone is potentially rich in surface and sub-surface water resources. However, to utilize these resources little was done. According to data collected by Bureau of Finance and Economic development GIS/RIS, in general, there are 152 number of Hand Pumps, 21 Deep Well, 2 Motorized water sources and 2 Developed springs waters in the zone. The number covers about 24 percent of the region's potable water coverage with unevenly distributed among the woredas. The number of people who have access to drinking water in the zone estimated to be 104,200, which is 38percent of the total population of the zone (BOFED, 2007).

Investment

Today the country as well as the region is in the way of free market economy. This free market economy has incited investment activities in the Metekel Zone. Based on the regional potential, most investments in the zone are engaged in the agricultural sector. Education, Incense and Gum production, hotel and marble extraction are also being undertaken. Totally, the registered investment share of the zone from the total registered and licensed investment of the region is 38percent.

3.2.4. Infrastructure services

Telecommunication

Mainly the kind of telecommunication, which is available in the zone, is V-SAT/satellite telephone service. This type of telephone services has been observed mostly with frequent failure. It is not compatible with the increasing trends of investment activities, Digital wire line

and wireless telephones are only available in the three woredas, which are close to the zonal center (Pawi, Dangure and Mandura woredas).

Postal Services

There are nine postal services in the region. Three of them are permanent services and six are through agent postal services. From these only two postal services, with permanent services is available in Metekel Zone, it is at Pawi woreda and Gilligel Belleise- zonal town. Six woredas in the zone have no postal services or getting the services from Chagni town in Amahara Regional state.

Electric power Supply

In the region, six woredas got hydroelectric power and four woredas have diesel electric power. For the remaining ten woredas, the power supply service is under construction. When we see the power supply of the zone, four hydroelectric powers and one diesel electric power supply are available. The others are under construction and planned to provide function in the coming few months or in a year.

However, the power supplies coverage of the zone is not small, but its function is very less. This is because of frequent destruction of woody poles by wild fire during the winter season and as a result, there has been termination of power supply for a long period in some woredas, (for example, Guba and Mandura woredas have such problem).

Banking Services

In the region, there are two banking institutions (Commercial Bank of Ethiopia and Awash International Bank) at the regional town, which serve part of the woredas in the region and neighboring woredas of Oromia Regional State. In Metekel Zone there is no banking Institution. The woredas in Metekel Zone using banking services from Chagni town in Amahara Regional state in which Wombera and Guba woredas travel 158 km and 180km to get the services respectively. The distance from the woredas makes the inaccessibility of banking services more difficult.

Road Net Work

Presently, there are about 787 Kms stander rural roads (RR50) in the region, with the road density of 15.60km per 1000 Km^2. The corresponding figure for the national standard is 32 kms per 1000km^2. Though the figure is less than the national standard, it has revealed increment in relation to the previous time, but still with high demand for the road net work (BOFED, 2007).

In Metekel Zone, road net work coverage is very limited, even less than the regional coverage, in spite of the fact that the exact figure is not available during data collection for this research, the roads from zonal town to the woredas are poorly constructed and damaged. In recent years with increasing trends of investment activities, the problem of road net work becomes controversial issue compared to other physical infrastructure facilities. Especially, the absence of road net work that connects Assosa and Kamashi zones to Metekel Zone is considered the serious social and economic problems of the zone. In addition, lack of all season roads, which connect woreda town to the investment sites can be stated as a serious problem and need merit.

CHAPTER FOUR

4 DATA ANALYSIS, INTERPRETATION AND FINDINGS OF CONTRIBUTIONS, PROSPECTS AND CONSTRAINTS OF AGRICULTURAL PRIVATE INVESTMENT IN METEKEL ZONE

4.1 Introduction

This chapter consists of five main parts. The first part comprises characteristics of the respondents and the second part includes trends and share of agricultural private investment in Metekel Zone. The third part deals with the contributions of agricultural private investment for local development through employment opportunity and government revenue. The fourth part consists of the constraints that prohibited the growth of private agricultural investment. Finally, the fifth part consists of prospects of the agricultural private investment in the zone.

4.2 Characteristics of the respondents

Age of the respondents

As shown in table 4.1, the age of the respondents varies from 18 years to above 50 years. Large number of the respondents (41.7 percent) falls in the age category of 31-40 followed by the age category of 41-50 with the share of 30.6 percent. Respondents in the age category of 18-30 and above 50 years old are constituted 8.3 percent and 19.4 percent respectively. This shows that the younger and old aged persons are not highly engaged in the agricultural private investment of the zone compared to middle aged investors.

Sex category of the respondents

The data in table 4.1 shows 95.8 percent of the respondents are male investors and only 4.2 percent or 3 respondents out of 72 are female investors. This indicates that most of the investors in the agricultural private investment are males, and females do not dare to invest in the remotest areas. This may be because female investors are risk averters and few in agricultural investment sector.

Marital status of the respondents

In agricultural private investment of Metekel Zone. most of the respondents are married. The data in the table 4.1 shows that 86.1 percent of the respondents are married and 13.9 percent are single. This data relates with the age of the respondents which shows most of them are within the age category of 30-50 (table 4.1). This age category is the age in which individuals are expected to be married.

Citizenship of the respondents

All of the respondents are domestic investors as shown in table 4.1. This shows that foreign investors have not been attracted to agricultural investment in the area so far. This may be because of the relatively poor facilities in the area, lack of investment promotion and security problems.

Table 4.1: Characteristics (Age, sex, marital status and citizenship) of respondents

Age category	Frequency (n=72)	Valid Percent	Cumulative Percent
18-30	6	8.3	8.3
31-40	30	41.7	50.0
41-50	22	30.6	80.6
above50	14	19.4	100.0
Sex category	Frequency (n=72)	Valid Percent	Cumulative Percent
female	3	4.2	4.2
male	69	95.8	100.0
Marital status	Frequency (n=72)	Valid Percent	Cumulative Percent
single	10	13.9	13.9
married	62	86.1	100.0
Citizenship	Frequency (n=72)	Valid Percent	Cumulative Percent
Ethiopian	72	100.0	100.0

Source: Field survey (2009)

Educational background of the respondents

Educational background of respondents is observed with various percentage shares. As shown in table 4.2, most of the respondents (44.4 percent) are with educational background of primary education level. The second highest proportion of respondents' educational level is secondary education complete with share of 20.8 percent. Illiterate, diploma holder and first degree holder educational background account 9.7 percent, 15.3 percent and 6.9 percent respectively. Besides, there is one certificate holder respondent and one respondent with educational status of above first degree. This indicates that most investors in agricultural investment in the zone are not with high educational background and this can be as the result of the perception that the sector does not require high educational competence. In addition, most of the investors are from the local areas with traditional agricultural practices.

Educational background of the managers in respondents' investment

The educational status of most managers in the investment projects is from primary education completed to diploma holder. According to table 4.2, 88.9 percent of the respondents stated that managers in their investment projects are below bachelor degree. Such managers include those who are with educational status of primary education, secondary education, certificate holders and diploma holders. On the other hand, managers who are with first degree educational background and above accounted 4.2 percent and 1.4 percent respectively and 5.6 percent are illiterate. Generally, majority of managers lack educational competence to run the business and the fact that educational background of managers is similar to that of the investors' shows that many of the managers may also be the owners of the projects.

Table 4.2: Educational background of investors and managers in the agricultural private investment projects

Educational background of the investors	Frequency(=72)	Valid Percent	Cumulative Percent
Illiterate	7	9.7	9.7
Primary education completed	32	44.4	54.2
Secondary education completed	15	20.8	75.0
Certificate holder	1	1.4	76.4
Diploma holder	11	15.3	91.7
First degree holder	5	6.9	98.6
Above first degree	1	1.4	100.0
Educational background of the managers	**Frequency(n=72)**	**Valid Percent**	**Cumulative Percent**
Illiterate	4	5.6	5.6
Primary education completed to diploma holder	64	88.9	94.4
First degree holder	3	4.2	98.6
Above first degree	1	1.4	100.0

Source: Field survey (2009)

4.3 Description of agricultural investment projects

Operational Status of investments

As the data in table 4.3 shows, investors' investment operational status are categorized in to three, as investment on the preparation stage, those that have started operation and those that have not yet started preparation. According to this data, 75 percent of the respondents started operation, 23.6 percent are on the preparation stage and 1.4 percent (one respondent) did not start preparation.

Year of registration of investments

According to table 4.3, many of the respondents were registered from 2005/06-2008/08. Around 89 percent of the respondents were registered for investment in the above stated period. On the

other hand, 9.7 percent of the respondents were registered in 2007/08 and 1.4 percent of the respondent were registered in the year 1998/99- 2003/04. The data reveals that many of the investors who have invested in the zone have started investment activities recently despite the fact that investment activities started in 1993/94 in Metekel Zone as shown in table 4.3. A number of investors who have stayed in the investment for longer period in operation are very less. It shows that most of the investors who registered and started operation in the earlier periods were not operating at the time of this data collection. This shows exit of the investors after investing for few years in the agricultural sector and that most of the investment activities in primary agricultural sector did not continue for long periods in the study area. This may be due to the fact that crops produced are non- durable/annual crops and obtaining the output takes short period. This situation makes the contribution of this investment sector for government revenue very weak because there is tax holiday for five consecutive years and the investors stop the investments when they finish or before the years of the tax holidays without paying taxes for government. As shown table, 4.3 most of the respondent investors had been operating for less than five years.

Sub sectoral distribution of investments

Agricultural investment activities in Metekel Zone are done in areas of cash crop production, non-cash crop production and both cash crops and non- cash crop productions. According to the data in table 4.3, 29 percent of the respondents are cash crop producers, 8.3 percent are non-cash crop producers and 62.5 percent of the respondents are produce both crops. In agricultural private investment sector, most of the investors are producing both cash crops (sesame, groundnut and soya beans) and non cash crops (maize and sorghum).

Table 4.3: operational status, year of registration and sub-sectoral distribution of respondents' investment

Operational status	Frequency(n=72)	Valid Percent	Cumulative Percent
On the preparation stage	17	23.6	23.6
Started operation	54	75.0	98.6
Not yet started preparation	1	1.4	100.0
Year of registration	Frequency(n=72)	Valid Percent	Cumulative Percent
1998/99- 2003/04	1	1.4	1.4
2005/06-2008/08	64	88.9	90.3
2007/08	7	9.7	100.0
Sub-sectoral distribution	Frequency(n=72)	Valid Percent	Cumulative Percent
Cash crop producers	21	29.2	29.2
Non-cash crop producers	6	8.3	37.5
Both (cash and non- cash) crops producers	45	62.5	100

Source: Field survey (2009)

Forms of investment ownership

As table 4.4 below depicts, much of respondents' investment ownership is in sole proprietorship trade form. It accounts 48.6 percent of the respondents and the second is private limited company (PLC) with 40.3 percent of the respondents. The least number of investors is observed in Share Company form of ownership. This indicates that many of the investors in agricultural sector in the zone are performing the investment activities at an individual level. This can limit investment capital as the result of the non-pool of capital. In addition, it is possible to see that doing business in the form of Share Company and private limited is less in the area.

Table 4.4: Forms of investment ownership in agricultural private investment, Metekel Zone

Forms of investment	Frequency(n=72)	Valid Percent	Cumulative Percent
Sole proprietorship	35	48.6	48.6
Share company	8	11.1	59.7
Private limited(PLC)	29	40.3	100.0

Source: Field survey (2009)

4.4 TRENDS, SHARE AND STATUS OF AGRICULTURAL PRIVATE INVESTMNT IN METEKEL ZONE

Trends of agricultural private investment in the zone

Agricultural private investment in Metekel Zone started in 1993/94 with a single project as shown in table 4.5. It began to function with the free market and privatization policy of Ethiopia. From 1993/94 to 1998/1999, the agricultural private investment in the zone increased at a decreasing rate. In the overall, less number of investment projects was registered during 1990s, however, relatively high numbers of agricultural private investment projects were observed in 1998/99. At the time, 12 agricultural private investment projects were registered.

Table 4.5 Number and relative share of agricultural private investments from 1993/94-2007/08 in Metekel Zone

No	Year	Number of Investment projects			Employment Opportunity			Investment capital		
		Total numbers of investment project	*Share of agricultural private investments*	*percentage share*	*Total number of Expected employment*	*Share of agricultural private investment employment*	*percent share*	*Total investment capital*	*Share of agricultural private investment capital*	*percent share*
1	1993/94	1	1	100	8075	8075	100	34,300,800	34,300,800	100
2	1994/95	4	3	75	13,493	13,450	99.6	80,184,861	71,698,670	89.4
3	1995/96	11	7	63.6	17,518	17,271	98.6	155,501,512	123,594,540	79.5
4	1996/97	15	9	60	10,357	9,565	92	148,159,597	80,873,343	54.6
5	1997/98	16	10	62.5	10,459	9,634	92	163,890,452	81,873,343	50
6	1998/99	20	12	60	11,753	10,862	92.4	182,580,503	161,141,463	88
7	1999/00	20	7	35	10,559	9,433	89.3	142,319,690	53,310,323	37.5
8	2000/01	21	8	38	7,869	6,743	85.7	146,187,604	36,734,715	25
9	2001/02	22	7	31.8	7,503	6,674	89	108,618,514	56,178,237	51.7
10	2002/03	22	6	27	7,385	6,646	90	75,210,900	36,834,300	49
11	2003/04	24	4	16.6	4,009	3,270	81.5	33,800,850	17,245,065	51
12	2004/05	31	6	19.35	4,426	2,668	60	66,847,526	48,469,815	72.5
13	2005/06	33	3	9	3,935	2,177	55.3	31,328,812	12,701,100	40.5
14	2006/07	60	28	46.6	13,252	11,447	86.4	270,114,808	144,826,100	53.6
15	2007/08	158	124	78.48	28,096	25,681	91.4	472,733,649	403,251,300	85
Average share of agricultural private investment project				47%	Average share of employment opportunity		87%	Average share of investment capital		62%

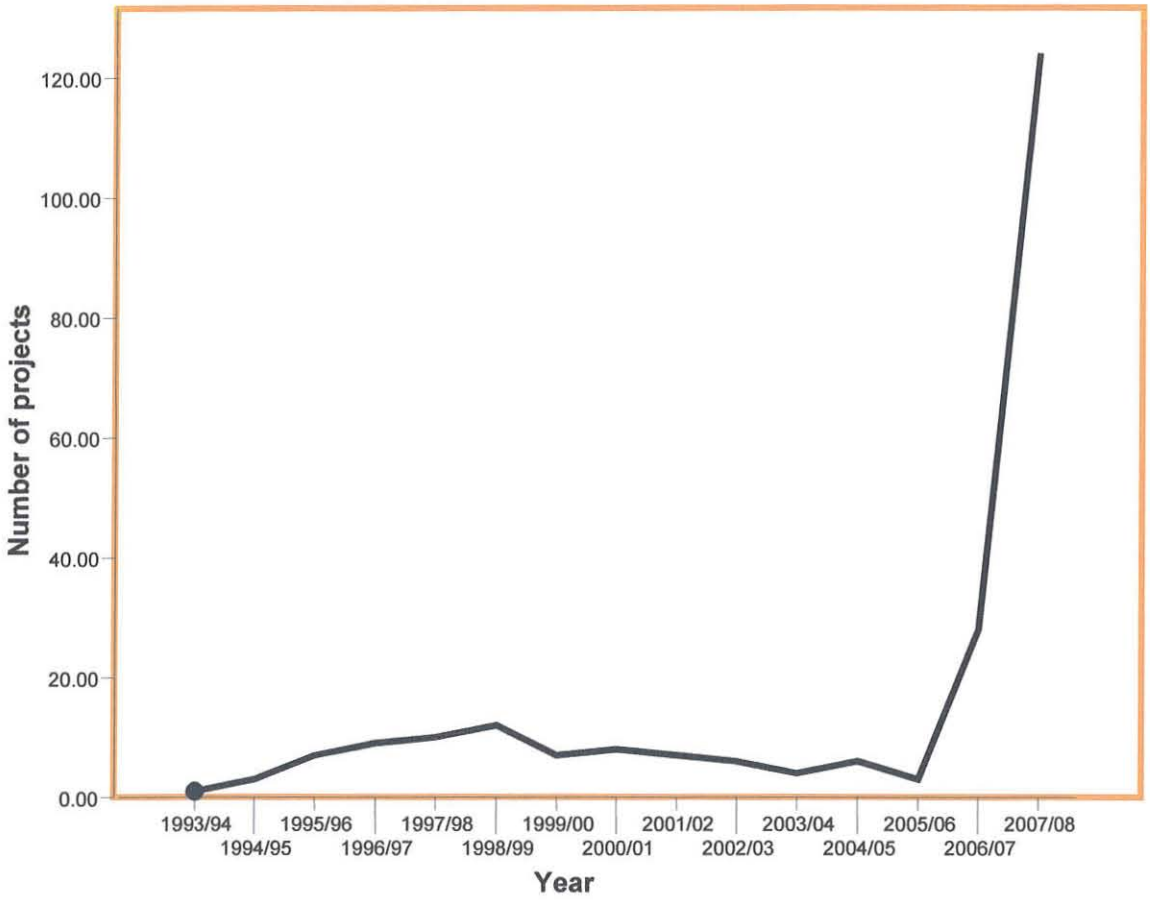
Source: BGRS Investment Promotion Office (2008)

The reason for high number of investment projects during 1998/99 might be the endorsed investment proclamation and regulation in the region to specify the tax holiday to the agricultural private investment for the first time and clearly showed how this investment is undertaken.

