ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
COLLEGE OF DEVELOPMENT STUDIES
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ASSESSMENT OF PROSPECTS AND CHALLENGES OF PRIVATE INVESTMENT IN THE ACHIEVEMENTS OF INVESTMENT POLICY OBJECTIVES IN CENTRAL OROMIA

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ADDIS ABABA

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Acronyms

AAU	Addis Ababa University
AERC	African Economic Research Consortium
AfDB	African Development Bank
AGOA	African Growth Opportunity Act
CBE	Commercial Bank of Ethiopia
COMESA	Common Market for Eastern and Southern Africa
DBE	Development Bank of Ethiopia
EcoG	Economic Growth
EDRI	Economic Development and Research Institute
EEPCo	Ethiopian Electric Power Corporation.
EIA	Ethiopian Investment Agency
EPAs	East Pacific African Countries
ETC	Ethiopian Telecommunication Corporation
EU	European Union
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
OFED	Office of Finance and Economic Development
FGD	Focus Group Discussio
FTA	Free Trade Area
GDP	Gross Domestic Product
GSP	Generalized System of Preference

ICF	Investment Climate Facilitation
IO	Investment Office
KII	Key Informant Interview
LDCs	Less Developing Countries
No	Number
OIC	Oromia Investment Commission
PR	Poverty Reduction
PSO	Private Sector Operation
RIOs	Regional Investment Offices
SD	Standard deviation
SE	Standard Error
SSA	Sub Saharan Africa
TIFAs	Trade and Investment Frame Work Agreement
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Conference for Africa
US	United State
USA	United State of America
USAID	United State Agency for International Development
Vat	Value Added Tax
WB	World Bank
WDR	World Development Report

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Abstract

This paper is endeavored mainly to access prospects and challenges of private investment in the Achievement of private investment policy objectives. It was also aimed at investigating responses that contribute for minimizing the challenges and strengthening private investment success in central Oromia. Despite the government's effort a number of investors, investment growth rate and its contribution is still far below the level required for the achievement of private investment objectives. At the national level only 11.5% are under operational level, whereas, at Regional and study area only8%and 16% out of the total approved projects are at operational level respectively. The level of private investment activity is fundamental to poverty reduction, economic growth and achievement of investment objectives or development in general. This concern pointed to the need for under taking in-depth assessment. To this end case study design and descriptive approach were applied. Different: related literature, proclamations publications, reports were reviewed, to obtain secondary data. Different pertinent groups of people of the area in focus were questioned and interviewed. Standardized statistical formula was applied to determine the number of samples from investors (375 from 4169).Then stratified sampling was used to select proportionate samples from each and every sector. Likewise to select experts (18) and stock holders (18) working in the area, purposive sampling technique was used data required from these samples were collected using Questionnaire that constitutes both close ended and open-ended form investor samples, structured interview for experts working at different ladder of the office and KII from the stack holders. The data collected from both sources was both qualitative and quantitative in nature and were analyzed qualitatively through description and quantitatively through simple descriptive statistics. The Research came up with the result that illustrated the existence of both prospects and challenges. From among the challenges, failure to clearly identify and prepare investment land in advance and keep in the land bank , the land was searched after the request had received, hence there is problem of land access, shortage budget for land compensation; infrastructure problem, where free land is available; lengthy procedure of land decision be land cause of disintegration components of a task in to five or more sectors, lack of proper knowledge on investment policies, lack of commitment, the existence of some un ethical and irresponsible experts in investment offices and corruption are the main ones . Some others related with investors are: fail to have genuine plan, weak financial capacity, and insufficient experience; having speculator/ rent seekers/ behavior; unable to use full capacity and carry their obligation; un willing to hire professional experts and non professionals as per their plan are the major.

CHAPTER ONE

INTRODUCTION

1.1 Back Ground of the Study

Private investment has a greater role in poverty reduction and development. More appropriate types of private investments are helpful to faster growth and to encourage private firms to invest in the future. Countries with more private investment enjoyed faster economic growth. Quite the reverse, countries with poor investment and lower level of private investment tend to experience ordinary growth and more continuing poverty. In most Less Developing Countries (LDCs) private investment generate a large portion of government tax revenues without which there would be no sustainable base for funding: public health care, education, social safety nets, agricultural research and other crucial expenditure, Viewed 20 September 2010 (http://www.ifc. org/economics/pubsdiscusshtm).

A high rate of investment is one of the key differentiating features of countries that have sustained high rates of growth. For instance, in high growth countries investment typically exceeds 25% of GDP where as it struggles to reach 20% in low growth countries and productive capacity of the economy fails to increase and results in: lower rates of growth, job creation and fewer opportunities for the poor to improve their lively hoods. The miraculous growth and development of Asian Tigers(NDCs) that were poor and under developed in the recent past is a consequence of investment boom in the private sector (Roderick 1994).What is more, private investment brings about complete utilization of the available resources so as to smash vicious circle of poverty in developing countries. Whether private firms are large or small domestic or foreign; they are at the heart of the development process. They invest in new ideas and new facilities that strengthen the foundation of economic growth of all economies from the most to least developed (World Bank 2004).

The growth of economy and generation of employment opportunities depends on investment. It also expands market output and improves productivity based on provided enabling role created by public investment (Spread 1999). Hence, public investment is essential to provide national and regional infrastructure in low income countries particularly in Sub Saharan African Countries (SSA). Mostly this investment is the concern of government and donors such as European Union (EU) and East Pacific African Countries (EPAS) (UNCTAD 2006a). In Ethiopia efforts has been made to create good investment climate so as to take advantage from the sector since 1991.The number of licensed investors in 1992 was 190, out of which 122(64%) were in pre implementation phase, 14(7.4%) were under implementation and 54(28%) were under operational phase. Currently in 2010 the number of licensed investors has reached to 49,220. It has increased by about 260 folds. In contrast, its contribution in achieving investment policy objectives is disappointing (EIA 2010).

1.2 Statement of the Problem

Private Investment can be considered as one of the primary engines of growth in all economies, (Todaro, 2003), However, its success depends on strong complementarities with other elements in the growth process. The most notable are: the firms technological progress, skill acquisition and the development of innovative capability, the link between investment opportunities and Government regulatory frame work. As it is not an automatic process, it requires acquirable macro policy, environment and specific policies, institutions aimed at encouraging saving, attracting and directing investment to key sectors in the economy there by enhancing the contribution of investment to skill formation, technological change and competitiveness.

In this regard, Ethiopia has been trying to create appropriate enabling environment so as to achieve private investment policy objectives stated briefly in proclamation No. 280/2002 such as: accelerating the economic development of the country; exploiting and developing the natural resources of the country; developing the domestic market through growth of production, productivities and services; increasing foreign exchange through promotion of export; strengthening the inter-sectoral linkages of the economy by encouraging balanced development and integrated economic activities among regions; enhancing the role of the private sector in the development of the economy by facilitating enabling conditions for investment rendering foreign investment its proper role in the country's economic development, and creating wide employment opportunities for nationals by fostering the transfer of technical knowhow, material skills and introduction of appropriate technologies.