From 1999/2000 to 2005/06, the trend of agricultural private investment has declined as shown in table 4.5. According to the table, the trend of agricultural private investment has substantially deteriorated in all aspects of the investment in 2005/06. During this period, the number of agricultural private investments was reduced to three in number or (9percent) of the total investments in the zone. The capital share of the period was 12,701,100 (40.5 percent) and employment opportunity was 2,177. Subsequently, after 2005/06, the trend has changed with high growth rate in the three measuring aspects of investment (investment project, investment capital and employment opportunity). In 2006/07, the number of registered projects increased to 28 (46.6percent). These projects registered 144,826,100 (53.6percent) capital amount and 11,447 (86.4percent) expected employment opportunity. In the same way table 4.5 also indicated that, in 2007/08 the increment of agricultural private investment in the zone tremendously rose-up to 124 (78.48percent) investment projects, 403,251,300 (85percent) investment capital and 25,618 (91.4percent) expected employment opportunity.

As indicated in figure 4.2 and 4.3, the trend of investment capital and expected employment opportunity has showed high fluctuation throughout 1993/94 to 2005/06 compared to investment projects. After 2005/06, these three aspects of agricultural private investment has showed increasing trend with high slop as indicated in figure 4.1, 4.2 and 4.3. This implies that agricultural private investment sector has increased at increasing rate since few years than before 2005/06 and it is as the result of better promotion and enhanced infrastructure facilities compared to the previous years as the interview with employees in the regional investment office and key informant investors indicated.

Figure 4.1: Trend of agricultural private investment in Metekel Zone.



Source: Computed from data at Investment promotion Office of Benishangul Gummuz Regional State (2008)

Figure 4.2: Trends of investment capital

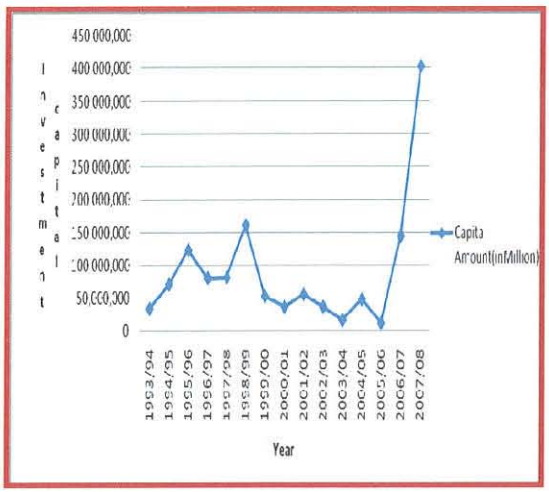
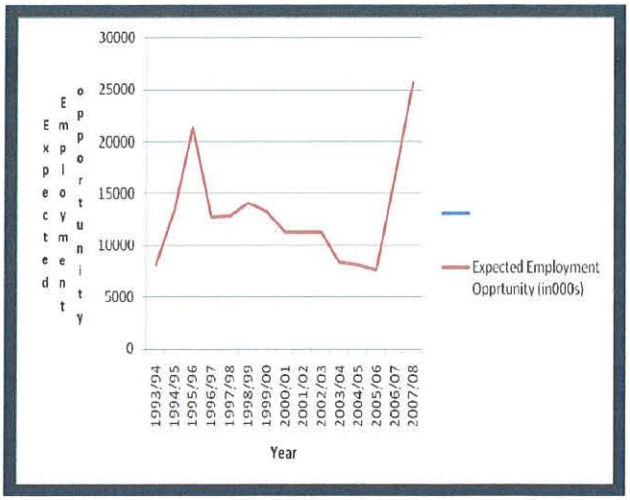


Figure 4.3: Trend of expected employment in Metekel Zone



Source: Investment promotion Office of Benishangul Gummuz Regional State (2008)

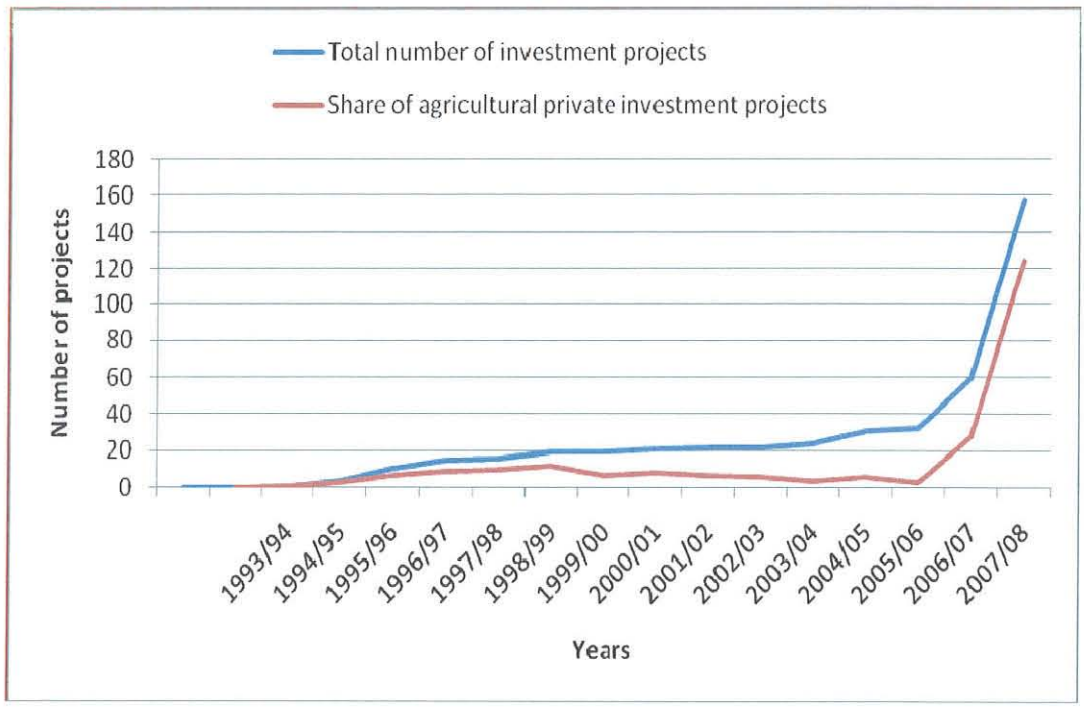
Share of agricultural Private investment in Metekel Zone

As shown in table 4.5 there was only one investment project in 1993/94 and this was an agricultural private investment. From 1994/95 to 1996/97, the share of agricultural private investment was decreasing at a decreasing rate from 75percent to 60percent as shown in figure 4.4. In 1997/98, the share showed slight increment to 62.5percent. Figure 4.4 also reveals that, the overall share of private investment in agricultural sector has had a deceasing trend from 1993/94 to 1997/98. Table 4.5 and figure 4.4 shows that, from 1998/99 to 2005/06, the share of agricultural private investment showed fluctuating share from 60 percent in 1998/99, 35 percent in 1999/00, and 38 percent in 2000/01. Similarly, such fluctuating share continued until 2005/06 that the share of the sector became 9 percent in this year. Although the percentage share of agricultural investment has showed decreasing and fluctuated in the above years, the trend of investment projects was at an increasing from 1993/94 to 1998/99. It is thought to be so mainly as the result of free market economic and privatization policy introduced in the country at the beginning of 1990s. On the other hand, from 1999/00 to 2005/06 the fluctuation also observed in the trend of this investment as the same to the share. Besides, increasing share has showed after 2005/06 as shown in figure 4.4.

Moreover, the data in table 4.5 reads that there is higher average share of agricultural private investment compared to investments in other sectors for the fifteen years average. As shown in the table 4.5, it is on average, 47percent of total investment projects 87percent for expected employment

and 62 percent in investment capital. However, the distribution throughout the years was uneven as shown in figure 4.4. According to information from interview with respective wereda officials, the main reasons for the low number, declining trend and fluctuation of agricultural private investment in the zone from 1999/00 to 2005/06 were lack of infrastructure, poor service delivery, security problems, rent-seeking behavior of the investors, low investment promotion and less attention given to the sector by the government. Among the aforementioned reasons, low level of infrastructure, less capacity and rent seeking behavior of the investors were recognized as the major reasons for declining of the investment according to these sources. The investors registered to invest in the zone in the earlier periods more focused on other related profit areas than their main target. Activities such as making charcoal, timber production and renting and selling of capital goods (tractors and spare parts) were additional focus area of the investors.

Figure 4.4: Share of agricultural private investment out of total investment



Source: Investment promotion Office of Benishangul Gummuz Regional State (2008)

After 2006/07, the private investment activity in agricultural sector increased with a high increasing rate. The number of investment projects increased from 9 to 46.6 percent in 2006/07 and in 2007/08, it increased to 63.29 percent.

Although the total trend of agricultural private investment in the zone showed increase from 1993/94 to 1998/99, decrease from 1999/00 to 2005/06 and high increase from 2006/07, the relative share of investment capital, expected employment and investment projects showed different trends.

Figure 4.5 Trend in relative share of private agricultural investment in terms of number of projects, employment opportunity and investment capital with other investments

Source: Benishangul Gummuz Reginal state Investment Promotion Office(2008)

According to figure 4.5, from 1993/94 to 1997/98, relative share of both employment opportunity and investment capital decreased throughout. However, in 1998/99, share of employment and capital increased from 92 to 92.4 and 50 to 88 percent respectively. From 1999/000 to 2005/06, the share declined in employment opportunity (89.3 percent to 55.3 percent) and fluctuated in investment capital. Accordingly, investment capital was reduced from 88 percent in 1998/99 to 25 percent in 2000/01 but increase to 51.7 percent in 2001/02. Similarly, in 2004/05 the share of investment capital rose up to 72.5 percent. On the other hand, in 2005/06 it decreased to 40.5 percent whereas after 2006/07, both employment and investment capital share showed an increment. For employment, it was increased by 86.4 percent in 2006/07 and 91.5 percent in 2007/08. Similarly, the investment capital share was also increased by 53.6 percent in 2006/07 and 85 percent in 2007/08.

In general, the reason for increasing rate of agricultural private investment in all aspects after 2005/06 may be attributed to investment promotion by regional government and the infrastructure expansion that can facilitate investment activities than the earlier period, such as road net work, electric power supply and telephone services in some woredas. The prevalence of insecurity has also showed more improvement than before. In the contrary, in the earlier periods, the reasons for less share of agricultural private investment in the study area may have been forced by the constraints like poor infrastructure, low security and rent- seeking behavior of the some investors. According to the interview conducted in the study area, during the period, some investors have intentionally left the area after gaining short-term profit by exploiting the natural resources illegally in the name of agricultural private investment. The above discussion shows that agricultural private investment in the zone showed increasing trend after 2005/2006 than before. It implies that the investment environment of the area showed improvement and attracting the private sector investors in agricultural sector unlike the previous years.

The status of agricultural private investment in Metekel Zone

Agricultural private investment in the zone is the main and dominant investment activity as shown in the analysis of the preceding section. This relatively larger investment share is due to the suitability of the area for the sector and availability of adequate arable lands. As of 2008 Regional investment data revealed that in the zone from the total of 124 agricultural private investment projects about 74 (60 percent) investors have started operation, 50 investors (40 percent) of the total investors are on the preparation stage and/or completed registration but not yet started preparing of the land for the investment. On the other hand, since 1995/96, 18 investment projects have been dismissed and/or terminated their operation (BGRSIPO, 2008).

The operational status of most investors is at a low stage. Almost all respondents in the sample woredas responded that quarter or less than quarter of the land had been utilized for production as shown in table 4.6.

Table 4.6: The Level of land utilization by the investors in agricultural private investment

Level of land utilization	Frequency (N=71)	Valid Percent	Cumulative Percent
Less than quarter	25	35.2	35.2
Quarter of the land	40	56.3	91.5
Half of the total	3	4.2	95.8
Almost all of the land	3	4.2	100.0

Source: Field survey (2009)

As shown in table 4.6, only 8.4 percent of the investors had been able to utilize half and more than half of the obtained land for the investment. This less utilization of the obtained land had a negative impact on the investors' annual revenue. Besides, the data in table 4.7 shows land utilization and annual revenue have a positive but weak correlation. As per the data, utilizing additional one hectare of land increases 12.7 percent of the revenue from the investment and vice–versa. This indicates that the amount of land utilized per the investment projects in the agricultural private investment was less as showed in the table 4.6 above. It is also showed that the utilization capacity of most investors was less in utilizing more land. On the other hand, the relation between obtained land and annual revenue is negative weak relationship, it decrease 8.4 percent in proportional to land size (table 4.7 below).

Table 4.7: Relationship between investors' annual revenue and land utilization

Variables	N=72	Annual revenue	Percentage change
Amount of land utilized by the investors	Pearson Correlation	.356(**)[5]	12.7%
	Sig. (2-tailed)	.002	
Total land obtained for the investment	Pearson Correlation	-.287(*)[6]	8.4%
	Sig. (2-tailed)	.014	

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

Source: Field Survey (2009)

The negative relationship between land size obtained for investment and annual revenue shows that those investors who obtained large land size did not get additional revenue proportional to the size of the land obtained because of under utilization as shown in table 4.6, and those with smaller land size utilized the lands better. This also shows appropriation of land for investors did not consider the real utilizing capacity of the investors.

[5] The square of the figure is the percentage change per hectare of land utilization.

[6] The square of the figure is the percentage change per hectare of land utilization.

4.5 Contributions of Agricultural Private investment for Development in Metekel Zone

4.5.1 Agricultural Private investment and Employment opportunity

Investment and labor market are interrelated concepts that are seen as means of poverty alleviation. Poverty can be reduced through gaining income from the labor market at the individual and household level. Specifically, agricultural private investment is one of the basic economic activities to create employment opportunity in the remotest part of the country where there are weaker infrastructures and prevalence of illiteracy. Similarly, it is very beneficial for the people who own farm activity and have excess time to employ in casual employment type. Employment condition of agricultural investment in the zone is analyzed to see the relative share and level of employment satisfaction. These conditions are assessed by analyzing the state of employment created and existing trends, condition and types of employment, condition of salary payment, facility provisions and stability and workers turnover.

State of employment opportunity in agricultural private investment

Most of the agricultural activities in the study area are carried out on small farms seasonally for subsistence. During the winter season, many of the labor forces are idle. Recently, employment in agricultural private investment has created additional income for the people of the zone and the surrounding areas which a good opportunity to improve the level of their livelihood. In addition to the labor force in the local areas, the job opportunity created by the agricultural private investment has employed labor forces from all parts of the country.

Table 4.8: Area of employing workers in agricultural private investment in Metekel Zone

Where do you hire and employ workers?	Responses		Percent of Cases[7]
	Frequency (n=100)	Percent	
In the region and zone	42	42.0	58.3
Out of the region	52	52.0	72.2
Family labor	6	6.0	8.3
Total	100	100.0	138.9

Source: Field survey (2009)

[7] Shows multiple responses that an individual has a possibility of responding to more than one answer

As the field survey data in table 4.8 indicates, 72.2 percent of the cases revealed that the workers have been hired out of the region for labor, whereas 58.3 percent of the cases revealed that the workers have been hired from within the region and 8.3 percent of the cases indicate that investors used family labor. It indicates that many local people have gained job opportunity. Investors who used family labor are less than the other two categories. This means that most investors employed workers and created more job opportunity.

In addition, the data from the field survey reveals that job opportunity and number of workers have increased since a few years ago. As table 4.9 shows, 77.8 percent of the respondents confirmed a secondary source that shows the trends of the employment opportunity in agricultural private investment sector is increasing.

Table 4.9: Investors' opinions about the trend of employment in agricultural sector

Trend of employment	Frequency	Valid Percent	Cumulative Percent
increased	56	77.8	77.8
decreased	16	22.2	100.0
Total	72	100.0	

Source: Field survey (2009)

Besides, this investment is the best opportunity for those who lack educational and technical competence. The interview with key informants in both groups revealed that educational background was not a barrier during hiring workers except for few employment positions. This indicates that in the agricultural private investment of the study area, it is occasional that the educational background is required as important criteria for employment. This in turn, opened an opportunity for all labor forces without any difference in education background in general and it is a good opportunity in the rural areas where many of the labor forces are uneducated and face challenge to get employment in other sectors because of lack educational competence.

It is highly likely to conclude that relatively less educational competence is not obstacle for agricultural private investment while other sectors of labor market required educational background as important criteria for employment. Further, the state of job opportunity created by the agricultural private investment in the zone is very larger in number than the other investment sectors as shown in table 4.5.

Condition of work in agricultural private investment

Employment can be an element of poverty reduction. To perceive employment as a means to improve livelihood, the condition of work and the amount of income should be better than the previous occupation of the workers or the condition of their unemployment. Besides, if employment is to be considered as a means to development, it should consider not only the income gained from employment but also the sustainability and security of the employment. As can be seen from table 4.10 below, in the agricultural private investment sector of Metekel Zone, few workers were permanently employed. Large number of workers was employed in the form of long-term and short-term temporary contract employment[8] and casual type.