To actualize these objectives according to(EIA 2009), the country has made a great attempt to create: a stable economic environment, liberalized economy, security of investment, significant tax incentives, suitable tax environment, better investment opportunities, and strong market with excellent market access, strong natural resource bases, trainable labour, and infrastructure standards and a number of proclamation has passed and amended/FDRE Proclamation No.7/1996, 37/1996, 35/1998 and FDRE Councils of Ministers Regulation No.168/1999, and 280/2002/. Nevertheless, a number of investors, investment growth rate and its contribution are still far below the level required for the achievements of private investment objectives. From among 49,222 investors about 83.5%are under pre implementation level and only 5% and 11.5 % are under implementation and operational level respectively. To give specific example from 1100, foreign investors that have registered to invest on Agriculture sector since 2005, only 6% have reached operational status so far.

Similarly in Oromia Region where more than 24 % of the country's investors are concentrated in; only 2% and 8% of the total number of approved investors are found in the level of implementation and operation level respectively. And this problem is more serious in central Oromia /East Shoa and Arsi Zones/ where more than 35% of investors' population is concentrated. Serious complaint against investors has been heard. Most of the investors who have given the land have left the land idle for two or more years. Some use the land for which the land is not intended. On the other hand a number of investors are complaining for they fail to get the land they apply for.

Different research works have been done from different angles to contribute for the development of investment. For instance Seyoum Aklile (2007) has tried to analyze how macro economic factors affect private investment in Ethiopia; Mengistu Bessir (2008), on his part tried to examined, if Private investment contributes for economic growth. In addition to this Tagese Subebo (2001), has attempted to show patterns of FDI and its implication in Ethiopia. Fekadu Tafessse (2008), attempted to investigate: patterns, trends and factors influencing investment distribution by focusing on investors perception, Feyera Sima (2009) and Amare Zerihun (2009), have attempted to investigate issues related to trends of investment in zonal town and Regional town respectively.

However, still there is insignificant empirical study on challenges and prospects of private investment in the achievement of investment objectives in central parts of the Region (Arsi and East Shoa) for both towns and rural level. This concern points to the need for undertaking in-depth survey analysis and design

1.3 Objectives of the Study

The general objective of this study is to fill in the knowledge gap on existing Prospects and challenges of private investment that influence achievement of investment policy objectives and investigate the responses that contribute to minimize challenges and to strengthen development of private investment and policy formulation.

The specific objectives are:

- To explore to what extent the available investment opportunities and alternatives are identified and made ready for use,
- To identify the major challenges that hinder the success of private investment in achieving private investment policy objectives of the nation,
- To examine attempts made by Government bodies to create appropriate investment climate.

1.4 Research Questions

This study is expected to answer the following research questions.

- Do the existing investment opportunities, properly identified, clearly known and made ready for use?
- What are the major challenges that hinder the success of private investment in achieving its private investment policy objectives of the nation?
- What attempts have been made by Government bodies to enable private investors?

1.5 Significance of the Study

The main purposes of this study are: first is to enrich the existing body of knowledge. Second to clearly show the available investment opportunities and investment challenges that hinder investors not to realize their plan and why they fail to achieve the benefit they have planned to get and to contribute for the achievement of investment objectives of the nations as well. Thirdly, the significance of this thesis rests on the fact that investment needs involvement of integrated or joint effort; it requires the active involvement of political authority, the local government authorities, the community representatives, the private sectors and the public at large. Fourthly, this in depth investigation helps to avoid unnecessary costs, and to bring about efficient and optimal utilization of the available investment opportunities. In short, the results of the thesis will optimistically contribute to minimize if not to avoid challenges of investment completely. What is more, the result of the thesis is expected to provide valuable input to planners and policy makers to solve the problem associated with similar investment issues. Furthermore, it attempt to suggest for further future research on the issue.

1.6 Scope of the study

This study is spatially delimited to central Oromia / East shoa and Arsi Zones/. These two zones were purposively selected. This is because one, East Shoa is the heart of the region in location (refer fig 3b p35). Second there is relatively better infrastructure and highest investors' concentration from the region. Thirdly it is a Zone where greater numbers of investors are in pre-implementation level and on the other hand it is where a number of investors have kept the land idle. In consequence about 124 investors were made to cancel the agreement. The second zone Arsi is also the second nearest zone next to the 4 Shoa (East Shoa, South-West Shoa, West shoa and North Shoa). It is also believed that it has huge investment potential and conducive investment climate. However, like East Shoa it is a zone where about 20 investors' contractual agreement had cancelled. Still there is the highest complaint against investor for they fail to develop the land they have taken irrespective of size and sector of the projects and nationality of the owners. Another reason was the preliminary information and advice obtained from OIC to deal with the two Zones where more than 35% of investors' population is concentrated. The last reason to include Arsi was the researcher's knowledge because of work exposure in the Zone.

Methodologically, the thesis has used case study as design for it focuses only the case of two zones from Oromia in general and central Oromia in particular and applied descriptive approach. Its span was limited to the assessment of prospects and challenges of private investment in the achievement of investment objectives. This study undertakes the issue of identifying key variables that are strongly Influencing private investment in Central Oromia.

The choice of variables was based on previous studies on the related topics in different years. The Major factors are dealt with in the study that strongly influences private investment in the country. Achievement of Private investment policy objectives is dependent variable where as variables such as: investment opportunities, financial capacity, Market availability and access, infrastructure, investors' effort, and government Regulatory frame work are considered as independent variable where as there are other economic and non economic factor s indicated as sub variables in the study.

It did not include projects approved before 1992 and after October 01, 2010, projects with capital plan of less than 250,000 birr. At Zonal and district level projects are not clearly and properly identified by status, by year, Nationality and by other necessary categories. Hence only approved investors whatever sector and size they have included. It would have been more comprehensive and interesting if more administrative zones in the region and beyond had included. But for practical reasons: such as, administrative and resources consideration the study was delimited on two selected zones of central Oromia region. This however, could not limit the relevance and generalize ability of the findings of the study to other zones and regions under similar setting.

1.7 Limitation of the Study

The reluctant act of respondents to express their feelings and their unenthusiastic behavior to comment on the problem of Government related issues regarding delivering the necessary service was major problem phased in the data collection process. Besides, their unwillingness to provide data related to their expense and revenue, getting investor respondents using the address recorded by the respective offices was difficult for they are changing their address or having more than one mobile. Added to this, shortage of time for interview and discussion with most of government officials for they were often busy on continuous meetings. The very limited time and budget to go to the location of each and every sample to achieve no non response result and to brief if any confusion in the questionnaire were the major problems encountered in this study.

1.8 Definition of Key Terms

The following terms are defined based on the context they are used in this thesis.

1. **Foreign direct investment**-Investment carried in the country by foreigners.

2. **Implementation level**- Projects that have already secured land and started developing the land.

3. **Investment** - expenditure of capital by an investor to establish: a new enterprise or, to expand or, to upgrade one that already exist (EIA, 2007).

4. **Operational level projects**-projects that have already have started production or service provision.

5. **Pre implementation level**- Projects that have secured investment permit but not yet have secured land.

6. **Private investment**-Investment carried by private owners.

7. **Private sectors**- can be defined as range of privately owned enterprises.

8. **Public investment**- Investment carried by government mainly for the interest of the public.

9. **Private sectors**- can be defined as range of privately owned enterprises.

1.9 Organization of the Report

The thesis contains five chapters. The first chapter provides a brief back ground of the thesis and presents: Statements of the problem that justifies the rationales of the study, introduces the objective, basic research questions for which the research need to provide response at the end and significance of the study. Chapter two introduces the conceptual information and empirical evidences selected from very pertinent sources. Chapter three presents a brief description of the study area, Oromia region in general and the two selected zones in particular. It also specifies the methodology, sample and sampling procedures, sources of data, instruments of data collection, data collection procedures and method of data analysis. Chapter four, deals with presentation, analysis and interpretation of data. Finally, chapter five offers major findings, conclusions and recommends that are believed to be potentially fruitful course of action that may lead all concerned bodies to the right direction. It also proposes future research option and challenges that the concerned body should address.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Concepts and Conceptual Frame Work of Private Investment

This literature review covered various topics (conceptual, theoretical and Empirical frame works) in the fields of private investment. Under the first topic/part different literatures in line with major components such as: What private investment is and investment in general context, why of investment, and the inter relationship among different factors that affects achievement of private investment policy objectives (conceptual frame work of private investment) are described .In the second part theoretical frame work is reviewed. Thirdly challenges of private investment obtained by various studies are revised .Added to this Ethiopian investment climate and Thai land investment climate issues are reviewed in brief so as to compare similarities and differences between the two countries enabling environment.

2.1.1 Concepts of Private Investment

Investment can be made either by the private sector or the government. In this paper only the private sector investment is emphasized. The private business investment may be autonomous and induced. It does not depend upon national income. In developing and transition countries, Private sectors can be defined as range of privately owned commercial enterprises including: large multinational corporations whose local enterprises may be a small part of their worldwide operations, joint ventures between foreign-owned companies and local counterparts, large locally owned businesses, such as those resulting from the privatization of state-owned enterprises.

Private business sector is considered as a basic organizing principle for economic activity where private ownership is an important factor; markets and competition drive: production, distribution, private initiative and risk taking set of activities are in motion. They are critical actors in the quest for investment and economic growth whether they are large or small, domestic or foreign they are at the heart of the development process. They invest in new ideas and new facilities that strengthen the foundation of economic growth of all economies from the most to the least developed. Developing agencies can work with developing country government's private sectors and civil society to assess the condition for investment and identify the constraints and barriers to increase level of private investment. They can facilitate the transfer of information and experience. Development agencies guide these reforms by building the capacity of domestic agencies and sustain reform proves over the long term frame work for the resign and implementation of investment enhancing organization of development agencies (World Bank 2004).

Moreover, private sectors are important to economic improvement, to find a job or moving to a better job. In actual facts job creation is most likely the major way out of poverty. The most sustainable job creation is by firms whether they are now, very small firms or larger enterprises expanding in a growing economy. Nearly all LDCs private enterprises are the main sources of new jobs. Thus, more appropriate kinds of investment can be conducive to foster growth which in turn is an incentive for private firms to invest in the future. Countries with poor private investment environments and lower levels private investment tend to experience mediocre growth. In the majority of LDCs they generate a large portion of government tax revenues without which there would be no sustainable base for founding: public health care, education, social safety nets, agriculture research and other crucial expenditures Viewed 20 September 2010: http://www.ifc.org/economics/pubsdiscusshtm/.

In countries with competitive economies leading private firms can constantly seek out information that has useful to local uses and to remain competitive with other firms. In the process executives and employees upgrade their human capital, productivity and incomes contributing to the diffusion of useful knowledge and techniques. Over time, competitive firms improve the quality of products and make them better affordable and advance the purchasing power of consumers including poor consumers. Undeniably in countries like India and Brazil, some private companies have begun to focus in the poorer segments of the population as promising new markets. Nevertheless, private enterprises such as monopolies and oligopolies with high protection against competing imports and government subsidies undermine the ability of private firms to reduce poverty. Weakening favoritism, elimination of excessive red tape, regulation of natural monopolies and the encouragement of liberalization of all work to defeat the deeprooted forces of privilege that perpetuate poverty is important. Therefore, widening markets through regional trade, currency arrangements, increasing internationalization and the attended liberalization; undermine crazy arrangements (ibid).

Additionally, private sector encourages efficient economic growth and development and is a source of wealth, dynamism, competitiveness and knowledge (OECD 1995). It is principally the private sector; from farmers and street traders to national and foreign investors, that creates economic growth which is fuelled by the creativity and enterprise of workers and entrepreneurs. It requires the learning of new skills and making the best use of land, minerals and natural up new opportunities and generates tax income for the state. For this reason many factors influence how the benefits of growth such as: health, education, infrastructure, gender parity, social safety nets, rule of law, political voice and participation, and access to markets, technology, information, and credit are shared (WB 2005c).

2.1.2 Investment defined

Different scholars have defined the term investment in different ways. However, the central theme is almost the same. From among a number of definitions of investment given by different scholars mentioning some is worthwhile. It can be stated as expenditure of capital by an investor to establish: a new enterprise or, to expand or, to upgrade one that already exist (EIA, 2007)viewed 14 5eptember, 2010: http:/www. potential and opportunities in ethipia.pdf./. Fisher (1992) has also defined investment as it is the present dedication of money for a period of time so as to obtain future payments that will compensate the investor, the time the funds are committed, the expected rate of inflation, and the uncertainty of the future expenses. Similarly in fundamental of investment management the term investment is defined as it is the commitment of current funds in expectation of receiving a bigger future flow of funds. The investor hopes to be compensated for forgoing immediate consumption for the effecter inflation and for taking a link (n.d.).

2.1.3 Importance of Investment

Investment plays a very important and helpful function for the advancement and richness of any country. A number of countries rely on investment to solve their economic problems such as poverty, unemployment and the like. Some of the advantages of private Investment are: Increasing the level of employment in the country, increasing the individual income. As a result their standard of living would improve, helping to reduce the poverty in the country, helping to increase the per capita income in the country, pushing up the growth rate of GDP and GNP helping to attract foreign investors to invest in the country. Positively growing private investment has a positive impact on the economic development (OCED 2006).