Table 4.10: proportions of permanent and temporary workers employed in agricultural private investment

		Number of temporary workers			
		<50	50-100	100-150	Total
Number of permanent workers	<20	17	27	13	57
		100.0percent	69.2percent	81.3percent	79.2percent
	50-100	0	12	3	15
		.0percent	30.8percent	18.8percent	20.8percent
Total		17	39	16	72
		100.0percent	100.0percent	100.0percent	100.0percent

Source: Field Survey (2009)

Table 4.10 above shows number and proportion of permanent and temporary workers employed in agricultural private investment in Metekel Zone. It depicts that, large number of the respondent investors (79.2 percent) have employed temporary workers with the number category ranging from less than 50 up to 150 workers per project and less than 20 permanent workers. Only 20.8 percent of the respondents stated that they have employed 50-100 permanent and 50-150 temporary workers. This shows that most of the workers in the agricultural private investment sector of the zone have been employed on the temporary bases and permanent employment is less. Probably this can be due to the seasonal nature of the activities. This finding

[8] Long-term temporary workers are dummy category of the researcher for more than two years while short- term temporary workers are perceived as less than two years.

aligned with the study by EEA (2005) which shows investment in domestic private sector tends to create more temporary employees (71 percent) than permanent employees compared to 16 percent by public investment and 34 percent of foreign investment temporary employees. In addition, as the interview conducted with the key informant employees revealed, casual type of employment is highly practiced in the peak period of agricultural investment activities. It is mainly supposed to be as a result of seasonality of work in agricultural private investment in the study area and for reducing the investment costs during periods of reduced farm activities.

The number of workers and wage salary paid during peak periods are almost double of number and salary payment of permanent and contract works average salary. On average the salary for permanent and temporary workers were between 500-700ETB as shown in table 4.12.These short term temporary employment and casual type of work condition created insecurity of employment and frequent unemployment in the area. During the winter season when farm activities are less, a large number of workers stay unemployed. This unemployment in these months in turn, makes the workers to use the money gained in the other periods and substantially reduce their saved money according to interview with key informant employees. When they lost employment, some of them were employed in contract work as daily laborer in other sectors. Those who are not capable to fit to any other had no income and became vulnerable to hunger and malaria according to the interview.

Besides, greater number of the workers in agricultural sector has no signed contractual agreement. This working condition created insecurity for the workers in agricultural private investment. According to data in table 4.11, 61.1 percent of the responses revealed that there is no contractual agreement with the workers and 38.9 percent stated that they have a signed agreement. However, the duration of the agreements is short. According to interview with the key informant employees, the agreements are mostly signed for one or two years and very few contractual agreements are elongated for three or four years. This indicates that the condition of work in the agricultural private investment in the zone lacks job security and sustainable. Further, during investment registration and agreement between the government and the investors, there is no version that deals about the security of employment or way of employment. The only thing incorporated in the agreement is the number of employment opportunities that the project is

to create. Hence, the overall analysis suggests that workers in agricultural private investment in the study area work under condition of job insecurity and instability.

Table 4.11 Condition of employment in agricultural private investment

Have you signed an agreement with the workers?	Frequency	Valid Percent	Cumulative Percent
No	44	61.1	61.1
Yes	28	38.9	100.0
Total	72	100.0	

Source: Field Survey (2009)

Condition of salary payment and workers' satisfaction in agricultural private investment in Metekel Zone

The wage paid for the permanent workers ranges from 100- 1500 ETB. According to the data in table 4.12 higher percentage of permanent workers are categorized within monthly wage salary of 500-700 ETB. In this wage salary, 40.3 percent of the workers are categorized followed by salary category of 100-300 ETB. Very few permanent workers (19.5 percent) earn wage salary above 700 ETB. This implies that the number of permanent workers who earn higher salary is less. In addition, it can be inferred that investors in the agricultural private investment pay attention to the temporary employment type than permanent. This is also in line with the finding that shows investors in the agricultural sector of the zone prefer temporary workers to permanent workers as shown in table 4.10.

For the temporary contract employment, a large number of workers earn wage salary between 500-700 ETB (table 4.12). This category accounts 37.5 percent of the worker's salary. The second highest temporary workers payment category falls in the range of 700 up to 1500ETB, while for the permanent workers the corresponding figure shows between 300 up 500 ETB.

Table 4.12 Condition of salary payment for the permanent and temporary workers in agricultural private investment in Metekel Zone

Permanent workers wage salary (in ETB)	Frequency(n=72)	Valid Percent	Cumulative Percent	Average salary (in ETB)
100-300	17	23.6	23.6	656.5
301-500	12	16.7	40.3	
501-700	29	40.3	80.6	
701-1000	3	4.2	84.7	
1001-1500	11	15.3	100.0	
Temporary workers wage rate (in ETB)	Frequency(n=72)	Valid Percent	Cumulative Percent	Average salary (in ETB)
<100	1	1.4	1.4	681.8
100-300	19	26.4	27.8	
301-500	10	13.9	41.7	
501-700	27	37.5	79.2	
700-1500	15	20.8	100.0	

Source: Field Survey (2009)

As per the data in table 4.12, the mean salary for permanent workers is 656.5ETB and for temporary workers is 681.8ETB. The average salary for both employment type is almost equal which falls within the range of 500-700 ETB. However, as the data shows on average the highest wage salary is paid for the temporary contractual workers while high number of labor is required in casual employment during the peak period of summer (June up to November), and when the farm is harvested (January and February). According to the interview conducted with key informant workers, maximum number of workers per investment project reaches 150 during the peak periods and the amount of wage payments in these periods is slightly higher than the other periods. In these months, the average wage salary for the casual workers is 1300 ETB per month.

The workers in the agriculture private investment of Metekel Zone perceived the amount of salary paid differently. Some workers complained on the amount of wage salary and the condition of work as not adequate for improving the livelihood of the workers. This is as the result of the workers poor payment. This idea was not accepted by most of the workers in the projects and they disproved the less amount of money paid. They appreciated the payment well in comparison to their previous earning. This reveals that the living condition of most workers has relatively been improved in spite of the fact that the salary payment and conditions of facilities were considered less by some workers and community members. The reason why workers appreciated the wage rate paid despite its low amount is perhaps they compared to the

previous unemployment and rarely gained employment opportunity. Therefore, it can be true that the income gained also made a difference relative to their previous living

Besides, the different perceptions may be because of the earning condition of the workers determines the satisfaction on the wage salary. Those who got relatively high salary payment may not feel satisfied with the payment. In general, the analysis shows that wage salary paid was accepted by majority of the workers and relatively improved their livelihood.

Facility provisions and condition of work in agricultural private investment

Conducive working environment enables the workers to perform better and increase the productivity. Moreover, it is believed to boost the profitability of the investor. As the survey data in table 4.13 reveals, almost all investors provide "housing"[9] and transportation facilities at the project sites. However, few investors are able to facilitate health care services during the high infestation of malaria and others could facilitate subsidized food provision. However, some investors confirmed that they have provided health care services and subsidized food to the workers. Key informant workers expressed the necessity of these four facilities in this agricultural investment area because the investment sites are far from the woreda towns and getting these facilities at the individual workers level is unattainable. This is as the result of distance, cost and unavailability in the local market.

Table 4.13: Facilities provided for the workers in agricultural private investment in Metekel Zone.

Facility provisions	Responses		Percent of Cases
	N	Percent	
housing	59	46.1 percent	95.2 percent
Transportation	46	35.9 percent	74.2 percent
Health car	13	10.2 percent	21.0 percent
Subsidized food	9	7.0 percent	14.5 percent
Total	128	100.0 percent	206.5 percent

Source: Field Survey (2009)

According to the data, (table 4.13) shows that 95.2 percent of the cases recognized provisions of housing services for the workers at the investment site, 74.2 percent of the cases indicated that

[9] It is not properly furnished and house equipments are not available. Merely function for bed and preparing food. It was poorly constructed for short period survival.

the investors have provided transportation services. Further, 21 percent and 14.5 percent of the cases revealed that investors have provided health care services and subsidized food for their workers at the investment site respectively. This indicates that investors who were engaged in agricultural private investment sector give less attention to workers health care and food supply as observed in the study area.

Hence, workers who have been employed in the sector could be vulnerable to less food supply and disease. This would contribute to weak labor force, reduce the income generating possibility of the individual workers, and pass the effects on the household's destiny.

Stability and incidence of workers Turnover

Although the number of employment has increased over time in agricultural private investment of the zone, workers' instability and turnover was also observed. In general, 87.5 percent of the respondents perceived the incidence of turnover as revealed in table 4.14. Among these, majority of the responses (47.6 percent) show that turnover rate is less with less than five workers per year per project whereas 19 percent of the respondents revealed that the turnover rate is between 15-20 workers per project per year. On the other hand, few respondents acknowledged the state of turnover to be above 20 workers per year per project.

Table 4.14: state of turnover and workers stability in agricultural private investment, Metekel Zone

		Number of workers' turnover in average							
		<5	5-10	10-15	15-20	20-40	>40	0	Total
Turn over occurrence	no	0	0	0	0	0	0	5	5
		.0 percent	.0percent	.0 percent	.0percent	.0percent	.0percent	100.0 percent	100.0percent
	yes	30	11	5	12	4	1	0	63
		47.6percent	17.5percent	7.9percent	19.0percent	6.3percent	1.6percent	.0percent	100.0percent
Total		30	11	5	12	4	1	5	68
		44.1percent	16.2percent	7.4percent	17.6percent	5.9percent	1.5percent	7.4percent	100.0percent

Source: Field survey (2009)

The reason for turnover and instability of the workers is mainly as the result of variation in wage payment, lack of enabling working environment and harsh climatic condition according to interview with key informants.

In addition to the above factors, security problem might have also triggered the workers to shift the woreda and/or investment sites to other areas. For instance, recently workers were stabbed and the local people killed one foreign investor as the same interview source indicated above. This condition frustrated the workers in agricultural private investment in the study area. The instability and frequent turnover can determine the satisfaction of the workers in the investment area. If there is instability workers feel insecurity and not satisfied with the occupation in agricultural private investment of the zone.

The above analysis indicates that the working condition in many agricultural private investment of the zone is not favorable as the result of poor infrastructure, harsh climatic condition, wage salary variation/poor salary, governance and mal administration of the investors and security problem. In addition, there is no standard set to the salary payment of the workers in the zone. This finding is in line with the theory by Debora and John (2006), which stated, *"In developing countries people working with the private sector are commonly employed under conditions that fail to bring them adequate housing, health services, nutrition, education, security and other progresses"*, p.12.

4.5.2 Government Revenue and agricultural private investment in Metekel Zone

The role of agricultural private investment in government revenue generation is one of the areas that this research has attempted to assess. Generation of reasonable amount of government revenue is believed to strengthen the development of an area through government investment on the social utilities and infrastructure facilities. On the other hand, less government revenue stagnate social developments and prohibits private investments from investment in the area. Therefore, strengthening government revenue generation has multi-faceted advantage both for the private investment sector and for the provision of social utilities.

Types of government revenue collected from agricultural private investment

Table 4.15 shows that investors who have paid tax or any legal fee for the government and types of the payments in agricultural private investment in the zone. According to the table, 55.56 percent of the investors stated that they have paid government revenue. Out of this percent, 92.5 percent was paid in the form of sales tax, and the remaining shares were paid in the form of

payroll tax (5.0percent). Only one respondent (2.5 percent) paid agricultural income tax and large proportion of revenue was generated from a sale tax.

Table 4.15: Types of government revenue paid by the agricultural private investors

Response		Types of tax paid				Total	Percentage share
		Agricultural income tax	Sales tax	Payroll tax	Not paid		
Have you paid tax to the government	No	0	0	0	32	32	44.44
		.0 percent	.0 percent	.0 percent	100.0percent	100.0 percent	
	Yes	1	37	2	0	40	55.56
		2.5 percent	92.5 percent	5.0percent	.0 percent	100.0 percent	
Total		1	37	2	32	72	100
		1.4 percent	51.4 percent	2.8percent	44.4percent	100.0 percent	

Source: Field survey (2009)

Duration of government revenue payment

The number of years (period) of government revenue payment by the investors can indicate the amount of revenue generated over the periods. Long revenue payment period implies large amount of revenue and contribution to development than short period revenue payment. As shown in table 4.16, only one respondent out of seventy-two respondents reported having started paying tax before four years and 5.6 percent of the total investors reported having paid tax for four years. On the other hand, 44.4 percent of the investors stated that they had not paid tax yet where as the percentage of investors who reported having paid tax for 1, 2 and 3 years were respectively 33.3, 12.5 and 2.8. This shows that around half of the investors in agricultural private investment had not paid tax at all and most of those who had started paying had not paid for more than 2 years.

Table 4.16: Duration of government revenue payment in agricultural private investment

	Duration	Frequency	Valid Percent	Cumulative Percent
	Not paid yet	32	44.4	44.4
	For a year	24	33.3	77.8
	For two years	9	12.5	90.3
	For three years	2	2.8	93.1
	For four years	4	5.6	98.6
	For more than four years	1	1.4	100.0
	Total	72	100.0	

Source: Field survey (2009)

Share of government revenue collected from agricultural private investment

As shown in table 4.17, the overall tax revenue generated in three consecutive years in the sample woredas was less than 1percent. According to secondary data collected from the woredas' revenue offices of the zone in table 4.17, very few revenues had been collected from agricultural private investment in the past consecutive three years period. The data in table 4.17 shows that, on average only 0.66 percent of revenue had been collected from this investment sector. This revenue amount was collected from sales tax, payroll tax, land lease fee and agricultural income tax. As indicated in table 4. 15, the revenue that was generated from land lease fee and agricultural income taxes is very few in all woredas of the zone.

Table 4.17: Government revenue collected from agricultural private investment in three sampled woredas

Years	Sample woredas											
	Dangure				Pawi				Guba			
2005/06-2007/20008	Annual revenue (in millions ETB)	Woreda's own collected revenue(in millions ETB)	Share of agricultural private investment (in millions ETB).	percent share of agricultural private investment from both	Annual revenue (in millions ETB)	Own collected revenue (in millions ETB)	Share of agricultural investment(in millions ETB)	percent share of agri. Priv. investment revenue from both	Annual revenue (in millions ETB)	Own collected revenue (in millions ETB)	Share of agricultural (in millions ETB) investment	percent share of agri. priv. investment revenue from both
	21.7	3.42	0.22	[6.55percent][10]	28.29	4.78	0.78	[1.65 percent]	11.8	2.5	0.80	[3.23percent]
				(1.03percent)[11]				(0.28percent)				(0.68percent)
	Average revenue for the three years in the three woredas (1.03+0.28+0.68)= 0.66 percent											

Source: computed from sample woredas' Revenue offices (2009)

Causes of low government revenue from agricultural private investment

Low level of government revenue from agricultural private investment in the study area is mainly as a result of less investment projects and termination of the projects. Further, other leading causes which contributed to less revenue collection, according to data collected from government officials and experts at various levels (presented in table4.18) are administrative weakness (less follow up and loss coordination among the concerned government bodies), corruption and poor staffing of the tax collecting institutions. As indicated in the table, poor administration in tax collection and follow up play the leading role with percentage share of 81.8 cases whereas poor staffing of the concerned institutions and corruption account 45.5percent and 36.4percent respectively. The tax administration system of the zone is not clear and lacks

[10] Show percentage share of agricultural private investment from woreda's own collected revenue (without transfer subsidy from the region).

[11] Show percentage share of agricultural private investment from the total woreda's revenue budget.

clear collection system. According to the interview conducted with experts and government officials at regional and woreda level, the respective institutions, which are responsible to collect and administer government revenue and investment land have, weak human and material resources, weak system of tax administration and unclear disbursement. Data from interview further indicated that when investors left the zone without paying the revenue for government, respective government bodies that were responsible to administer and collect tax did not respond to the refusals. Government officials were taking bribe from those investors who did not properly pay tax and made them free from tax liability according to these sources.

Further, long period of tax holiday permitted for this investment sector is the other reason for such low revenue. For instance, as can be seen from table 4.15, most investment projects had not paid agricultural income tax, land lease fee and payroll tax. This is because of tax holiday allowed to this investment sectors and investment termination by the investors who had completed tax holiday. Besides, the data on table 4.15 shows that only 5 percent of the respondents stated that they were paying payroll tax even though wage salary was being paid for the workers. This is not because of tax holiday but weak tax administration of the zone to control and properly manage the government revenue.

Hence, the above analysis shows that in addition to low number of agricultural private investments as shown in 4.4, the revenue collection system (poor tax administration, corruption and poor staffing in concerned institutions) of the region and the woredas are the main reasons for such low revenue from the agricultural private investment sector.

Table 4.18: Respondents opinion on factors contributes to poor government revenue generation in agricultural private investment.

Reasons for poor government revenue generation	Responses		Percent of Cases
	N	Percent	
Weak administration and less follow up	18	50.0percent	81.8percent
Corruption	8	22.2percent	36.4percent
Poor staffing of concerned institutions	10	27.8percent	45.5percent
Total	36	100.0percent	163.6percent

Source: Field survey (2009)

In addition, less willingness of the investors to collect payroll tax was one of the reasons that contributed to less government revenue in the study area. As the data in table 4.19 shows, 68.1percent of the respondents were not willing to collect tax from the workers whereas only 31.9 percent showed their willingness to collect this tax. This shows that in addition to government's less attention in collecting payroll tax from the investors and absence of measures to correct refusal to pay tax, less willingness of the investors to collect revenue from pay roll tax contributed to the low share of government revenue from agricultural private investment.