Similarly, the web site source viewed 13 September 2010: http: //www. Economics web institutes. Org. / indicates that investment has multiple purposes. For instance it can play many macroeconomic roles. It helps to contribute to current demand of capital goods so as to increase domestic expenditure. It also helps to enlarge the production by increasing production capacity. In addition, it helps to modernize production process and to improve cost effectiveness. Moreover, it helps to decrease the labor need per units of output hence potentially producing higher productivity and lower employment. Thus, Investment is considered as one of the principal and important factors in economic development of a country. It brings about complete utilization of the available resources and breaks the vicious circle of poverty in developing countries.

In short, it has dual function. One is upholding of accessible means of production for upcoming output and the other is maintenance of complete utilization of available resources which require total investment and total consumption equal to the total output. Hence this crucial economic factor depends on its level to achieve fast economic improvement and development in every economy (Boutonand and Juminski 2000).

2.1.4 Conceptual Framework of Private Investment

What factors are influencing private investment policy objectives achievement?

Private investment is founded on a conceptual framework that links different factors. Among which the links of private firms to its overarching achievement of objectives is the major one. In this context framework recognizes the private investor that has a capital plan of birr 250,000 and above only and those who have investment permit. These all play a contributing role in creating jobs improving products and productivity, and boosting economic growth. The private sector functions as a primary driver for achievement of private investment policy objectives. Although it is difficult to quantify the direct causal relationship of each business undertaking on private between private firms, improvement of investment climate and achievement of investment objectives.

As it is possible to understand from figure 1 below Government has influence over many investment climate components. For instance it has much more influence over the security of property rights, regulation and taxation, the adequacy of infrastructure, the functioning of finance and labour markets, and broader features of governance such as corruption. But it has limited influence over components related to geography, External shocks, Natural disasters, Supplier reliability, Market size and distance to input and output markets, Economies of scale and scope in particular activities.

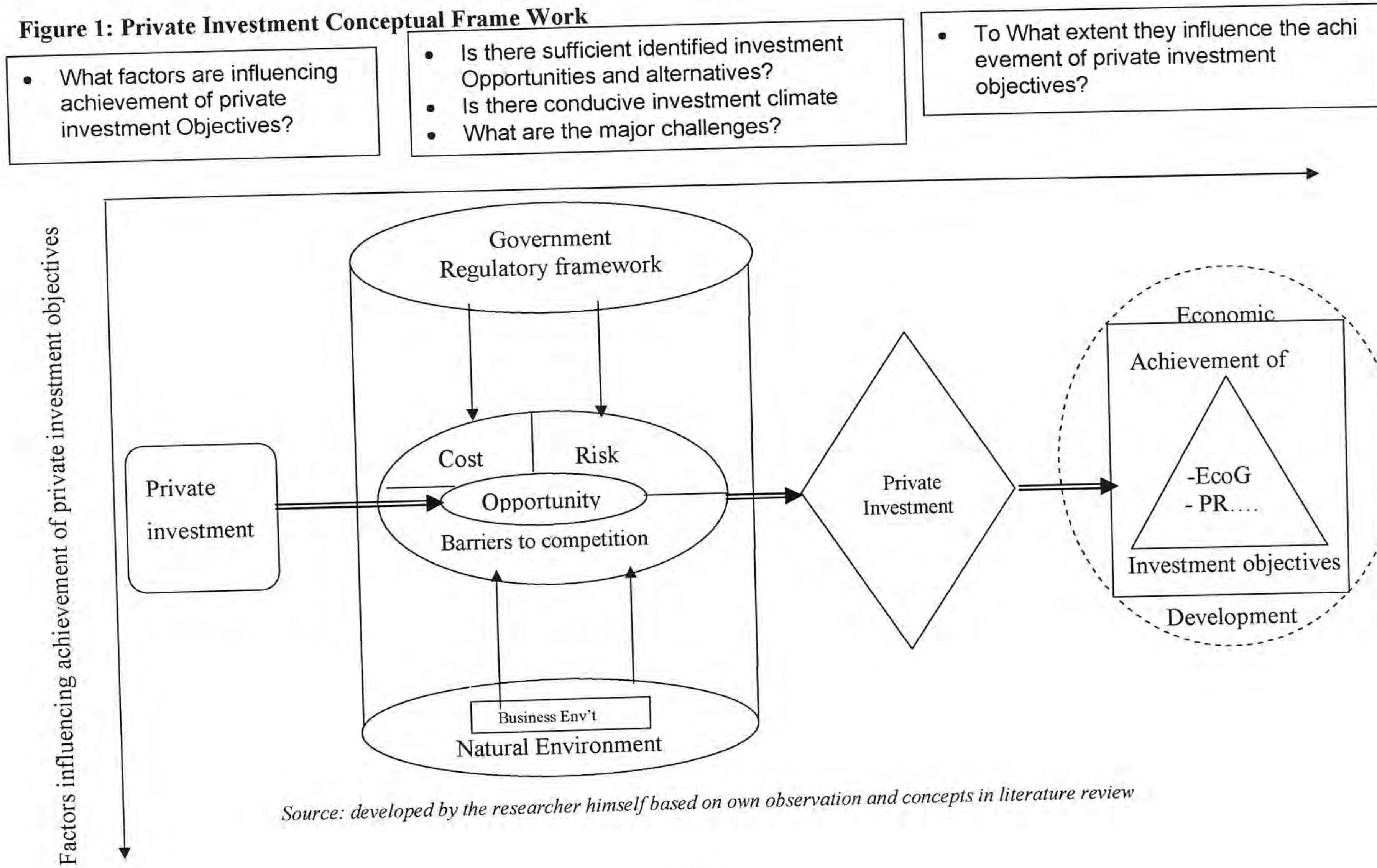
Then again variations in government policies and behaviors affect the investment climate and thus achievement of investment objectives. Removing unjustified costs, risks, and barriers to competition faced by investment firms of all types is necessary. An investment climate that encourages growth helps to creates sustainable jobs and opportunities for private investment firms. It is the decisive pathways out of poverty for poor people, corridor that will become more crowded with coming demographic changes. Hence, Government authorities at all levels should give a top priority to improve the investment climates of their societies in general and private investors in particular. Another influential factor that affects achievement of investment objectives is the firms their own capabilities, strategies and their assessment of opportunities and challenges in particular locations. Their decision motivated by profits which in turn is influenced by the costs, risks, and barriers to competition associated with the opportunity. The volume and productivity of the resulting investment contribute to achievements of investment objectives (WDR 2005).

A good investment climate is one that serves society as whole, rather than just firms, including through its impact on job creation, lowering prices, and broadening the tax base it embraces all firms, not just large or Influential firms (World Bank 2004). According to WDR (2005), there are three key elements of investment climates. One is the cost of investment, the second is risks and the third is barriers to competitions refer fig: 1. The cost of doing business is affected by many factors, such as: the regulatory burden and red tape taxes, level of corruption, infrastructure services, and labour market regulation. The investment risks are also affected by infrastructure services, and labour market regulation. The investment risks are also affected by policy predictability, property rights, and contract enforcement. The third element of investment climate barriers competition is affected by the regulators controlling business start up competitions low and entry to finance and infrastructure markets.

Countries in need of positive investment decisions need to consider the costs, risks and rewards. As growth depends on private investment; private investment in turn depends on a sound infrastructure and adequate human capital which relies on adequate level of national saving. In promoting investment, infrastructure development and human capital investments can make a great difference. Especially issues related to good governance such as transparency, reducing corruptions, strong rule of low, a sound macro economy performing institutions and the right regulations are essential for sustainable investment, economic growth and Poverty reduction (United Nation Millennium project 2005). A poor infrastructure increases the cost of doing business and reduces the rate of return on investment. Other things constant, production costs are typically lower in countries with well-developed infrastructures than in countries with poor infrastructures. Investors prefer economies with a well-developed network of roads, airports, water supply, uninterrupted power supply, telephones, and Internet access. Countries with good infrastructures are therefore expected to attract more investor both domestic and foreigners (Morisset 2000). Moreover, increasing private investment levels requires an understanding of the conditions that influence the flow of domestic and foreign investment. This involves the location specific factors that shape the opportunities and incentives for firms to invest productively, create and expand jobs, (WB, 2004).

Thus, the futuristic nature of investment indicates the importance of stability and security, especially the security of property rights. Regulations and taxes, quality property rights have first-order implications for: costs, risks, and barriers to competition. Finance, infrastructure, and labour are also the key inputs to investment activities. Thus, issues of government behavior and governance, in the broadest sense are supreme. It is the interaction of formal policies and governance that firms assess in making investment decisions which has important implications for strategies to improve the investment climate (Kaufman, Kraay, and Mastruzzi 2003).

Figure 1: Private Investment Conceptual Frame Work

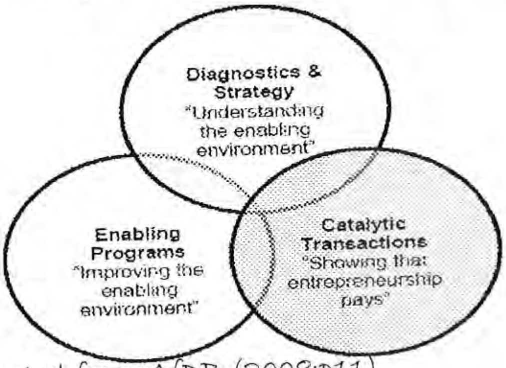


Source: developed by the researcher himself based on own observation and concepts in literature review

According to AfDB (2008), Private sector development efforts are an institution-wide priority based on three interrelated activities. One is Diagnostics and Strategy Development The starting point for assisting countries to develop the private sector is a clear understanding of the strengths and the constraints of the enabling environment. This critical diagnostic function is now the responsibility of the integrated teams and in partnership with other financial and research institutions such as the World Bank Group, the African Economic Research Consortium (AERC), and the United Nations Economic Conference for Africa (UNECA).this helps the country at focus to get the central planning tools for its operations. The second is Enabling Environment. Based on the diagnostic result, the public sector business units develop programs to address the weaknesses and constraints in the enabling environment. This may include the provision of public goods in physical infrastructure such as: electric power, water, transportation, and telecommunications as well as soft infrastructure such as regulatory and legal frameworks, which are essential for economic growth and private sector development. These interventions are generally undertaken with government agencies and involve close coordination with development partners such as the World Bank, bilateral development agencies, and the ICF.

The third and the last activity is Catalytic Transactions. The private sector operations (PSO) is supported through a variety of instruments without a sovereign guarantee, including loans, lines of credit, guarantees, equity and quasi-equity investments, and technical assistance. These interventions are undertaken with private corporations, financial institutions, or state-owned enterprises and in partnership with other development-oriented organizations in order to attract other investors by creating a strong demonstration effect

Fig 2: the three major interrelated private sector developments active



Adopted from AfDB (2008:p11)

Generally factors influencing the success of private investment cannot be looked at as one. Homogeneous variable influenced only by the investment climate. Instead it is a highly heterogeneous variable changing between sectors, time periods and geographical zones irrespective of the status of the investment climate. It typically involves rooting of capital and difficulty of way out more than investment in non- productive sectors, such as commercial activities for instance. Being the biggest employer and the most needed by LDCs, it is at the same time the most difficult to attract. The success of private investment is positively related to each individual factor, given that all other factors remain the same. A more conducive investment climate, a less impeding business environment, a lower risk sector, higher profit potential. Higher entrepreneurship levels in the private sector and international conditions favoring the sector in question will individually have a positive impact on investment given that all other factors are at least at reasonable average levels and remain unchanged (White 2004).

These factors can be categorized into: endogenous versus exogenous and specific versus generic. Exogenous factors refer to the ones that are not controlled and cannot be influenced by the country in question while endogenous ones refer to the factors that can be influenced by the country. Specific variables refer to factors that are unique /specific to the sector in question, typically technical in nature. Generic factors, on the other hand, refer to general factors influencing investment in all sectors and not just the sector in question such as general investment legislations, administrative procedures, explicit cost of doing business and investment incentives. (White 2004)

2.2 Theoretical Frame Work

2.2.1 Theories of Investment

Theories of investment date back to Keynes (1936), who first called attention to the existence of an independent investment function in the economy. The basic notion in this theory is that the larger the gap between the existing capital stock and the desired capital stock, the greater a firm's rate of investment. That is the firms plan to close a fraction of the gap between the desired capital stock, and the actual capital stock, in each period. In this regard output, internal funds, cost of external financing and other factors may be included as determinants of desired capital stock. The desired capital is stock proportional to output. On the other hand, desired capital stock spends on capacity utilization, internal funds, the cost of external finance and other variables (Asante 2000). Dub Jorgenson (1971) as cited in Asante (2000) and others have formulated the neoclassical approach, which is a version of the flexible accelerator model. In this approach, the desired or optimal capital stock is proportional to output and the user cost of capital.

According to (Galbis 1979: 423), the "neo-liberal" approach emphasizes the importance of financial deepening and high interest rates in stimulating growth. Liberalization increases savings and loan able funds. In the neo-liberal view, investment is positively related to the real rate of interest in contrast with the neoclassical theory. This is because a rise in interest rates increases the volume of financial savings through financial intermediaries and raises invest able fund (McKinnon 1973).