Table 4.19 Willingness of the investors to pay/collect payroll tax in agricultural private investment

Are you willing to collect payroll tax?	Frequency(n=72)	Valid Percent	Cumulative Percent
no	49	68.1	68.1
yes	23	31.9	100.0

Source: Field survey (2009)

The Revenue forgone as the result of tax holiday

As table 4.20 indicates, the amount of revenue foregone as the result of tax holiday in Metekel Zone was estimated to be 18 percent of total revenue budget of the zone over the consecutive four years period (2004/05-2007/08). The estimation was done by taking total land obtained by the investors and average annual revenue earned by the investors and then multiplying by the tax rates. That is [all hectares of land that the investors obtained in four years multiplied by average land lease fee per year per hectare (25 ETB/hectare) plus average revenue per investors which was collected from field (=200,000) multiplied by tax rate =35 percent multiplied by number of investors in four years period = revenue forgone]. The percentage share is similarly calculated from the amount of revenue forgone divided by total revenue of the sample woredas. To get the revenue for gone in the zone, the percentage share was multiplied to the total revenue of the woredas in the zone in four years period. The estimation does not include Federal revenue sources in the region (Customs duty while importing capital goods).

Table 4.20: Revenue forgone from agricultural private investment as the result of tax holiday

Descriptions	Years				Total
	2004/05	2005/06	2006/07	2007/08	
Total Revenue (ETB in millions) in sample woredas	12.853171	16.739896	21.491060	24.591000	75.675127
Revenue forgone (ETB in millions)in sample woredas	0.493435	0.688265	2.926985	9.574910	13.683595
Estimated percent share of revenue forgone to total annual revenue	3.83	4.11	13.62	39.11	18
Total budget of the zone (ETB in millions)	40.702112	53.845062	58.781578	56.281820	209.547572
Total revenue forgone in four years (ETB in millions)					**37.718562.96[E][12]**

Source: computed from Regional Revenue authority and field survey (2009)

The above table 4.20 elucidates the amount and percentage share of revenue forgone from three tax bases. On average, the zone has forgone 18percent of the total revenue per year. The computation shows that in the four years period, a minimum of 37,718,562.96ETB government revenue was estimated as forgone in the zone in order to motivate the investment activities. This means that large amount of government revenue has been forgone since the starting of agricultural private investment (fifteen years back). The revenue forgone is supposed to benefit the society through different development issues and future gain. However, the opportunity cost of most revenue forgone failed to realize the expected development benefits, which is expected to be the gain from future revenues, employment and overall development as a result of expansion of investment in the sector. The failure is partly because of the exit of investors from the zone when the tax holiday period expires as discussed in section 4.1. Besides, information from interview with government officers indicated that investors in the sector also at times change their forms of trade name to Private limited Share Company and register as new investment project when the tax holiday period expires to transfer their tax payment responsibility to the Federal Government.

[12] The figure is estimated from the sample woredas and computation has done depending on three tax bases-land lease fee, payroll tax and agricultural income tax that have been to collect by the zone. Except land size and lease fee the others are collected from the primary data during the field survey.

This shows that tax holiday in the agricultural private investment substantially reduced government revenue, which could have been gained from the private agricultural investment in the zone. Furthermore, the fact those products that investors produced are non-durable/annual crops and that the tax holiday is relatively too long also contributed to the failure.

4.6 Constraints of agricultural private investment in Metekel Zone

"...A favorable investment climate can generate strong growth, and where there is growth poverty reduction is likely" Nicholas Stern (2002). p.11.

The success and failure of private investment in general and agricultural private investment in particular can be determined by various factors. Infrastructure provision, government service delivery, governance, availability and accessibility of financial institutions and market facilities are among such factors. The following section provides analysis of these factors as they appeared in the study area.

4.6.1 Government Service Delivery

Lisan Hig Gazeta, proclamation No 13/1998 sub article 18 states that the regional government should provide services for investors in one appropriate place to facilitate service delivery systems (Lisan Hig Gazeta Pro.13, 1998). According to this provision, allocating land, trade name registration and offering investment certificate should be provided as one- stop- shopping in order to facilitate investment services. However, investors in the sector complained during interview and focus group discussion for the absence of such service in the study area. Most experts in government offices also admitted upon interview that such a service has not yet been provided in the study area.

Table 4.21 shows the level of satisfaction in government service delivery by the sample investors. As sown in the table, 26.4 percent of the respondents stated that the service delivery in obtaining land took more than 30 days. In this service delivery, 43.1 percent of the respondents stated the services took 20-30 days. On the other hand, 18.1 percent of the respondents stated this service took 15- 20 days and 8.3 percent of the respondents started as it took 10-14 days. Only 4.2 percent of the respondents stated the service as it took less than 10 days. By dummy category of the researcher, services that take more than 30 days is as very poor, 20-30 poor, 15-20 as good, 10-14 very good and less than 10 is excellent. According to the respondents' rating,

that service delivery while obtaining land for investment was greater than the standard set in the region and thus it was poor and the investment activity can be delayed in agricultural private investment of the study area. As the data in table 4.21 indicated, on average 27.5 days are required to obtain land. It is far more days than the standard set in the region. The standard days set for obtaining land for the investment is maximum 10 days (Lisan Hig Gazeta, proclamation No 13/1998). In the same way, 34.7percent of the respondents rated service delivery in obtaining investment license is greater than 20 days. In contrary in this service delivery in obtaining land, 48.6percent of the respondents rated the service between 15-19 days, while 12.5 percent of the respondents rated 10-14 days.

It indicates that although obtaining investment license is relatively better than obtaining land for agricultural investment in the zone, it was also showed delay. The average day for this investment license is 18.3 days.

Table 4.21: Status of one-stop- shopping services delivery in agricultural private investment

Number of days it takes to obtain land	Frequency(n=72)	Valid Percent	Cumulative Percent	number of days		
				min	Max	Mean
above 30	19	26.4	26.4	8	45	27.5
20-30	31	43.1	69.4			
15-19	13	18.1	87.5			
10-14	6	8.3	95.8			
less than 10	3	4.2	100.0			
Number of days to obtain investment license services	Frequency(n=72)	Valid Percent	Cumulative Percent	min	Max	Mean
above 30	3	4.2	4.2	7	33.00	18.3
20-30	22	30.6	34.7			
15-19	35	48.6	83.3			
10-14	9	12.5	95.8			
less than 10	3	4.2	100.0			
Number of days to obtain trade name registration services	Frequency(n=72)	Valid Percent	Cumulative Percent	min	Max	Mean
above 20	1	1.4	1.4	4.00	24.00	11.2
15-20	3	4.2	5.6			
10-14	48	66.7	72.2			
5-9	12	16.7	88.9			
less than 5	8	11.1	100.0			

Source: Field survey (2009)

In addition, as the same source further indicates, service delivery in obtaining registered trade name was rated by the respondents. Accordingly, average day for this service type is 11.2. The analysis indicated that, one-stop-shopping service delivery system in agricultural private investment of the study area is varied. Service delivery to obtain land is the leading constrained compared to the others and the standard set by the regional government. The average day rated by the respondent more than double day that the standard. On the other hand, service delivery in trade name registration is relatively better. In the overall government service delivery in one-stop-shopping service delivery of the zone/region was not satisfactory to promote agricultural private investment of the zone.

Factors for poor government service delivery

As sown in table 4.22, 82.6 percent of the cases revealed that the services were delayed as the result of weak and unaccountable service providers in concerned woreda offices and irresponsiveness, 55.1 percent of the cases show that the problems were created as the result of back ward and non- customer oriented service delivery system by the regional investment office. Further, 43.5 percent of the cases revealed that the cause for poor service delivery was the long distance between woredas and the regional investment office in that it takes a long time to travel from the region to the woredas and again back to the region after ensuring availability and accessibility of investment lands. This is as the result of centralized investment administration.

Table 4.22: Investors opinions on factors for poor government service delivery

What do you think are the reasons for poor government service delivery	Responses		Percent of Cases
	N	Percent	
Back ward and non- customer oriented service delivery system by the regional investment office	38	25.3 percent	55.1 percent
Unaccountable service delivery of woreda concerned offices and irresponsiveness,	57	38.0 percent	82.6 percent
The distance between woredas and the regional investment office	30	20.0 percent	43.5 percent
Corruption	19	12.7 percent	27.5 percent
Lack of capacity(human and material)	6	4.0 percent	8.7 percent
Total	150	100.0 percent	217.4 percent

Source: Field survey (2009)

In a similar way, about 27 percent of the cases revealed that the reason for poor service delivery for investors was corruption. Finally, 8.7 percent of the cases stated that other factors also

influenced the service delivery speed, such as lack of human and material capacity by the service delivery offices.

The above analysis indicates that in addition to bureaucratic red tapes, government services delivered at the regional level with single controlling organ was not convenient for enabling investment environment in the agricultural investment sector of the area. Thus, decentralized and customer-oriented service delivery system can create a better investment environment and encourage inward attraction than centralized system in the study area.

4.6.2 Infrastructure

Infrastructure facility is the main and important factor for creating conducive business environment. Among all types of infrastructure road net work, telecommunication, postal services, electric power supply, health care and drinking water were selected and investors' opinions were collected on the availability and accessibility of the facilities.

Road net work

According to (BOFED, 2008), there are about 787km standard rural road in the region with a road density of 15.6km per 1000km^2.The corresponding figure for the country (Ethiopia) is 32 km per 1000km^2. This shows that the region in general is by far lagging behind the national average in terms of road infrastructure. The study area as a zone in the region has thus a relatively poor infrastructure, which is one possible constraint for expansion of agricultural private investment.

Most of the investment projects have been operating far from the main roads that connect zone town to the woreda and woreda to kebeles. Only few investment projects are situated along the roadside or nearer to the road. According to the data in table 4.23, out of total respondent investors 8.3 percent rated the road net work as good and 6.9 percent very good whereas 5.6 percent of the respondents stated that neither all- rounded nor seasonal roads are available. The remaining 79.2 percent rated the road net work as poor and very poor in the zone to undertake agricultural private investment. Besides, interview with key informant and selected community members indicated that investors in Guba woreda have serious road net work problem than the others as a result of the woreda's remoteness from the center. As this source also indicated, the

roads are poor in both quality and quantity in the woreda and not available in the agricultural investment sites. Many of the constructed roads are seasonal with the absence of bridges on the rivers and many roads are damaged. This shows that road net work is in a poor condition and thus a constraint to expansion of agricultural private investment in the study area.

Table 4.23: Respondent investors' opinions on the status road net work in the study area

Types of infrastructure facilities	Respondents opinions on the status of the facilities	Frequency	Valid Percent	Cumulative Percent
Road net work	Very poor	42	58.3	58.3
	poor	15	20.8	79.2
	good	6	8.3	87.5
	Very good	5	6.9	94.4
	Not available at all	4	5.6	100.0
	Total	72	100.0	

Source: Field survey (2009)

Telecommunication

According to (BOFED, 2008), mainly the kind of telecommunication available in the zone is V-SAT/satellite telephone with frequent failures of services. Digital wire line and wireless telephone is available only in capital towns of three woredas (Pawi, Dangure and Mandura woredas). Such poor and low coverage of telephone service the study area is among the constraints to agricultural private investments as also evidenced by investors' responses in the following section.

According to data in table 4.24, 44.4 percent and 13.9 percent of the respondent investors stated that telephone service was very poor and poor respectively whereas 8.3 percent and 12.5 percent of the respondents rated the service was good and very good respectively as observed in their respective investment sites. The rest 20.8 percent responded saying that telephone service was not available at all in the area of their investment projects. In general table 4.24 shows that more than three fourth of the investors expressed dissatisfaction with of absence of telephone service at their investment sites. This indicates that majority of private investors in agriculture in the study area were facing problem with telephone service for information flow from the investment area to the market and vice versa.

Table 4.24: Respondent investors' opinions on the status telecommunication facilities in the study area

Types of infrastructure facilities	Respondents opinions on the statues of the facility	frequency	Valid percent	Cumulative percent
Telecommunication	Very poor	32	44.4	44.4
	poor	10	13.9	58.3
	good	6	8.3	66.7
	Very good	9	12.5	79.2
	Not available at all	15	20.8	100.0
	Total	72	100.0	

Source: Field Survey (2009)

Electric power supply

Of the seven woredas in the zone, only three woreda towns have hydroelectric power and one woreda has diesel electric power. Two of the three sample wereda towns have hydroelectric power supply whereas the third has not had either of the two power supplies (BOFED, 2008). Information from focus group discussion and interview also indicated that electric power supply in the zone is observed with frequent failure of services.

Table 4.25 shows that the percentage of respondent investors who rate the power supply as either very or poor was 63.9 whereas only 8.4 percent of total respondent investors rated the power supply as good or very good. On the other hand, 27.8 percent of the respondents stated that it was not available at all. This indicates above 90 percent of the investors in the study area expressed either dissatisfaction with or total lack of electric power supply.

Table 4.25: Respondent investors' opinions on the status Electric power supply

Types of infrastructure facilities	Respondents opinions on the statues of the facility	frequency	Valid percent	Cumulative percent
Electric power supply	Very poor	36	50	50
	poor	10	13.9	63.9
	good	3	4.2	66.1
	Very good	3	4.2	70.3
	Not available at all	20	27.8	100.0
	Total	72	100.0	

Source: Field Survey (2009)

Postal services

According to BOFED (2008), there are only two permanent postal services available in Metekel Zone. As shown in Table 4.26, 40.3 percent of the respondent investors indicated postal services is not available at all whereas 54.2 percent of the respondents stated postal service as available but poor in providing services. On the other hand, only 5.6 percent rated the postal service as good or very good. This shows that more than 90 percent of the investors perceived the postal service as unsatisfactory or unavailable.

Table 4.26: Respondent investors' opinions on the status postal service in the study area

Types of infrastructure facilities	Respondents opinions on the statues of the facility	frequency	Valid percent	Cumulative percent
Postal service	Very poor	9	12.5	12.5
	poor	30	41.7	54.2
	good	3	4.1	58.3
	Very good	1	1.4	59.7
	Not available at all	29	40.3	100.0
	Total	72	100.0	

Source: Field survey (2009)

Drinking water

The number of people who had access to drinking water in the zone was estimated to be 104,200, which is 38 percent of the total population of the zone (BOFED, 2007). Interview with investors indicated that there is severe shortage of drinking water mainly due to inadequacy of water points in the areas of investment projects. The data in table 4.27 shows that 86.1 percent of the response stated that there is a poor or very poor drinking water supply facility whereas only 2.8 percent rated the supply as good. On the other hand, 11.1 percent stated there was no drinking water supply at all. This indicates that nearly all the private investors in agriculture in the study area expressed lack or dissatisfaction with supply of drinking water.

Table 4.27: Respondent investors' opinions on the status drinking water in the study area

Types of infrastructure facilities	Status of the facilities	Frequency	Valid Percent	Cumulative Percent
Drinking water services	Very poor	50	69.4	69.4
	poor	12	16.7	86.1
	Very good	2	2.8	88.9
	Not available at all	8	11.1	100.0
	Total	72	100.0	

Source: Field survey (2009)

Health care services

According BOFED (2008) there were 24 health clinics, 32 health posts, 9 health centers, 7 V.C.T/ART centers, 1 hospital and 1 health training institution in Metekel Zone. This can provide health service to about 71 percent of the population whereas about 29 percent of the population does not have a health facility within an accessible distance according the same source.

According to the data in table 4.28, 95.8 percent of the respondents rated health care services as poor or very poor whereas only 4.2 percent rated it as good. According interviewees and focus group discussants, the unavailability and inaccessibility of health care services was very severe and threatening especially in the face of widespread malaria infection.

Table 4.28: Respondent investors' opinions on health care services

Types of infrastructure facilities	Respondents opinions on the statues of the facility	frequency	Valid percent	Cumulative percent
Health care services	Very poor	63	87.5	87.5
	poor	6	8.3	95.8
	good	3	4.2	100.0
	Total	72	100.0	

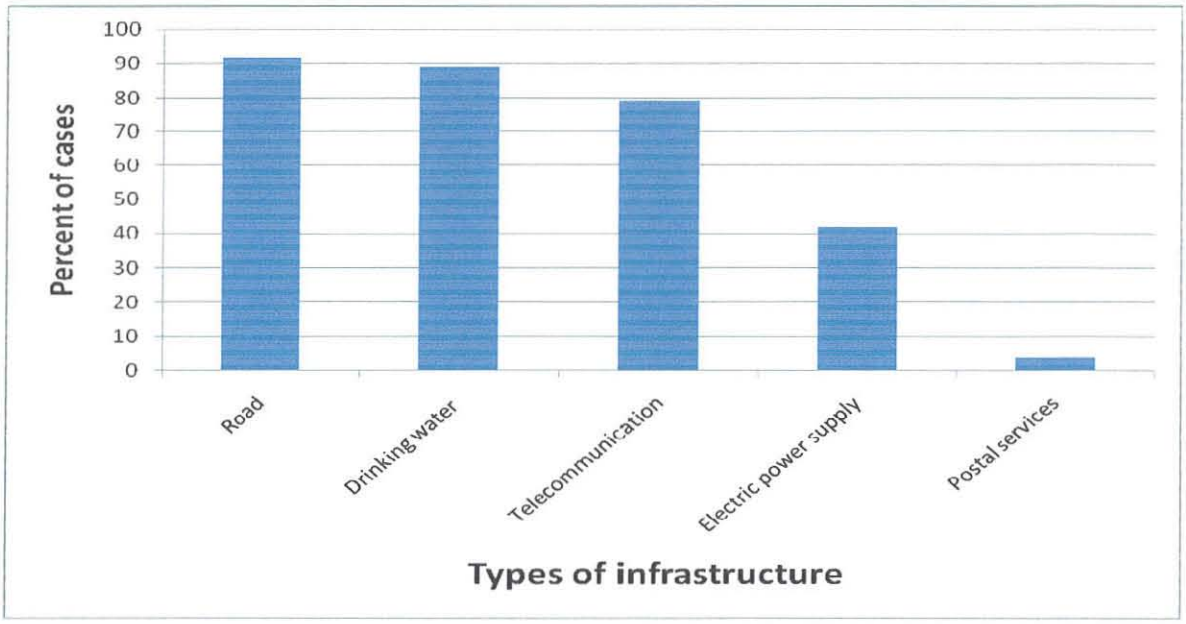
Source: Field Survey (2009)

The analysis shows that most investors' expressed dissatisfaction or total absence of all the physical infrastructures discussed (road net work, telecommunication, electric power ,drinking water, health care service and postal services) which further indicates that lack or inadequacy of the stated services are all possible constraints to private agricultural investment.