As capital goods are often firm-specific and have a low resale value; disinvestment is more costly than positive investment. He also argues that when there is an irreversible investment the firm cannot disinvest and market conditions change adversely. This lost option value is an opportunity cost that must be included as part of the cost. Consequently, the worth of the unit must surpass the acquisition and fitting cost, equal to the cost of keeping the investment option lively (Pindyck 1991). It is very unlikely that the private sector will see it as entirely sustainable. A number of reasons may be raised. Among them the expectation that the political-economic configuration supported the earlier policies may rematerialize. There is also the fear that unexpected consequences may lead to a reversal. Investors must respond to the signals generated by the reform for it to be successful. Nonetheless, rational behavior calls for withholding investment until much of the uncertainty regarding the eventual success of the reform is eliminated (Roderick 1991).

Modern aspects and concepts of investment that foretells the most influential and most relatively up dated theory is the conventional development theory of investment. It encompasses the development of dynamics that estimate uncertainty and models to invest under a risk condition .It further explains that finance is transferable from one firm to other and one loss is the other's gain. The inter relationship between demand and supply of loan is not a necessary conditions to determine the market interest rate. In contrast to this saving which is a micro constraint has in effect on investment in the international level. Thus reduction in saving resulted in a lower rate of investment. According to this school of thought attempts are made to subsidize domestic saving, so as to improve investment

In short according Asante (2000) private investment depends on three broad categories of variables: Keynesian, neoclassical, and uncertainty variables. Variables that may be included in the Keynesian tradition include growth rate of GDP, internal funds and capacity utilization. The neoclassical determinants of private investment include: real interest rate, user cost of capital and public investment ratio. With regards to uncertainty there are three variables. The first is variability of the user cost of capital, real exchange rate, inflation rate, distortions in the foreign exchange market and real GDP. The second uncertainty variable is the debt/GDP ratio and the third is debt service as a ratio of exports of goods and services.

2.2.2 Foreign Direct Investment

The theoretical explanation of FDI largely stems from traditional theories of international trade that are based on the theory of comparative advantages and Multi National Companies. They are usually attracted to a particular country by the comparative advantage that the Country or Region offers. Multinational companies establish foreign subsidiaries in one counter to take advantage of its lower labour costs or its large market size. Another explanation lays in interests' rate differentials between countries and regions. Multinational companies simply viewed as arbitrageur of capital from countries where its return is low to countries where it is high (Harrison et al 2002).

Moreover, Vernon's theory of direct investment states that FDI is a stage in the life cycle of a new production. A new product is first manufactured in the home country for the home market. When the home market is interacted, the product is exported to other countries at later stages. When the new product reaches maturity, producers world then look for lower cost of foreign locations. This theory shows how market seeking and cost reduction motives of companies leads to FDI. It also explains the behavior of multinational companies and how they take advantage of different countries that are at different levels of development. In 1993 three possible motives for FDI identified. One was market seeking FDI. Countries' characteristics that attract market seeking FDI includes: market size of the host country, per capital income and potential of the market. The second reason was resource seeking (UNCTAD 1998).

Resources which are not available in the home country such as: natural resources, availability of raw materials and productivity, availability of skilled and unskilled labor. The last reason was efficiency seeking.This kind of FDI occurs when the firm can gain from governance of geographi cally dispersed activities especially in the presence of economies of scale and scope and domestication. Added to this, FDI policy frame work and business facilitations are also major determinants. The policy frame work for FDI include: economic, political and social stability rules replanting entry and operation of FDI, policies or functioning and structure of the markets' international agreement on FDI privatization policy, trade policy and tax policy (UNCTAD 1998).

Here it is also worth mentioning the major debatable issues regarding FDI. That is crowding in or crowding out; and improving or deteriorating balance of payment. FDI may results in crowding in effect as FDI companies stimulate economic growth in domestic business. On contrary, FDI brings about crowding out impact if its companies dominate local markets and local competition. Investo rs usually strive for their own benefit. They are **less** concerned for development of the host country. Owing to this, some less developing countries argue against FDI for it causes resource exploitation. Nonetheless, States those who argue for to justify that FDI results in benefits like diffusion of new technology, new job opportunities, access to foreign market, tax revenue, improvement of production and productivity (Todaro 2003).

The second major debatable issue is improving or deteriorating balance of payment. UNCTAD (1999) indicates that corporate strategies, such as, protective tariff and transfer pricing can reduce the level of corporate tax received by the host. Additionally, import duties, management fees, royalties and profit repatriation can limit the benefit of the host. On the other hand, it can also improve balance of payment by contributing towards debt servicing repayments, stimulating export produces and foreign exchange.

2.2.3 Foreign Direct Investment in Ethiopia

The total FDI in to Ethiopia has increased from US$ 135 million in 2000 up to us$ 545.FDI in flow develop from a mere$ 81.4 million in 2001 to as high as $ 951.5 million in 2008.This increment is not only in absolute terms but also in relative to GDP exhibiting a consistent increase from 0.8% in 2002/03 to 3.1% in 2007/2008, Get net (2009). FDI in flows in to the agricultural sector, account for 32% of the total Ethiopian inflows. The FDI inflows in to the agricultural sector according to the federal investment dream of Ethiopia they have increased heavily after

2005(ibid). For instance, 1,100 foreign agricultural investors have registered since 2005 (Ethiopia Macro Economic Hand book 2010).

Among the investor countries: Germany, Netherlands, Italy, Britain, Greece, Eyras, Ireland, Norway, Finland, Sweden, Australia, Ukraine, Denmark, Czech Republic, France and Belgium are the major ones. A total FDI inflow has reach about $ 3500 million each year. This increase appears mainly at the pre-implementation level of investments. It is a level of investment that indicates some specific reason investors want to secure the possibility to produce in a certain agricultural sector in Ethiopia. And this level of investment has increased by 600% comparing before and after 2005.Where as, the rate of investment at implementation and operation levels has decreased slightly (EIA 2009).

2.2.4 Determinants of Private Investment

Raising private sector needs a stable and predictable investment climate that comes from macro-economic stability, transparent and accountable government, rigorous enforcement of the rule of law, functioning markets and institutions, a skilled and productive labour force, a strong commit ment to fighting bribe solicitation and corruption, affordable and accessible infrastructure, poli tical and social stability. But country contexts differ including the size and maturity of their markets and governance conditions and the risks faced by different types of investors. To improve the investment climate, reforms should build on an analysis of the country and sector-specific constraints to private sector development and an assessment of the country's competitive advantage.

Most of what needs to be done to mobilize investment is the responsibility of Governments and the private sector themselves (OECD 2006). Determinants of private investment can be divided into two broad categories such as: economic factors related and non-economic factors related. Concerning economic factors related challenges, LDCs private investment is determined mainly by: level of domestic output, the real interest rate, public investment, credit available for investment, size of the external debt, exchange rate, and macroeconomic stability, (Servén and Solimano 1992). The neoclassical theory of investment, based on the work Jorgenson (1963), treats the value of the capital stock desired by a competitive enterprise as a positive function of

Solimano 1992). The neoclassical theory of investment, based on the work Jorgenson (1963), treats the value of the capital stock desired by a competitive enterprise as a positive function of its output level. Accelerator theory also suggests that as demand or income increases in an economy, so does the investment made by firms. Moreover, when demand levels result in an excess in demand, firms increase investment to match demand. The real interest rate is also considered an important variable in determining the level of investment by neoclassical theory. A negative relationship is expected because of increases in the interest payable being disincentive to investment. However, there could be positive relationship between investment and real rate of interest, because higher real rate of interest would increase savings (McKinnon 1973).

In the developing countries, the public sector generally plays a large part in economic activity through public sector investment. The public sector investment may have "crowding out" or "crowding in" effects on private-sector investment. The other important factor that affects the private sector investment is credit constraint due to the absence of developed capital markets and financial intermediation in developing economies. Because of the absence of long-term financing and the futures market, bank loans and external borrowing may be the only sources of credit available for Private sector investment financing. Exchange rate also plays a crucial role in investment decisions by private entrepreneur become more important. A change in currency value affects the real costs of purchasing imported capital goods, the profitability of the private sector and possibly causing investment to change. Furthermore, this may result into change in real income of the economy as a whole. The change in exchange rate affects the investment through sectors producing internationally traded goods, as a result of its impacts on competitiveness and export volumes McKinnon (1973).

The other thing that is important in investment decision-making is irreversible nature of investment in capital goods (Pindyck 1988). As many capital goods are accompanying specific and cannot be sold at the same prices they were purchased. That is an irrecoverable cost is attached with resale of such goods. This irreversibility may results into uncertainties which in turn have a large influence on investment decision. That is why investors are reluctant to carry out major investments, even in the prosperous environment. The adjustment cost attached depends on degree of economic stability and the credibility of public policies. Investigation on the political instability say propensity to observe government changes associated with policy uncertainty like threat to property rights (Barro 1991).

In addition to the aforementioned economic factors related challenges, there are noneconomic factors related that are important for the rapid private investment growth. These include good governance, quality of institutions and entrepreneurial skills for the private sector to make big investment decisions. This is done based on a rational assessment of risks and potential pay-offs. These factors play complementary role with the traditional economic factors. It has been suggested that the types of entrepreneurship that can be identified and the enterprise strategies adopted, are heavily influenced by the external Environment in general, and the institutional context in particular (Welter 2002). In this case institutionalism theory offers a suitable interpretative frame of reference, for it emphasizes the role of external political, economic and societal influences on individual behavior institutional framework, which is adequate for entrepreneurship consists of the set of fundamental political, social, and legal ground rules that establishes the basis for production, exchange, and distribution (Davis and North, 1971).With regards to relevant formal institutions, it includes the legal framework and the financial system. Fundamental rules such as private property rights are a major influence on the nature and extent of any entrepreneurial activity; all together the usual economic and political decisions, as well as unwritten rules, determine the actual scope for the behavior of entrepreneurs and their actions (Davis and North 1971).

To summarize, private investment challenges are related with the availability natural resource market size, availability of good quality and appropriate human resource, infrastructure, regulatory frame work, business environment and the like.

2.2.5 Method of Project Evaluation

According to Ayele Kurus (2006), there are three major methods of project appraisal. The first is, **pay–back period** which is considered as the simplest and widely used method of project evaluation. It is the time required to recover the total investment expenditure. No more than net income flows are taken in to account which generally means profit after income tax but without charging such non- cash expenses like depreciation. It can be computed using the formula

$$\text{Pay-back period} = \frac{\text{Total investment expenditure}}{\text{Total net income flow}}$$

greater impact. This does mean that greater attention has to be given to the level at which development agencies work the synergies that can be created across these levels and the kinds of interventions that are formulated at different levels (white 2005).

As the above source indicates investment enhancing ODA often brings development agencies into contact with a wide range of possible program. The involvement of the private sector in investment enhancing reforms at all levels is critical for success and sustainability. Therefore a number of agencies have developed programs that build the capacity of private sector partners and facilitate their involvement in decision making and consultative structures of private sector in developing countries as well as foreign investors. In fact without the direct involvement of private sector in investment oriented reform programs the public sector and development agencies have neither the financial resources nor the technical and managerial expertise to make the changes that will significantly contribute to pro-poor out comes and achievement of the investment objectives (white 2005).

2.3 Empirical Evidences

Private investment behavior is primarily influenced by the profit motive. However, many factors except wage and raw material costs in an open economy are beyond the control of investors. Profit expectations centre on the future price level and export competitiveness (Serven and Solimano, 1992). To maintain international competitiveness, low rate of inflation and appropriate pricing of capital, labour and land are the main macroeconomic challenges for decision makers, (World Bank, 1995). A high rate of inflation tends to discourage private savings and investment. This requires careful fiscal policies that can avoid unsustainable fiscal deficits, and disciplined monetary policies (Fairbairn 1992).

Empirical studies by Greene and Villanueva (1991) on 23 countries have shown that public investment in physical infrastructure is complementary to private investment. Nonetheless, as there is a limit for domestic savings, Public investment would in some cases pose a severe constraint for private investment and would crowd out private investment.

Skully (1997) also concluded that public sector borrowings crowding out private sector. Any lack of profitable business opportunities like: government policies that raise the cost of investing;

cultural and social barriers; and natural barriers such as small scale and physical location. The institutional factors employed by Weder (1998), were indicators of quality of bureaucracy; the rule of law; policy surprises; credibility of announcements; extent of availability of information on new rules; degree to which business can participate in making new rules; predictability of judiciary enforcement; theft and crime; security of property rights; frequency of corruption; uncertainty of corruption; and corruption perceived as an obstacle to business.

Poor governance that is reflected in the unstable political environment in most African countries has been a major hindrance to increasing domestic investment over the years. In Ethiopia's case what is found out by WB and EDRI (2002) cited in Hansson (2004), is that the major challenges of private sector are: theft, tax rates and tax administration, access to land, reliability of infrastructure, credit procedures and got hold of corruptions of banking sector, collateral requirement, low per capital incomes, lack of experience in industrial export production and limited size of current domestic market. The key finding of the case study on that private investment in Thailand has indicated that in the short run, output growth, real private credit, and the existence of spare capacity are the key determinants of private investment. Over and above these three variables, economic uncertainty in terms of both inflation and real exchange rate is apparent. In the long run, private investment is mostly determined by business opportunity and investment costs. Government investment could promote long-term private investment but its impact is relatively limited.