Further, the data in figure 4.6 show, the response of private investors in agricultural investment of the study area that rated more needed physical infrastructure and whether substantially influence their investment activities or not. Accordingly, road net work was the most demanded infrastructure in the study area followed by drinking water. Similarly, telecommunication service is the third area of infrastructure that the investors highly required. On the other hand, electric power supply and postal services are relatively less required in this investment sector in the area. This indicates that postal service and electric power supply are not the main determinants of private agricultural investment in Metekel Zone compared to the other infrastructures. This can be as the result of the fact that investment products are primary products and no further processing that need power supply.

Hence, it can be concluded that road net work, drinking water and telecommunication/telephone services are the main physical infrastructures that determine agricultural private investment compared to the other infrastructure sectors in the study area.

Figure 4.6: The main important infrastructures in agricultural private investment and their level of importance



Source: Field survey (2009)

4.6.3 Governance and agricultural private investment in Metekel Zone

Governance can play a crucial role in enhancing business environment for better performance of investment. It has a large effect on the expected productivity and return to investment. Data in table 4.29 shows opinion of investors towards governance in the study area. As shown in the table, 40.3 percent of the respondent investors stated that the condition of governance in the study area was bad or very bad whereas 54.2 percent of the respondents rated it as good or very good.

Table 4.29: Respondents' opinion on the status of governance in Metekel Zone

Status of governance	Frequency (n=72)	Valid Percent	Cumulative Percent
Very bad	5	6.9	6.9
bad	24	33.3	40.3
good	38	52.8	93.1
very good	1	1.4	94.4
not know	4	5.6	100.0

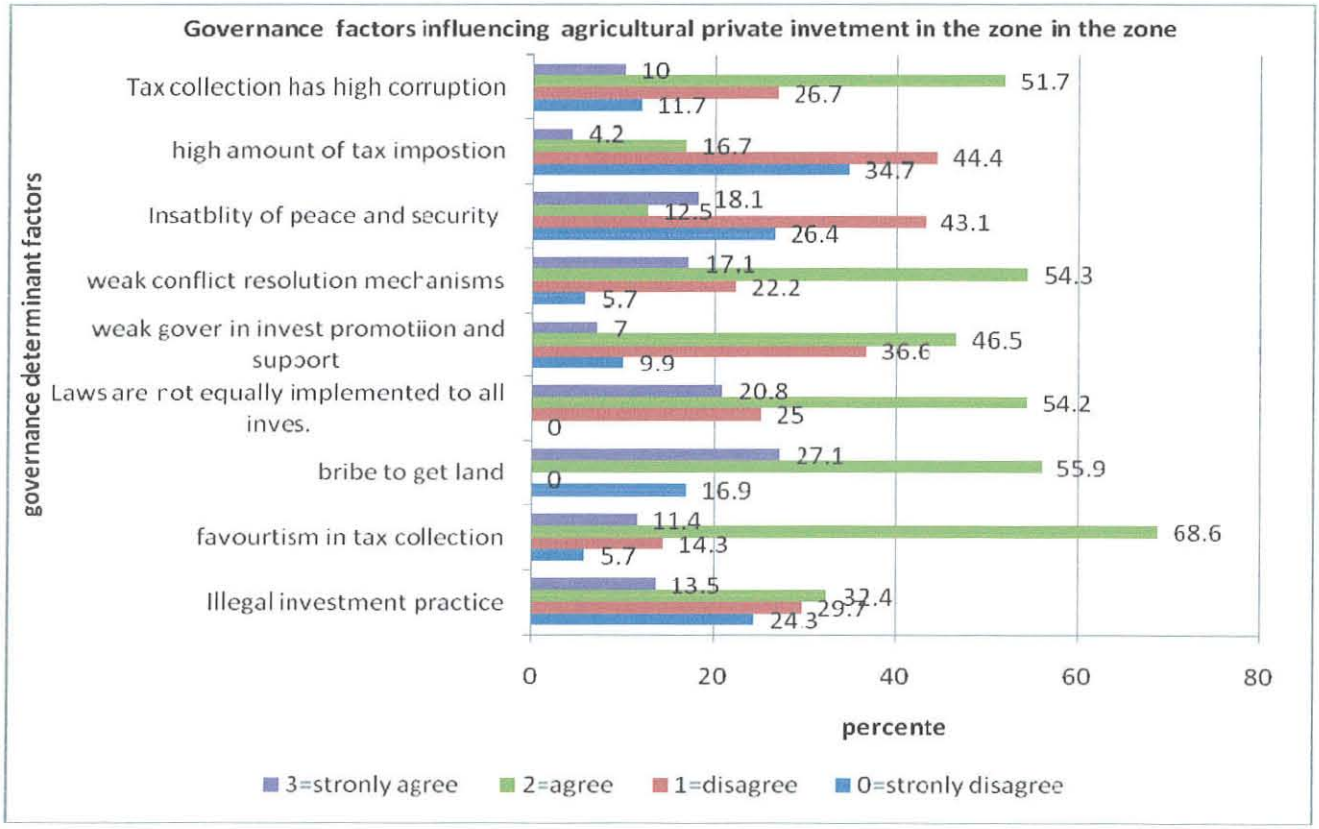
Source: Field survey (2009)

According to table 4.29 In spite of the fact that large proportion of respondents rated the status of governance as good (52.8 percent), significant percentage share of the respondents also rated the governance of the area as being not good (that is bad and very bad). This significant percentage share of bad and very bad governance indicates that it can be a serious problem because governance is one of the most important factors for expansion of investment. It also has a direct or an indirect influence on other factors that are important in creating conducive environment for investment. For example, bad governance can lead to poor infrastructure, delayed service delivery and weak financial institution facilities. Besides, the interview with the key informant investors indicated that even if governance of the zone to promote investment in the private agricultural investment has improved compared to the earlier periods, still it is not at the desired level and needs further improvement. The overall analysis indicates that the issue of governance in the study area is not satisfactory and that it needs improvement.

Figure 4.7 shows graphical representation of governance determinant factors for agricultural private investment in Metekel Zone. According to this figure, high percentage of respondents' agreement is observed on the occurrence of favoritism during tax collection and land provision,

in which investors have paid inequitable and unfair revenue to the government. This problem is marked with 68.6percent and 11.4 percent of the respondents that agree and strongly agree responses for the prevalence of favoritism respectively. The other response with higher percentage is that the respondents stated the offering/requirement of bribe to get investment land (to which 55.9 percent and 27.1 percent agreed and strongly agreed respectively). On the other hand responses to the practice of illegal investment, high tax imposition system and prevalence of insecurity did not show high variation between agree and not agree opinions by the respondents compared to the other governance problems.

Figure 4.7: Respondents' opinions on status of governance constraints of agricultural private investment in Metekel Zone



Source: Field survey (2009)

Tax imposition and collection system

In agricultural private investment of Metekel Zone, the respondents perceived the state of tax collection and imposition system differently. Investors' responses in table 4.31 indicate that there were high favoritisms in tax collection in private agricultural investment. As shown in the table 68.6 percent of the respondents agreed on the prevalence of favoritisms in collecting tax.

In the same way, 11.4 percent of the respondents perceived the problem with strongly agreed response. Conversely, 14.3 percent and 5.7 percent of the respondents strongly disagree or disagree on the presence of favoritism in tax collection in agricultural private investment of the study area. Besides, the respondents also rated the tax imposition status of this investment sector. Accordingly, the data in table 4.30 shows that the majorities of the respondents did not accept occurrences of tax imposition on agricultural private investment of the study area. The data in the table (table 4.30) reveals that 34.7 percent and 44.4 percent of the respondents strongly disagree and disagree respectively to the opinion that there is high tax imposition on the investors in agricultural private investment in the zone. On the other hand, 16.7 percent and 4.2 percent of the respondents accept the presence of tax imposition in this investment.

The analysis indicated that favoritism in tax collection (that is the absence of equitable and proper tax collection) from agricultural private investors in the study area was observed and felt by investors as problem in governance. On the contrary, high or unreasonable tax imposition was not prevalent in agricultural private investment of the zone/study area. Hence, it was not a serious impediment for this investment in the study area as perceived by investors.

Implementation of agricultural private investment related laws

Enforcing and proper implementation of laws are important factor to ensure good governance for all aspects of investment in general and agricultural private investment in particular. When laws are weakly implemented or not enforced, individuals can act in their interest and/or the interest of few groups. The data in table 4.30 indicates that high percentage of the respondents agree or strongly agree on the prevalence of unequal implementation of investment related laws. The table shows that 54.2 percent and 20.8 percent of the respondents respectively recognized the problem. This shows that investment related laws in agricultural private investment of the study

area were not equally implemented to all investors as perceived by the respondents. As a result, some investors might feel dissatisfaction and be forced to terminate the project in this area.

Illegal investment

As the data in table 4.30 shows, 32.4 percent and 13.5 percent of the respondents respectively agree and strongly agree on the presence of illegal investment in the zone. On the contrary, 54 percent (24.3 percent strongly disagree and 29.7 percent disagree) of the respondents did not accept the presence of illegal investment in the zone. Though some respondents perceived the existence of illegal investment, majority of them did not perceive the availability of this activity. Hence, it is not the main governance impediment of the study area.

Table 4.30: Opinions of the respondents on governance related constraints of private agricultural investment in Metekel Zone

N°	Determinant factors of governance	0=strongly disagree	1=disagree	2=agree	3=strongly agree
1	There is illegal investment practice in the zone	24.3	29.7	32.4	13.5
2	There is favoritisms in tax collection	5.7	14.3	68.6	11.4
3	bribe to get land is highly practiced	16.9	0	55.9	27.1
4	Laws are not equally implemented to all investment	0	25	54.2	20.8
5	weak invest promotion and support	9.9	36.6	46.5	7
6	weak conflict resolution mechanisms	5.7	22.2	54.3	17.1
7	Instability security	26.4	43.1	12.5	18.1
8	high amount of tax imposition	34.7	44.4	16.7	4.2
9	Tax collection has high corruption	11.7	26.7	51.7	10

Source: Field Survey (2009)

Bribes

The data in table 4.30 on perception of investors on corruption shows that bribe was paid by the investors in agricultural private investment of the study area to get land and to evade tax. This data indicates that 83 percent of the respondents accepted and agreed on the occurrences of corruption during offering land for the investment. Similarly, 61.7 percent of the respondents recognized and accepted the presence of corruption during tax collection. This indicates that presence of corruption in the form of demanding bribes has been observed/perceived by investors in private agricultural investment in the study area. Such perception by investors could

have hindered the growth of agricultural private investment portraying the zone as having poor governance in the area of agricultural private investment.

Prevalence of insecurity

As shown in table 4.30, 12.5 percent and 18.1 percent of the respondents agreed and strongly agreed respectively in the prevalence of insecurity for the agricultural private investment in the study area. Conversely, 26.4 percent and 43.1 percent of the respondents strongly disagree and disagree respectively in the presence of insecurity for the agricultural private investment. Therefore, relatively, the prevalence of insecurity in the study area, which negatively affects agricultural private investment, is less as felt by the respondent investors. Along with this fact, conflict resolution mechanisms while insecurities happened in agricultural private investment of the zone are weak as shown by the data in 4.30. Furthermore, the table also shows that 54.3 percent and 17.1 percent of the respondents agree and strongly agree respectively on the weakness of conflict resolution mechanism of the study area. Besides, the interview with key informant investors and focus group discussants showed that, when conflict between local community and the investors occurred/arose on farmlands and grazing lands, the response from the government bodies were weak. Traditional indigenous based conflict resolution mechanisms were not well promoted and recognized by the government.

This indicates, in spite of less prevalence of insecurity in the area of agricultural private investment in the study area, the mechanism to solve those observed problems were weak. In addition, the harmonious relationship between the community and the investor was not established to protect the possible conflicts between the investors and the local community.

Investment promotion and government support

Ethiopian government has introduced and promoted a free market economy and privatization. In line with this policy, promoting and supporting a private developer has highly been introduced both at federal and regional level. As the data in table 4.30 indicates, the level of investment promotion and support of government in agricultural private investment was not adequate. The table (4.30) shows that 53.7 percent of the respondents accepted and recognized weak level of investment promotion and support from the government in agricultural private investment of the study area. On the other hand, 45.5 percent of the respondents stated that the efforts that were

exerted to promote and support this investment sector are not weak and they did not accept the low level of investment promotion and support. Besides, interview with investors and government employees as well as focus group discussions indicated that the regional government of the study area is not conscious and did not give due emphasis for the investors who have full financial and technical capacity to utilize when land for investment was offered. This indicates that investment promotion and support in agricultural private investment of the area needs reconsideration. Furthermore, in spite of the introduction and practice of investment promotion policies such as tax holiday, long-range land lease and duty free import of capital goods the satisfaction level of the investors on the promotion and support is not high as indicated in table 4.30. Therefore, the applicability and the intensity of investment incentives in promoting private agricultural investors in the study area need further reconsideration and another research.

To sum up, the overall result of governance in agricultural private investment in Metekel Zone reveals that the level of governance to promote and attract inward investment is not sufficient and needs improvement. Comparatively, the main impediments of governance in the zone were corruption and not serving the public interest equitably and fairly.

4.6.4 Financial institution and agricultural private investment in Metekel Zone

Financial input is believed to be a decisive determinant factor of private investments. This is true for the fact that investment projects that use sufficient amount of capital can be more productive. According to the data in table 4.31, most investors have started the investment activities by their own startup capital. Only very few investors were able to use credit services from financial institutions for the startup capital. Among the respondents, 12.5 percent (9 respondents out of 72) and 2.8 percent (2 respondents out of 72) stated that they had used bank loan and loan from relatives or friends for investment startup respectively. The other 84.7 percent of the respondents stated that they started investment using their own capital.

Table 4.31: source of investment startup capital in agricultural private investment, Metekel Zone

Where do you get investment startup capital?	Frequency(n=72)	Valid Percent	Cumulative Percent
Bank loan	9	12.5	12.5
Relatives and/or friends	2	2.8	15.3
Own source	61	84.7	100.0
Total	72	100.0	

Source: Field survey (2009)

Data on the reasons for not using additional capital from financial institutions were also gathered and the result has been shown in table 4.32. According to these data, those investors were unable to use credit services from financial institution as a result of high collateral asked by the financial institutions and inaccessibility and unavailability of financial institutions. As the data (table 4.32), unavailability and inaccessibility of banks and/ or any alternative capable financial institution in the zone or in the woredas were the leading problems with the percentage share of 43.5 percent of the respondents. The second constraint that prohibited credit use for investment start up and expansion was high collateral requested by the financial institutions, which accounted for 30.4 percent of the responses. Thirdly, fear of the volatile nature of the farm investment by the financial institutions accounted for 10.1 percent of the responses. The other problems contributed less than 10 percent separately and jointly accounted 15.9 percent of the responses.

In addition to the business community, lack of financial institution in the zone or in the woredas also imposed an impact on the workers' saving habit. One young worker stated the problem saying:

"....money in this area is nothing except earning and counting once when I have been paid. Five or six thousands of ETB is earned in few months but we sped within a month or less. Because of lack of bank in the area we keep the money in our pocket, we live together in the camp and we do not have any secured place to save the money. When we come to Almahal or Mankush town, we use it for food and enjoyment. When we finish the money, we start to look for the job."

In addition, a middle-aged investors stated about the problem of bank as *"...when I sale the product, I am forced to buy sand and rent a vehicle to Chagni, where Commercial Bank of Ethiopia is found in Amahara Regional State. ....It is not for the sake of construction but to hide money in the sand in order not to expose to the robbers on the way to bank"*

This indicates that unavailability of financial institutions and the collateral asked by the financial institutions have stagnated the performance of agricultural private investment in the zone. Credit policy of financial institution in the country (high collateral required) prohibits private investors in agricultural sector of the study area not to increase their investment activities. Besides, unavailability of banking services in the zone and/or in the woredas imposes a negative impact on the performance of agricultural private investment of this area and saving of the employees.

Table 4.32: Opinions of the respondents on factors contributing to less access to credit services in agricultural private investment

What factors hinder you not to get access to credit services?	Frequency (n=69)	Valid Percent	Cumulative Percent
Volatile nature of agricultural investment	7	10.1	10.1
High collateral asked by the financial institutions	21	30.4	40.6
Unavailability and accessibility of credit facilities	30	43.5	84.1
Less capacity of financial institutions	2	2.9	87.0
Absence of long –term credit	6	8.7	95.7
High interest rate	3	4.3	100.0

Source: Field survey (2009)

Similarly, the data in table 4.32 shows that there is difference in annual revenue earned among bank credit users, credit users from friends or relatives and own capital users. According to these data, all bank credit users have earned average annual revenue between 200,000-500,000 ETB. It is relatively the highest annual revenue earned in the area whereas investors who used credit services from friends or relatives obtained the least amount of annual revenue. It is 50,000-100,000ETB per annum. On the other hand, those investors who used their own capital for investment startup have obtained annual revenue from all the three categories of revenue. That is, on some of them have earned from 50,000-100,000ETB, the others earned from 100,000-200,000ETB and some other who used own capital have earned from 200,000-500,000ETB per annum. This shows that both internal and external finance is the determinant factors for augmenting investment outputs. This can be as a result of those credit users from the bank may use capital goods to augment their productivity. Hence, the investors in agricultural private investment of the zone experienced lack of capital to utilize their lands properly and timely. Investors who had used credit services for investment startup in addition to their own capital

were able to earn more annual revenue compared to those investors who have used only their own capital and than those who borrowed from friends at micro level in agricultural private investment of the zone.

Table 4. 33: Relative share of respondents' annual revenue who used credit services from bank and non- bank credit users in agricultural private investment, Metekel Zone

Respondents' source of investment startup capital	Annual Revenue				Total
	50000-100000	100000-200000	200000-500000	not yet earn revenue	
Bank loan	0	0	4	5	9
	.0 percent	.0 percent	44.4 percent	55.6 percent	100.0 percent
Relative and/ or friends	2	0	0	0	2
	100.0 percent	.0 percent	.0 percent	.0 percent	100.0 percent
Own source	18	18	18	7	61
	29.5 percent	29.5 percent	29.5 percent	11.5 percent	100.0 percent
Total	20	18	22	12	72
	27.8 percent	25.0 percent	30.6 percent	16.7 percent	100.0 percent

Source: Field survey (2009)

Moreover, unavailability of credit services influenced the use of capital goods and land. According to interview conducted with investors, most investors did not have financial capacity to utilize the obtained lands as per the intended plan. Further, some investors stated that they had used oxen for farming activities and others used rented tractors.

The data in table 4.34 indicates that among 72 respondents, 14 (19.4 percent) explained that they had no tractors or any other modern capital goods for investment and use oxen and/ or rented tractor for farm activity. It was disclosed during interview with investors that the reason for being unable to use capital goods for input is inaccessibility and unavailability of credit services from financial institutions. Thus, the overall analysis has shown that there was considerable constraint in financial service provision for the private investors in agricultural investment of the study area.

Table 4.34: Relative share of respondents in owning and using capital goods for investment in agricultural private investment

Are you used capital goods (tractors, combiners or any other) for your investment?	Frequency	Valid Percent	Cumulative Percent
No	14	19.4	19.4
Yes	58	80.6	100.0
Total	72	100.0	

Source: Field survey (2009)

4.6.5 Market and agricultural private investment in Metekel Zone

Market has a key role in the profitability and sustainability of the business. Access to niche market for the investment outputs guarantee the investors to expand their firm and to ensure their sustainability. In Metekel Zone, agricultural private investment activity is mainly dependent on local or domestic market to sell their products. Many of the investors have sold the products at the farm, Addis Ababa and/or to any area in the country. As the field survey data reveals that, out of 72, only two (2.8 percent) respondents stated that they have exported their products abroad (table 4. 35). As the key informants interview with investors, the main reason for not export their products is as a result of lack of capacity to export.

In addition, the data in table 4.35 indicates that the investors have a big market problem. Mainly the problem was created because of poor road net work, low price and lack of niche market. Among the constraints, inadequacy of transportation facility as the result of poor road net work services contributed 50 percent of the response, low price is the second severe problem with 34.4 percent of the response and lack of access to niche market is the third with percentage share of 16.4 percent. Damage on the road net work (infrastructure) has particular limitation on market access and distribution of products from investment site to urban markets. This indicates that investors who have engaged in private agricultural sector in Metekel Zone have no sufficient market and the products were sold at fewer prices as the result of less infrastructure access and lack of niche market in the area. Besides, in spite of the fact that this research has no objective to assess the capacity of the investors in the study area, most of the investors in the zone who engaged in agricultural private sector may have no adequate capacity to export their products abroad and to get reasonable prices for their products.

Table: 4.35 Area of product selling and factors contributed to less market in agricultural private investment, Metekel Zone

Where do you sale the products?	Frequency (n=72)	Valid Percent	Cumulative Percent
With in the country	70	97.2	97.2
Exported out of the country	2	2.8	100.0
What are main market problems for your investment?	**Frequency (n=61)**	**Valid Percent**	**Cumulative Percent**
Lack of transportation	8	13.1	13.1
Inadequate road network	22	36.1	49.2
Low price	21	34.4	83.6
Lack of mark access	10	16.4	100.0

Source: Field survey (2009)

4.7 Agricultural private investment and its impacts on Natural Resource in Metekel Zone

Natural resource conservation is one of the key roles in sustainable development. According to EEA (2005), agricultural investment enhances the use of scare natural resources in an efficient and sustainable manner. However, as the information gathered from the focus group discussions of the study area showed that, the prevailing situation in agricultural private investment in Metekel Zone seems to be inconsistent with this literature. As the discussions were further indicated, in the zone, to use land resource for the agricultural private investment, land cover and wild life have been devastated. In the way to investment, the conservation of natural resource has forgotten. Rarely found wild animals have migrated to Sudan and to the vicinity of Abay River. In addition, the focus group discussion in Guba woreda revealed that, in Guba woreda Lion and Buffalo had frequently observed in the forest surrounding Mankush town still recent time. Now these wild animals are rarely appeared only along the border (Ethio-Sudan).

In addition to migration of wild animals, also the same source indicated that the local communities are filling inconvenience supposing that lack of water and grazing land will be occurred if things are continued in such a way. Mainly the communities members' inconvenience is arise from the ground of large land size offered for the investors and high number of agricultural investment with in the absence of land use policy.

In general, the above discussions indicate that agricultural private investment in the area is less compatible with environment. Investment in line with environmentally friendly is not given due consideration. Likewise, the regional government gives very less attention to the conservation of natural resources and related laws are loosely enforced and less implemented. EEA (2005) asserted that agriculture investment enhances the use of scare natural resources in an efficient and sustainable manner. However, the research found that natural resources were not properly managed and conversely the investment in the sector destroys the resource. It is because of investment related laws and conservation of natural resource did not give due consideration in the study area and weakly implemented. This finding more consistence with the research finding by Debora and John (2006) which stated that when laws are lax or poorly enforced by the government and public inspection is weak, private sector activity influence the destruction of natural resources than the efficient use of natural resources.

4.8 Future prospects of agricultural private investment in Metekel Zone.

Agricultural private investment in Metekel Zone has been at increasing rate since 2006/07(table 4.5). The rate of increment may promise the development opportunity of the zone that additional more employment opportunity contribute to government revenue and may introduce new technology and entrepreneur ability to the localities.

4.8.1 Optimistic views of the investors

According to data in table 4.37, all investors (100 percent) in agricultural private investment of Metekel Zone were responded positively on the plan for the expansion and persistent in the investment activities. However, as to whether they are confidentially sure to invest according to the contractual agreement signed (40/50 years), some investors were not accurate about the duration. As data in table 4.37 shows 72.2 percent of the respondents were confirmed that as they will continue to invest as per the contractual agreement whereas 27.8 percent of the respondents were not sure for how many years they will stay in the investment in the area. The hesitation of the investors was asserted through the interviews with the key informant investors. According to the interviews less problem of security, corruption and infrastructure facilities are the main problems for their lack of confidence and certainty.

Moreover, the data in table 4.36 indicated that 72.2 percent of the investors are happy to pay reasonable tax if constraints will be reduced and the government facilitates infrastructures and other provisions whereas 27.8 percent of the respondents were pessimistic to pay and not agreed on the opinion asked.

Table 4.36: opinion of the respondents on the future views of the investors to invest and pay tax in agricultural private investment, Metekel Zone

Are you happy to pay reasonable tax if the exemptions will abandon and facilities will be improved relatively?	Frequency(n=72)	Valid Percent	Cumulative Percent
No	20	27.8	27.8
Yes	52	72.2	100.0
Total	72	100.0	
Have you a plan to expand your investment in the further?	Frequency (n=72)	Valid Percent	Cumulative Percent
Yes	72	100	100
Total	72	100	100
For how many years you want to invest in the area?	Frequency(n=72)	Valid Percent	Cumulative Percent
Until my contract will have been completed	52	72.2	72.2
Not known (I am not sure)	20	27.8	100.0

Source: Field Survey (2009)

According to key informant investors interview those investors who has opinion unwilling to pay tax in relation to their investment if things would improved argued that, system of tax administration by the government and reimbursement of the revenues to infrastructure and public utilities in the investment areas have not observed so much so far. This indicates that although most investors in the zone in agricultural private investment are optimistic views regarding to the future prospect of agricultural investment in the study area, system of governance in the zone and level of infrastructure facilities have a negative impact on the future views of some investors not to set long-range plan. Furthermore, this may result in termination and exit of the investors.

4.8.2 Threats of agricultural private investment in Metekel Zone

According to the field survey data in table 4.37 shows, the main threats that were stated by the respondents are corruption and favoritisms with 71.8 percent of the cases, insecurity in the area accounts 59.2 percent of the cases and absence of land use policy shared 52.1 percent of the cases. Similarly, infrastructure and credit services are also expected as significant impact in the

future with the percentage share of 49.3 percent and 38.05 percent of the cases. The other, such as lack of sufficient workers is accounted less percentage share compared to the other threats.

Table 4.37: Threats of the investors in agricultural private investment of Metekel Zone

What are the main threats for your investment?	Respnses		
	Respondents		percent of cases
	N	percent	
governance (corruption and favoritisms)	51	25.2	71.8
Infrastructure(road, telephone, electric, health care services and water)	35	17.3	49.3
absence of land use policy	37	18.3	52.1
Prevalence of insecurity	42	20.8	59.2
lack of adequate workers/employees	6	2.95	8.45
lack of credit services	27	13.35	38.05
Total	202	100.0	284.5

Source: Field survey (2009)

In overall, the fear of investors in agricultural private investment of the zone is issue of governance compared to the others. This is due to the infancy of governance in the zone and less accountability and transparence of government service delivery in the area. Besides, as far as problem of security is concerned the interview with selected community members and FGD[13] indicated the occurrence of killing investors and stabbing workers made manly the investors insecure. Similarly, lack of land use policy and separate land for agricultural private investment also create inconvenience and less guaranteed the investors, since conflict on land occupation and grazing land has started between investors themselves and with the local community as the same source above further indicated.

4.8.3 Newly amended agricultural private Investment laws and their implementation

The amended investment law of the region under proclamation No 79/2009 can be the base to predict the future trends of agricultural private investment in the zone. It is amended to use

[13] Focus group discussion

agricultural private investment as a means to development and to motivate private sector developers. According to proclamation and regulation numbered 29/2009, government revenue that will be collected from the sector has increased as the result of abandoning exemption from land lease fee and reduces exemption from agricultural income tax for non-durable crops/annual crops[14] (Lisan Hig Gazeta Proc No 79/2009; Regulation No 29/2009, 2009).

However, the key informant investors said that only few, probably less than twenty-five percent, most of the investors were not interesting on these aforementioned amended investment laws. It is mainly, because most of the investors are not in a position to utilize all the obtained lands at the same time and /or in short periods as the same source indicated. It is as the result of clearing of land to make suitable for tilling needs high cost and time. Paying land lease fee from the eve of obtaining land without utilization may result in cost outweighing the revenue over long periods and it is inevitable that recouping the investment cost takes long period. This shows that some investors may terminate the investment because of incapability or low profit and further the flow of investment to this sector may reduced compared to the previous two years (2006/07 and 2007/08).

[14] Durable goods are categorized for the plants such as orange, mango, apple, and other similar plants that are ripe an output within three or more than three years.

CHAPTER FIVE

5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

Private investment is the key element for growth and development and has a lot of contribution to socio-economic development of an area. The free market economy and privatization policies of Ethiopia have motivated investment activities from both domestic and international markets. However, the contribution of private investment for development has varied across sectors and has not been to the desired level compared to the resources in general and in agricultural sector in particular. Agricultural private investment is one of the areas with less exploited resources considering the abundant natural resources suitable for the investment.

In Metekel Zone of Benishangul Gummuz Regional State, agricultural private investment sector started in 1993/94 with only one investment project. Subsequently, the volume and trend of the projects in agricultural private investment has increased and sometimes showed fluctuation. It was found that agricultural private investment was increasing at a decreasing rate from 1993/94 to 1999/000 mainly as the result of the privatization policy and free market economy introduced in the country. On the other hand, low volume of the projects was observed over the years because of poor infrastructure, prevalence of insecurity, absence/less investment promotion and less capacity of the investors. Conversely, the trend of investment projects showed decline from 1999/00 to 2005/06 due to poor infrastructure, insecurity, rent-seeking behavior of some investors and less attention given for the sector by the government. From 2006/07 to 2007/08, the trend showed tremendous increment and progress mainly as a result of improvement in infrastructure facilities in some woredas of the zone, promotions made by the government, relatively secured environment compared to the previous years.

The analysis also showed that although the number of workers employed in agricultural private investment sector in the zone was very high in number (compared to other investment sectors) the quality of their life concerning their work and living conditions was not at a satisfactory level. Indeed, the majority of the workers accepted the wage payment as adequate compared to their previous earning and perceived their livelihood has improved. Facilities in housing and

transportation were better offered on the investment sites compared to health care services, subsidized food and drinking water. In addition, condition of employment is mostly on casual bases. Workers are employed for the short term and many of the investment firms did not sign contractual agreement with the workers. There were frequent turnover. As the result, the workers in agricultural private investment of the study area feel insecure and instable.

As far as government revenue is concerned, the study revealed that the agricultural private investment in the zone appeared ill functioning. The overall average contribution of government revenue from agricultural private investment in the zone was below one percent (0.66 percent) to the total annual revenue. The main causes for less contribution to revenue were less volume of the investment, weak tax administration and follow-up, less willingness of the investors to pay and long-term tax holiday allowed for short term/annual crops and exit of investors. The data from investment promotion office revealed that from 1993/94-2004/05, out of 26 agricultural private investors 18 investors had terminated and/or have been dismissed (BGRSIPO,2008). Further, the concerned government bodies did not give due considerations for government revenue generation and administration.

Besides, the main causes for less volume of investments and termination and dismissal of investors in agricultural private investment were poor infrastructure facilities, weak governance and rent seeking behavior of the investors. Some private investors who came to the zone to invest in agricultural production also needed other profits than agricultural investment. Charcoal making, timber production, selling and renting of imported capital goods free from customs duty were the keen interest of the investors and this resulted in low volume of private agricultural investment. In fact, weak supervising of the government bodies, which allowed a loop for the rent seeker investors and government officials has also contributed for the problem.

Government service delivery/ bureaucracy, infrastructure, governance, financial institutions and market were some of the determinants of agricultural private investment in the study area. Regarding service delivery, service delivery while obtaining land for investment was much delayed, it was far more days than the standard set. The study showed that on average it took 27.5 days to obtain land for investment after getting investment license however, the standard set is maximum of 10 days. On the other hand, service delivery in obtaining registered trade name was relatively better and on average the service was delivered in less than 15 days. Besides, most

of the infrastructure facility was poor because of limited and poorly constructed road network, absence of telecommunication, less electric power supply and shortage of drinking water. The finding showed that health care service was poor and substantially influenced the expansion of the investment negatively. Only few investors provided first aid and malaria medication while the workers were infected with malaria.

Road net work was the most highly needed and superior determinant factor for agricultural private investment among infrastructure facility in the study area. Lack of road network resulted in the lack of proper market for products, problems in providing supplies to the workers on the investment sites and made the investors unwilling to invest in areas away from the woreda towns in spite of the availability of potential arable lands. Regarding telephone services, the research showed that telephone services in many cases experienced frequent failures. In turn, this created delay in receiving and sending market information and caused retardation of investment in the sector and it was recognized as important and determinant factor for agricultural private investment in the zone. Besides, electric power supply was also among the determinants for agricultural private investment in the study area. However, it was not highly rated by investors as a determinant factor compared to road, telecommunication and water facilities for agricultural investment. This is probably because of the fact that almost all the investment activities are carried out in primary production and did not need electric power for processing.

In assessing the level of governance, the overall finding indicated that governance was one of the factors that determined the profitability of agricultural private investment in the study area. The analysis mainly showed that bribe, practice of tax collection and administration, promotion and support for the sector, weak conflict resolution mechanism and absence or low enforcement of investment related laws and policies were the main governance related constraints, which imposed an impact/negatively influenced expansion and contribution of agricultural private investment in the zone. In addition, others, such as high tax imposition, prevalence of illegal investment and insecurity were found to be governance constraints. However, compared to practice of tax collection, favoritism and bribe, their impact was less. Bribe during land acquisition and tax collection, favoritism in tax collection, weak conflict resolution mechanisms were rated by investors as the superior constraints for agricultural private investment of the zone.

Moreover, the research indicated that unavailability and inaccessibility of banks and absence of potential micro credit institutions, high collateral, volatile nature of farm investment and absence of long-term credit were the main contributors to financial constraints of the sector in the study area. Financial institutions were not adequately available and accessible by private agricultural investors in the zone. These financial constraints had an impact on the utilization of resources such as land and productivity of the investors in the zone in the agricultural sector. As a result, 84.7 percent of the investors used their own capital for investment start-up. Furthermore, the finding showed that bank credit users earned more revenue than non-credit users and credit users from friends/relatives.

Market was the other area of constraints that determined agricultural private investment in the study area. Market is not easily accessible. The study showed that, mainly lack of transportation, distance of investment sites from niche marker area, lack of full demand in the area and low price were the main problems which contributed to marketing constraints in the study area.

Further, the study showed that agricultural private investment in the study area caused migration of wild animals to neighboring country (Sudan) and forests have been highly destructed. The level of natural resource conservation and agricultural private investment relationship was weak and that the investments were not environmentally- friendly. This was mainly due to lack of preserved separate lands for this investment activities in the zone, which in turn resulted from absence of land use policy of the Region.

Concerning the prospects, the study indicated that most of the investors felt optimist about the future and had a plan to expand and invest more in the zone as per the contractual agreement of land leases. Besides, the amended investment laws can generate more revenue for the government; however, it needs proper considerations for its effectiveness. Conversely, due to prevalence of constraints some other investors were pessimistic about the future and were not sure about the duration of their investment in the area. Indeed, the pessimists require enduring security, good governance and improved infrastructure to be encouraged.

5.2 Recommendations/Policy Implications

Private sector development is the engine for growth and development of a country. The contributions from the sector should benefit the society, since development should be people

centered. Investment by the private sectors therefore should bring some improvement on societal livelihood and living conditions without threatening the natural environment. This is to mean that private investors should carry out their social responsibilities while investing in a locality. On the other hand, constraints which have impeded investment in the sector should be solved and favorable investment environment is required for the investors. So that, the government should amend its development laws, fully enforce these laws and review continuously development policies and laws to cope-up with the dynamic change of the world.

Therefore, the followings are the recommendation and/ policy implications that may help to tackle the identified constraints and enhance policy formulation for the zone.

1. Working conditions of the workers employed in agricultural private investment

The fact that workers were living in a congested house in the investment sites may expose these labor force to epidemic disease and hinder them from producing. Thus, due attention should be given by government and investors to improve the living condition of workers on agricultural investment project sites. Moreover, the government should construct health facility nearer to the investment sites that the surrounding investors and the workers can use together. The investors themselves also should preserve subsidized medicines and tents for their workers in collaboration with the government.

2. Contractual agreement should be signed between the workers and the investors

There were job insecurity and instability in agricultural private investment of the zone, which resulted in high turnover and causality type of employment. Therefore, there should be a contractual agreement between the investor and the workers to safeguard the rights and benefits of the workers. Moreover, workers' association should be formed or the existing unions be encouraged to safeguard the workers. Government also needs to enforce laws that require the investors to sign an agreement with the workers.

3. Integration between government organs at regional, zonal and woreda levels on government revenue generation and service delivery

The research showed investment license and land lease certificate and revenue generation system were not clearly design and complex. Hence, to reduce bureaucratic red tape between these institutions and to make service delivery system short and clear, work and information flow

should be carried out properly and timely. System of investment and government revenue administration should be revised and redesigned. Besides, investment administration should be decentralized and established at the lower tiers of the government in such a way that the flow of information and service delivery to the investors can be facilitated without taking much time and with less complexity. Therefore, investment department should be opened at zonal level and investment coordination desk should be established under Finance and Economic Development Office at woreda level in order to supervise the investment activities at the close look.

4. Need to install reasonable investment incentive schemes.

Investment incentives have to be revised. With remoteness of an area, medium term tax holiday is needed. In the previous time, five years was a uniform tax holiday period without any classification which is not reasonable for investments in annual crops. Recently, in February 2009, this law was amended and land lease fee is non- incentive taker and the law is applicable to all investors who obtained land before the issuance of the law and after the issuance of the law. However, land lease fee should be tax exempted at least until the investors recoup their investment cost and complete land preparation for three years.

5. One-stop shopping of investment service delivery

As it was stated in the research, one-stop shopping service delivery has not been implemented in the study area. Therefore, to enhance government service delivery, land acquisition certificate, investment license, formality for trade name registration, and relevant agreements should be done with investment promotion offices at regional and zonal level. Hence, to improve the level of service delivery, enhance good governance, and attract inward investment, the regional government should give consideration for this type of service delivery and should practice it.

6. Infrastructure facilities

The regional government should give a merit to construct road net work that connect woreda town center to the main investment sites, from the woreda center to potential arable lands with all season roads. In the mean time, some constructed roads lack bridges. These roads should be fully constructed with bridges and timely maintenance services should be focused. Besides, water supply and telecommunication services need attention as their inadequacy seemed to be negatively influencing this investment.

7. Good Governance

In the zone, the level of governance is not good enough to promote investors. Internal conflict and mechanisms to stable the conflicts should be secured. Corruption needs to be reduced, regulations, and institutions need to be reformed.

- ✓ **Prevalence of insecurity and conflict with the local people**

The conflicts that have arisen with the local indigenous people mainly appeared to result from lack of awareness by the locality about this investment, lack of need assessment by the investors as well as government bodies, and weak communication between the investors and the local community. When investment land is assured for the investors as free from grazing land and farmers' occupation, the people dwelling in the area need to participate actively and discuss the issues. Participation of the local people in the discussions can enhance trust with the government and develop the sense of inclusiveness with the investors. In addition, solving such internal conflicts, traditional/informal conflict resolution mechanisms should be encouraged in addition to formal legal sanctions.

- ✓ **Endorse regional land use policy.**

Lack of land use policy and separated land for investment were the causes for weak management of agricultural private investment in the zone. This lack of land use policy was found to be the main cause for the conflicts and insecurity, deforestation, wild life migration and improper land utilization. Therefore, the government of the region should take the problems in to consideration and then land for the investment should be identify

- ✓ **Bribe and favoritism should be controlled and frequently audited**

According to the study, corruption was common in investment activities in both regional and woreda concerned offices, especially when land lease agreements were signed and when land was offered for the investors and during tax collection. Reforming and reducing corruption tend to require the cooperation and participation of large number of people. Hence, the regional concerned government organ need to cooperate with, create awareness to the society, and supervise the action of corruption. Laws should be implemented equally and properly enforced. Besides, the government should make an assessment concerning corruption activities in this

investment sector. Appropriate ethical and responsive officials have to be assigned to enhance the investment activities and maintain the existing investors.

- ✓ **Strengthen the institutional capacity of investment promotion office**

The previous and prevailing situation revealed that the institutional capacity of Regional Investment Promotion Office is not able to manage agricultural private investment. It is ill equipped in internal materials and equipments as well as human power. Therefore, capable and experienced professionals from related fields or disciples should be employed. The present day naming and assigned responsibility to the office with mere political concept is not enhancing the investment and should be changed to the concept of promotion and development management. Further, currently, land for investors is transferred without measuring, the suitability of the soils with the kind of crop is not vividly known. There are no modern measurement tools. Hence, the institution needs to be equipped with necessary and relevant technological tools in order to manage the lands and to provide accurate and valuable information for the users.

8. Financial institution and market

Conditions of financial institution and marketing also need due attention to enable agricultural private investment in the zone. Unavailability and inaccessibility of banking services had an impact both on investors and on employees to use adequate input and saving. Hence, attracting banking institutions to be established in the area and strengthening the capacity of micro-finances should be the area of attention.

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7. Annexes

Annex 1: Instrument used for data collection

1. Questionnaires for agricultural Private investors (sample investors)

The purpose of this questionnaire is to obtain data and to better understand the situations in agricultural private investment in Metekel Zone. Such as, the role of agricultural private investment in generating tax revenue, contribution for employment, constraints that hinder the development of agricultural private investment. The information is needed ultimately for research purpose for the full filament of Master of Art Degree in Regional and Local Development Studies. Your answer should reflect only your perception and practical participation and experience in relation to agricultural private investment in the zone/your woreda. The research is expected to have policy implication and improvement measures in relation to reduce or eradicate the constraints and develop the sector. Hence, it will benefit private investment like yours, and the zone as one means of development. Therefore, your honest and timely response to all the questionnaires is very important for the success of the research.

Note that the information obtained here will be treated strictly anonymously and confidentially. Neither your name nor your registered investment name will be used in any document based on this survey.

Note: the questionnaire comprises both closed – ended and open- ended type. For the closed- ended type you are kindly requested to check or put "x" sign in the bracket in front of the question. For the multiple answers in a single question, it is possible to check more than one choice. In the open ended type of question you write your opinion precisely and clearly in the space provided.

Part one: General information

i. Country: - Ethiopia [ ] Foreigner [ ]; ii. Sex: Male [ ] Female [ ]; iii. Age: 18 -30 [ ] 31-40 [ ] 41 -50 [ ] above 50 [ ] iv. Marital status: Married [ ] Single [ ] Divorced [ ]

v. Educational background: Illiterate [ ] primary education complete [ ] secondary education complete [ ] certificate [ ] Diploma/TVET [ ] Degree [ ] Above Degree [ ]

vi. How did you get information for investing in the zone? Through promotion by the regional investment office [ ] through the earlier investors[ ] other [ ], please mention if any -

vii. Investment certificate issued date: -------is the certificate was registered for you/you are a member or in others person/ organization name ----------

viii. Status of investment: on the preparation stage [ ] in operation [ ] not yet started [ ]

ix. Year of investment Start – up: ----------If in operation had it started according to the plan? No [ ] yes [ ] and if your answer is no specify the reason -------

x. If it is in operation when did you start the actual work : less than one year [ ] one year [ ] two years [ ] three years [ ] four years [ ] five years [ ] over five years [ ]

xi. Sub- sector of activity:

In which sector you have registered and invested?

1. **Primary agriculture**: Food crop [ ] cash crops [ ] mixed food and cash crops [ ] livestock [ ] forestry [ ] fishery [ ]

2. **Secondary agriculture**: food- processing [ ] coffee processing [ ] wood products [ ] beverages [ ] tanneries [ ]

xii. Forms of project ownership:

Sole proprietorship [ ] partnership [ ] share company [ ] private Limited Company [ ] If the form of investment is sole proprietorship, the educational level of the owner:

Illiterate [ ] primary education complete [ ] secondary education complete [ ] certificate [ ] Diploma [ ] Degree [ ] Above Degree [ ]

xiii. Does your investment have branch in another zone or region? If yes how many ------

xiv. Have you other undertakings other than investment in agriculture? Yes [ ] No [ ] If yes please mention the number and the name/s ----------

Part Two: agricultural private investment in perspectives of employment and tax revenue.

1. Average salary: For permanent workers per month (in ETB): less than 100 [ ] 101-300 [ ] 301-500 [ ] 501-700 [ ] 701-900 [ ] 901 -1100 [ ] 1101-1300 [ ] 1301-1500 [ ] above 1501 [ ]
For the temporary workers per month(in ETB): Less than 100 [ ] 100-300 [ ] 301-500 [ ] 501-700 [ ] 701-1000 [ ] above 1000 [ ]

2. How do you recruit and select the workers? By announcing the vacancy [ ] direct employ [ ] both [ ]

3. Is there workers turn over in your investment area? Yes [ ] No [ ]

4. If there is a turn over, how is the frequency? High [ ] moderate [ ] low [ ]

5. How many workers have left your organization in a year on average? Less than 5 [ ] 5-10 [ ] 10-20 [ ] 20-40 [ ] above 40 [ ]

6. How do you perceive the reason for turn over? Less salary [ ] alternative work [ ] harsh climatic condition [ ] unable to do as per the rule and regulation of the organization [ ] lack of facility [ ] if any more, please justify ----------

7. Have you provide facilities for the workers? Yes [ ] No [ ] If your answer is yes of what type? House [ ] transport [ ] free medical services [ ] affordable medical services [ ] if any more please specify ----------

8. Do you have a plan to hire additional workers in the future? Yes [ ] No [ ]

9. If your answer is yes in No '8' above, how many workers you want to add after one year? --- after two years----after three years-----

10. For how many years you have signed a contractual agreement with the workers? One [ ] two [ ] three [ ] four [ ] five [ ] over five years [ ]

2.1. Government Revenue

1. How many hectares of land you had obtained for investment? ----------

2. How many hectares of the total land you have utilized for production? Below quarter [ ] quarter of the total [ ] half of the total [ ] more than half [ ] all of the acquired land [ ]

3. For how many years you have obtained the land for investment? 5 [ ] 10 [ ] 20 [ ] 30 [40[] 50 [ ] more than 50[ ] not fixed [ ]

4. What is your average annual revenue from the agricultural investment that you are undertaking? ------

5. Have you paid taxes or any fees for the government? Yes [ ] No [ ]

6. If your answer is yes in no '5' above, what types of tax? Land use tax [ ] income tax [ ] sales tax [ ] excise tax [ ] others [ ] please justify if any ----------. And if your answer is No, what is the reason? weak enforcement organization [ ] my investment is tax exempted [ ] I do not know where to pay [ ] please justify if any reasons ----------

7. What percent of your revenue you have been charged for agricultural income tax? ------

8. For how many years you have paid land use tax? One [ ] two [ ] three [ ] four [ ] five [ ] above five []

9. For how many years you have paid income tax? One [ ] two [ ] three [ ] four [ ] five [ ] above five [ ]

10. Is there any other payments or charges that you have paid for the government than taxes? If any please point out ----------

11. Do your workers have paid tax for the government? Yes [ ] No [ ], if your answer is yes, how many ETB have been paid per month on average? ----------

12. For how many years you want to stay and invest in the zone? 1-3 [ ] 3-5 [ ] 5-7 [ ] 7-10 [ ] 10-15 [ ] above 15 [ ] it is not known, since depends on the situations [ ]

13. What are the uncertainties that may hinder your investment decision in the future? Justify clearly-

2.2. Investment Incentives schemes, tax revenue and agricultural private investments

1. Do you have information about the existence and way of investment incentive in the Region? Yes [ ] No [ ] If your answer is 'Yes' what type of investment incentives that you know in the Region? Investment land Free from fee [ ] agricultural income tax exemption [ ] import of capital goods free of import duty [ ] excise tax [ ] if any other please mention ----------
2. If you know and your answer is 'yes' above in N° '1', have you benefited from the incentive mechanism? Yes [ ] No [ ]. How incentives did help you? raise revenue [ ] access to land [ ] help to use capital goods and increase productivity [ ] help to export the products freely [ ] , if any other advantage mention ----------

Part three: constraints that hinder agricultural private investment

2.1. Quality and efficiency of public service delivery for the investors

1. Please judge on the quality and efficiency of service delivery for the investors

Areas of service delivery	*Status of service delivery*					*Average days to obtain services*							
	very slow	*Slow*	*Moderate*	*Fast*	*very fast*	*<5*	*5-10*	*10-15*	*15-20*	*20-30*	*30-40*	*40-60*	*>60*
Obtaining investment license and registration	[ ]	[ ]	[ ]	[ ]	[ ]	[]	[]	[]	[]	[]	[]	[]	[]
Obtaining land for investment	[ ]	[ ]	[ ]	[ ]	[ ]	[]	[]	[]	[]	[]	[]	[]	[]
Tax payment	[ ]	[ ]	[]	[ ]	[ ]	[]	[]	[]	[]	[]	[]	[]	[]
Getting registration for trade name	[ ]	[ ]	[ ]	[ ]	[ ]	[]	[]	[]	[]	[]	[]	[]	[]
Health services delivery	[ ]	[ ]	[ ]	[ ]	[ ]	[]	[]	[]	[]	[]	[]	[]	[]

If it took more than 10 days, what were the reasons for delays? ----------

2.2. Judge the availability and quality of the following infrastructures facilities that influence your activities

Sector	*Degree of judgment*				
	very poor	*Poor*	*Good*	*Excellent*	*Not available*
Road net work	[ ]	[ ]	[ ]	[ ]	[ ]
Telecommunication	[ ]	[ ]	[ ]	[ ]	[ ]
Postal services	[ ]	[ ]	[ ]	[ ]	[ ]
Electricity	[ ]	[ ]	[ ]	[ ]	[ ]
Potable water	[ ]	[ ]	[ ]	[ ]	[ ]

Do you have been affected by the poor performance or unavailability of the above infrastructures? Yes [ ] no [ ] if yes, rate the most three sectors in terms of severity, 1st ---2nd -3rd-Among the above infrastructure sectors which one is needed more in your investment? Please rate in terms of importance 1st ----------2nd ---------3rd ----------

2.3. Rules and Regulations

1. Judge the following rules and regulations that positively or negatively affect your undertaking

Factors	*Levels of judgment*				
	Fully agree	*Agree*	*Disagree*	*Fully disagree*	*I do not know*
Information on rules and regulation that affects my investment is easy to obtain	[ ]	[ ]	[ ]	[ ]	[ ]
The investment policy/ proclamation of the region are designed in line with the investors' interest and to solve the problems	[ ]	[ ]	[ ]	[ ]	[ ]
The availability of rules and regulations has increased the trend of investment in the region/zone	[ ]	[ ]	[ ]	[ ]	[ ]
The rules and regulations are applied equally to all investors	[ ]	[ ]	[ ]	[ ]	[ ]
Investors have participated on the discussions when rules and regulations are prepared	[ ]	[ ]	[ ]	[ ]	[ ]

Do you think these rules and regulation are highly influenced your investment performance? Yes [ ] No [] if yes, how? Please mention ----------

2.4. Corruption

1. In how many days you have got land for investment? 5-10 days [ ] 10-15 days [ ] 15-20 days [ ] 20-30 days [ ] 30-60 days [ ] 60-90days [ ] more than 90 days [ ] If it is more than 10 days what was the reason for taking more days? The investment office did not response on time [ ] The woreda offices did not respond the availability of land for investment on time [ ] It was my failure not to follow and finished on time [ ] I could not pay the illegal payment that the officers asked me to get things done on time [ ] others [ ] please justify if any ----------
2. Have you ever paid additional payments/ illegal payments to get things done for the officials or experts in government office? Yes [ ] No [ ]
3. If yes, for what purpose you have paid?

To obtain land for investment	[ ]
To prolong the tax exemption period	[ ]
To obtain more land as per I demand	[ ]
To obtain investment license	[ ]
To obtain trade registered name	[ ]

4. Do you have delayed to get services for not paying illegal payments? Yes [ ] No [ ]
5. Had your investment being set back in operation for the delays in service delivery as the result of corruption? Yes [ ] No [ ] If yes for how many years/ months it has set back? -

2.5. Governance and agricultural private investment

1. How do you perceive the role of governance in agricultural private investment in the zone? Very poor [ ]Poor [ ] good [ ] very good [ ] excellent [ ] not respond [ ]
2. Rate the following points or statements about governance and impediments of agricultural private investment.

Factors	*Fully agree*	*agree*	*Disagree*	*Fully disagree*
There are an illegal or unofficial investment activities in the zone	[ ]	[ ]	[ ]	[ ]
Some private investors are not properly pay taxes as per the schedule or not pay at all	[ ]	[ ]	[ ]	[ ]
Bribe and nepotism is frequently known in investment license and in obtaining land for investment	[ ]	[ ]	[ ]	[ ]
Rules and regulations are not equally implemented for the investors	[ ]	[ ]	[ ]	[ ]
The government listen the voice of the investors and formulate regulatory	[ ]	[ ]	[ ]	[ ]

systems which promote the investment

There are strong and efficient legal system to settle any dispute arise with the investors	[ ]	[ ]	[ ]	[ ]
Peace and security of the zone is stable and favorable for investment	[ ]	[ ]	[ ]	[ ]
The tax imposition and regulation is favorable to invest in the zone	[ ]	[ ]	[ ]	[ ]
Tax collection and administration of the region/ zone is free from corruption and efficient	[ ]	[ ]	[ ]	[ ]

Rate the problems 1 up to 3 in terms of seriousness in governance. 1st ------2nd ----------3rd --------State if any more factors of governance that influence agricultural private investment.

2.6. Availability of Financial Institutions and Credit Services

1. Where did you get start- up investment capital? Credit from banks [ ] Credit from micro finances [ ] Credit from relatives and friends [ ] from own source [ ] from informal money lenders [ ]
2. If the source of capital is from the banks and/or micro credits, where are the places? In the woreda [] in the zone [ ] in the region [ ] from other region/s [ ]
3. Do you get the financial institutions are easily accessibly? Yes [ ] No [ ] If your answer is no what are the reasons?

The financial institutions are not interested to provide loan as the result o volatility and uncertainty nature of the agricultural sector	[ ]
As the result of high collateral requirements	[ ]
As the result of high interest rate	[ ]
Unavailability of the banks in the woreda and the zone	[ ]
Micro finances are incapably to lend adequate amount of money for investment	[ ]
Absence of long -term credit	[ ]

3.7. Market and Agricultural Private Investment

1. Where do you sell your product? In the local market (in the woreda) [ ] In the zone [ ] within the region [ ] to other regions [ ] at Addis Ababa [ ] export to other countries []
2. If your organization/ firm export its products, how many% of total revenue? Below 20%[ ] 20%-35% [ ] 35%-50% [ ] above 50% [ ]
3. Do you have used capital goods for you investment (tractor, combiner...)? Yes [ ] No []

4. If your answer is no, above what are your capital inputs for production? Oxen [ ] rented capital good [ ] others [ ]

5. Where do you get workers? from local market [] out of the zone with in the region [] out of the region[]

6. Have you got adequate market and appropriate price for your product? Yes [ ] No [ ] If your answer is no, what are the most important problems of marketing for you product? Lack of adequate market [ ] lack of transportation [ ] inadequate road net work [ ] low price for the products [ ] if any more please justify ----------

Part four: Expectation of the investors/ future prospects

1. Do you have a plan to expand your project? Yes [ ] No [ ] If you answer is yes, what is your reason ------- and if no please specify your reason ----------

2. Do you want to diversify your product? Yes [ ] No [ ] If your answer is no what is your reason? ----------

3. Which factors will more influence your future investment plan?

Availability and sustainability of road net work	[ ]
Availability of electricity	[ ]
Availability of telecommunication and internet	[ ]
Availability of postal services	[ ]
Availability of health services	[ ]
Availability of financial institution	[ ]
Availability of peace and security	[ ]
Availability of good governance	[ ]
others	[ ]

4. If corruption will be a serious case in your investment activities what will do you do?

I will pay more money illegally and continue to invest	[ ]
I will completely leave the zone and invest in other places	[ ]
It depends on the amount of money that will be asked for getting things done	[ ]

5. What should the government do for developing and sustaining agricultural private investment in the zone?

Improve rules and regulation that influence the investment	[ ]

Strictly protect corruption [ ]

Improve quality and efficiency of service delivery [ ]

Need to invest on infrastructures [ ]

6. Among the above factors which one needs immediate action to improve the investment in agricultural sector? Please rate 1st up to 3rd. 1st----------2nd ------3rd ----------
7. Are you feeling comfortable if tax incentive will be ceased and other facilities, for instance road net work will be facilitated? Yes [ ] No [ ]
8. What do you suggest for the government to make private agricultural investment more attractive? -----
9. What are the most important threats for the growth of the agricultural private investment and prohibit the entrance of new investors to the zone? 1. ------2. ------3. ---

Questionnaires for the government officials and expects

Part one: General information

i. Country:- Ethiopia [ ] Foreigner [ ]; Sex: Male [ ] Female [ ]

ii. Age: 18 -30 [ ] 31-40 [ ] 41 -50 [ ] above 50 [ ]; Marital status: married [ ] single [ ] divorced [ ]

iii. Educational back ground: Illiterate [ ] primary education complete [ ] secondary education complete [ ] certificate [ ] Diploma/TVET [ ] Degree [ ] Above Degree [ ] Year of services---

Part Two: agricultural private investment in perspectives of employment and tax revenue.

2.1. Employment Opportunity

1. Do you know the employment opportunity that has created by agricultural private investment in the zone? Yes [] No [] If your answer is yes how many workers have employed in the woreda per year on average? Less than 50 [] 50-100 [] 100-200 [] 200-400 [] 400-600 [] 600-1000 [] more than 1000 []
2. Is the number of the workers employed tend to increase or decrease per year? Increase [] decrease []. If your answer is decreased what are the reasons? Less salary [] poor management [] bad weather condition [] alternative work [] unfavorable work environment [], If any more please specify -------

1. What is your suggestion about employment opportunity and agricultural private investment in the zone? Please justify clearly ---------- Do you known that the investors provide

facilities for the workers? Yes [] No [] I f your answer is yes what types of facilities? House [] transport [] free medical services [] affordable medical services [] if any more please specify ----------

2.3. Government Revenue and agricultural private investment

1. Have the investors paid taxes for the government? Yes [ ] No [ ]
2. What types of tax? Land use tax [ ] income tax [ ] sales tax [] others [ ]
3. Do you think the government properly collects taxes and other fees from the investors per year? Yes [] No []. If your answer is no what are the reasons? Weak tax administration [] corruption []left the area before paying the taxes [] tax evasion [] others []
4. Has the government collect tax revenue from the workers? Yes [ ] No [ ] If your answer is yes how do you perceive that has the tax collected from the workers contribute for government revenue than before the lunching of the investment? ---------- . If no what is the reason? Please specify-------
5. Are there legal measures when there is tax evasion, corruption, and unpaid taxes? Yes [ ] No [ ] if yes please mention what type of measures ----------
6. How the zone/ woreda can raise more revenue from agricultural private investment in the short and long rang period? ----------
7. Have you known about the incentive that given on the import of capital goods for the investors? Yes [ ] No [ ] If yes how many investors have used tractors, combines and other technological tools for the investment in your woreda? Less than quarter [ ] quarter [ ] half [ ] over half [ ] almost all []
8. Do you think tax incentives have highly motivated the investors and it can be the main reason for the increasing/decreasing of the number of investors in Metekel zone? Yes [ ] No [ ].
9. If your answer is no mention your justification. ----------

Part three: Constraints of Agricultural Private Investment	*Level of opinions'*			
factors	*strongly agree*	*agree*	*disagree*	*strongly disagree*
In adequate road net work	[ ]	[ ]	[ ]	[ ]
In adequate electricity	[ ]	[ ]	[ ]	[ ]
In adequate telecommunication	[ ]	[ ]	[ ]	[ ]
Inadequate potable water	[ ]	[ ]	[ ]	[ ]

Inadequate financial institutions	[ ]	[ ]	[ ]	[ ]
Lack of postal services	[ ]	[ ]	[ ]	[ ]
Less capacity of investors	[ ]	[ ]	[ ]	[ ]
corruption	[ ]	[ ]	[ ]	[ ]
Lack of good governance	[ ]	[ ]	[ ]	[ ]
Poor and inefficient services delivery	[ ]	[ ]	[ ]	[ ]
Poor incentive mechanism	[ ]	[ ]	[ ]	[ ]
High impositions of tax and other regulatory systems	[ ]	[ ]	[ ]	[ ]
Lack of peace and security	[ ]	[ ]	[ ]	[ ]

1. Judge the impediments that prohibit development of agricultural private investment in your woreda/zone?

If there is any other constrain please specify----------

Rate the problems or constraints in level of severity 1st ----------2nd ----------3rd ----------

Part four: Future Prospects

1. What should the government do to promote agricultural private investment in Metekel zone and to make the sector as one means for development?

Control corruption and improve administration system of investment	[ ]
Construct adequate level of road net work	[ ]
Improve other infrastructures(telecommunication, electricity, postal services, potable water)	[ ]
Improve rules and regulations that influence the investment	[ ]
Adapt more fiscal incentive schemes	[ ]
Secure peace and security	[ ]
others	[ ]

State three most important factors in rank.1st ----------2nd ----------3rd ----------

If you have further points, please justify----------

2. What should the investors do? Rate in order of importance as 1st ,2nd ,3rd ---

Develop the sense of ownership, commitment and honesty	[ ]
Use financial institution to tackle the financial problem	[ ]
Invest in environmental-friendly	[ ]
Plan for long term investment	[ ]

Adopting new and modern technologies and benefit the local society through technological transfer [ ]

Improve the condition of work and workers [ ]

Invest in partner with government to tackle lack of capacity by the investors [ ]

Please state any further solutions and prospects to promote agricultural private investment and development in the zone. ----------

3. Interview questions for Semi- Structured type for the key informants(selected investors and workers)

This interview intended to obtain information about agricultural private investment in Metekel zone of Benishangul Gummuz Regional State. It is used to know what the workers, investors, government officials, experts and community members know and perceive about agricultural private investment in the zone. Note that the information obtained here will be treated strictly anonymously and confidentially. Neither your name nor your organization name will be used in any document based on this survey.

1. How do you perceive the benefits of agricultural private investment for the investors, workers and the local community in Metekel zone?
2. What problems have faced the investors and workers while in operation?
3. Which problems have the most serious for agricultural investment?
4. Are there improvements in the investment environment in the zone?
5. Do you perceive that the society have got an opportunity as the result of expansion of agricultural private investment in the zone? Example employment opportunity, new technology transfer.
6. Is agricultural private investment better fitted with the socio-economic and political condition of the zone? If not what investment options are preferable for this area?
7. What is your suggestion for further growth of agricultural private investment in the zone?

4. Interview questions prepared for semi- Structured type for the selected community members

1. Has the society benefited from agricultural private investment activities undertaking in the woreda? How?
2. Have these investment activities done environmentally- friendly? If not what were the roles of the community and the government to tackle the problems? And what will be done to protect the environment?
3. Has agricultural investment had an impact on farm or grazing land in the woreda? If yes have you observed disputes between the community and the investors in your woreda?

4. How do you observe the trends of agricultural private investment in the woreda? What factors contributed for the increasing or decreasing of the number of investors?
5. Is there a difference between your farming system and the investors? If yes what do you learn from farming system of the investors?

5. **Interview Questions prepared for semi- Structured type for the government officials and experts.**
    1. How do you perceive and observe the conditions of agricultural private investment in operation, on preparation, not yet started?
    2. Has agricultural private investment benefited the society? mention the benefits-------
    3. How do you see the future plan and sustainability of this investment?
    4. How the government can address the constraints that hinder the growth and productivity of agricultural private investment?
    5. In the future do you think that this investment can contribute more for tax revenue and employment? If you disagree what are the causes? ----------

Annex 2: Sample size of the respondents for data collection through the questionnaires

elected sample woreda from the zone	Sub- sectorial category and status of the investment				Total number of investors	Proportion of investor respondents (70percent)	Purposively selected respondents for the questionnaire (from government office)					Total number of respondents from both types
	Investors started operation		Investors not started operation and/ or on the preparation stage				Regional Investment office(◆[1])	Regional and Woreda Revenue offices(◆)	Woreda Agriculture and Rural Development Offices	Woreda Administration council Offices	Total	
	Cash crops only(ground nut, soya beans and sesame)	cash crops and others [2]	Cash crops	Cash crops and others								
Guba	20	44	10	26	100	70	3	3	3	1	13	83
Pawi	0	3	1	3	7	5	-	3	3	1	7	12
Dangure	3	4	2	4	13	9	-	3	3	1	7	16
Sub total	23	51	13	33	120	84	3	12	9	3	27	111
	Total = 74		Total =46									
Total number of filled and collected questionnaires						72					25	97

Source: BGRS investment Promotion Office (2009)

[1] Indicates as regional offices are not included under the woredas on the horizontal lines

[2] Shows animal husbandry and cereal crops

Annex 3: Statistical distribution of respondents' opinion on number of constraints, most observed constraints and mean of the numbers in respect to most observed constraints in agricultural private investment in Metekel zone

Number Of constrains (variables)	Frequency	Valid Percent	Cumulative Percent	Mean	Std. Error	Std. Deviation	Variance	Percentage distribution of constraints in a normal dist.	
								Above mean score	Below mean score
2.00	1	1.4	1.4	5.3472	0.16449	1.39577	1.948	55.6	44.4
3.00	11	15.3	16.7						
4.00	6	8.3	25.0						
5.00	14	19.4	44.4						
6.00	24	33.3	77.8						
7.00	16	22.2	100.0						
Total	72	100.0							

Source: Field survey (2009)

Annex 4: Rank of Infrastructure by their importance in private agricultural invest of Metekel Zone

Which infrastructure is mainly important for your investment	Responses		Percent of Cases
	N	Percent	
Road	66	30.0 percent	91.7percent
Drinking water	64	29.1 percent	88.9percent
Telecommunication	57	25.9 percent	79.2percent
Electric power supply	30	13.6 percent	41.7percent
Postal services	3	1.4 percent	4.2percent
Total	220	100.0 percent	305.6percent

Source: Field Survey (2009)

Annex 5: share of agricultural investment in comparing to other investments

No	Aspects of the investment	Year								Average growth
		2004/2005		2005/2006		2006/2007		2007/2008		
		Total	Agri. Hunting and forestry	Total	Agri. Hunting and forestry	Total	Agri. Hunting and forestry	Total	Agri. Hunting and forestry	
1	Number of investment projects	2862	573	5853	742	6472	1102	9243	2218	1.2
	Percentage share		20		12.7		17.02		24	
2	Investment capital (in milliion.ETB.)	34976.78	8,054.508	61821.2	16,009.212	93579.01	34,333.810	174,731.443	39,621.365	1.8
	percent share		23		25.9		36.7		22.7	
3	Worker (permanent)	140,469	38,086	211071	60,818	302598	61,238	607,178	252,292	2.2
	workers per projects	49	66	36	82	48	55	66	113	
	Percentage share		27						42	
4	Worker(temporary)	480,292	429,720	334682	129,877	461341	253,617	1,199,352	802,794	1.8
	workers per the project	168	750	57	175	71	230	130	362	
	Percentage share		89						67	

Source: Computed from NBE (2008) and EIA (2008)

Declaration

I, the undersigned, declared that this thesis is my original work, it has not been presented for degree in any other universities and that all sources of the material use in this thesis have duly acknowledged.

Declared by	**Confirmed by**
Muleta Wember	Issac Paul (PH.D)
Candidate	Advisor