2.4 Ethiopia Investment Climate

Ethiopian Government established the Ethiopian Investment Agency (EIA) to:

- promote its resource potentials and a vailable investment opportunities,
- facilitate private investment, and se rve as one stop shop for all investors,
- Provides the necessary information required by investors,
- Approve and issues investment permit to foreign investors,
- Provide trade registration services to foreign investors,
- Issue operating licenses to approved foreign investor,
- Notarizes Memorandum of associati on and article of association,
- Grade construction contracts;

South Africa (US department of states 2008). It also has signed bilateral investment treaties with Germany in 1964 and 2004, Italy in 1994, Switzerland in 1998, Turkey in 2000, Denmark in 2001, Belgium / Luxembourg in 2003 and the Netherlands in 2003,(*EBDSN)*

In comparing Ethiopia's approach with some other African countries, it is notable in numerous respects. Land lease rates offered in Ethiopia are generally much lower than those offered in other African and developing countries. The table below compares representative agricultural land lease rates of Ethiopia with other African countries and other regions and finds that Ethiopia's lease prices are among the lowest in the world.

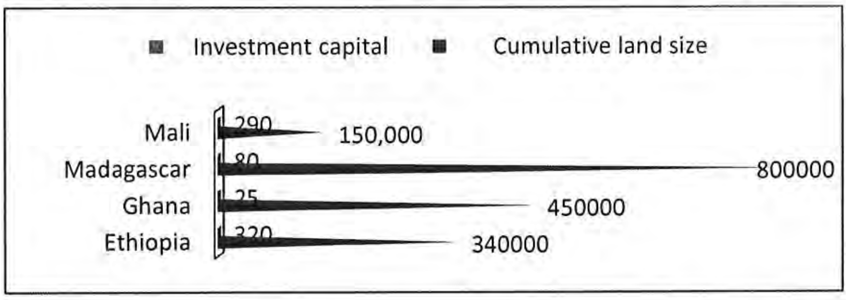
Table: 1 Land lease price per year

Country	Land lease price per year (USD/hectare
Ethiopia	10
Sudan	20
Mali	12
African average	350-800
Brazil/Argentina	5000-6000
Germany	22,000

Source: Ethiopia economic hand book, 2010

The scale of Ethiopia's land allocations also stand out for their sheer size, involving land deals of as large as 300,000 for a single investor. the value of prospective foreign investment in Ethiopia ($320 million) is seen to exceed the $25, $80, and $290 million in investments reported for Ghana, Madagascar and Mali respectively(IBID).

Graph1: Agricultural land allocation and Investment from 2005-2008



Source: compiled and organized based on the information from Ethiopian Economic, 2010

2.6 Investment climate in Thailand

Thailand is one of the newly developing Asian countries. For the sake of comparison; issues related to its investment climate are reviewed in brief based on the information indicated in ASEAN Investment Guidebook 2009.

In Thailand Board of investment is the organ that serves as investment agency. It has introduced a performance-based system, in line with good governance, that requires promoted investors to submit evidence of qualified performance before claiming the benefits from their incentives. It has placed priority on promoting agriculture and agricultural products and activities with technological and human resource development, basic transportation, infrastructure and services, environmental protection and conservation and targeted industries. It requires a minimum capital of one million Baht. Foreign companies can only be engaged in which Thai nationals are not yet ready to compete with foreigners. They first need to obtain a Foreign Business License prior to commencing the activities (ASEAN Investment Guide2009)

Some of Thailand's important sector-specific laws include: Air Transport, Banking, Education, Finance Companies, Food and Drugs, Insurance, Maritime Transport, Mining, Road Transport Service, Telecommunications, Tourism, Real Estate, Cinema, Tobacco Product, Playing Cards(ibid)

Investment applications

According to the information indicated in the Guide; to meet the requirements for incentives, an investor needs to file its application with BOI. The approval process will normally take 15-60 working days for projects under 750 million baht and 90 working days for larger projects. For expediting the process BOI offers one-stop service which provides a wide range of services. It maintains comprehensive information on investment opportunities both by sector and by region. Information and investment advice are readily available to both domestic and foreign investors at no charge. The processing of work permit applications or renewals is completed within 3 hours, assuming all required documents are provided. It provides a free online service that serves as a regional "Yellow Pages" through which businessmen can shop for cost-effective products and enables investors to make informed sourcing decisions.

In Thailand, Foreign investors can bring in capital without any restrictions and repatriate capital and earnings freely by presenting documents. Immovable property may be expropriated for the purpose of public interests such as public utility, national defense, agricultural development, etc. Foreigners can actually acquire land ownership for business purposes and residential purpose. Thailand has also become a member of the Multilateral Investment Guarantee Agency (MIGA). Added to this it has adopted the dispute settlement mechanism as embodied in the Bilateral Investment Treaties (BITs) with other economies including the ASEAN Investment Area Agreement. What is more, to promote and develop alternative dispute resolution, the Office organizes seminars for the public every year. To engage in projects such as: agriculture, animal husbandry, fishery, mineral exploration and mining, and service businesses domestic Investors need to hold shares totaling not less than 51% of the registered capital. For manufacturing projects in all zones foreign investors may hold a majority or all shares in promoted projects (ASEAN Investment Guide2009).

Concerning Investment Incentive 3-8 years exemption from corporate income tax for projects located within industrial estates central provinces or promoted industrial zones additionally, reduction of taxes on imported capital goods 50%-100%, 1 year exemption of import duty on raw or essential materials used in the manufacturing of export products and 5 years exemption of import duty on raw or essential materials used in the manufacturing of export products.

implemented between Ethiopia and Italy, Kuwait, Romania, Russia, Tunisia, Yemen, Israel and South Africa (US department of states 2008). It also has signed bilateral investment treaties with Germany in 1964 and 2004, Italy in 1994, Switzerland in 1998, Turkey in 2000, Denmark in 2001, Belgium / Luxembourg in 2003 and the Netherlands in 2003,(*EBDSN)*

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implemented. In 2000 a free area between nine (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe) of the 20 members states were implemented (COMESA 2009).

The third is the agreement between USA and Ethiopia in the African growth and opportunity act (AGOA) which was signed in to law in 2000. The negotiations were on reciprocal and mutually beneficial trade agreements. Another is the possibility of establishing a free trade area (AGOA), major agreement between the USA and Ethiopia occurs through the trade and investment frame work agreements (TIFAs) between the USA and COMESA. Its target was the relation and expansion of trade and investments between the two parties. And the fourth agreement is between India and Ethiop which was signed in 1982. It only includes very specific products and was not a general agreement on all agricultural products. At the 5th meeting of the India-Ethiopia joint trade commission, several further bilateral trade agreements were expected in 2008. Some in leather other in apparel fashion (Thaindian Naves 2008).

CHAPTER THREE

DESCRIPTION OF THE STUDY AREA AND METHODOLOGY

This chapter involves two major parts. The first is description of the study area and the second is the methodology applied in the research.

3.1 Description of the Study Area

This topic deals with overviews of the Region and the brief description of the two focused zones Arsi and East Shoa.

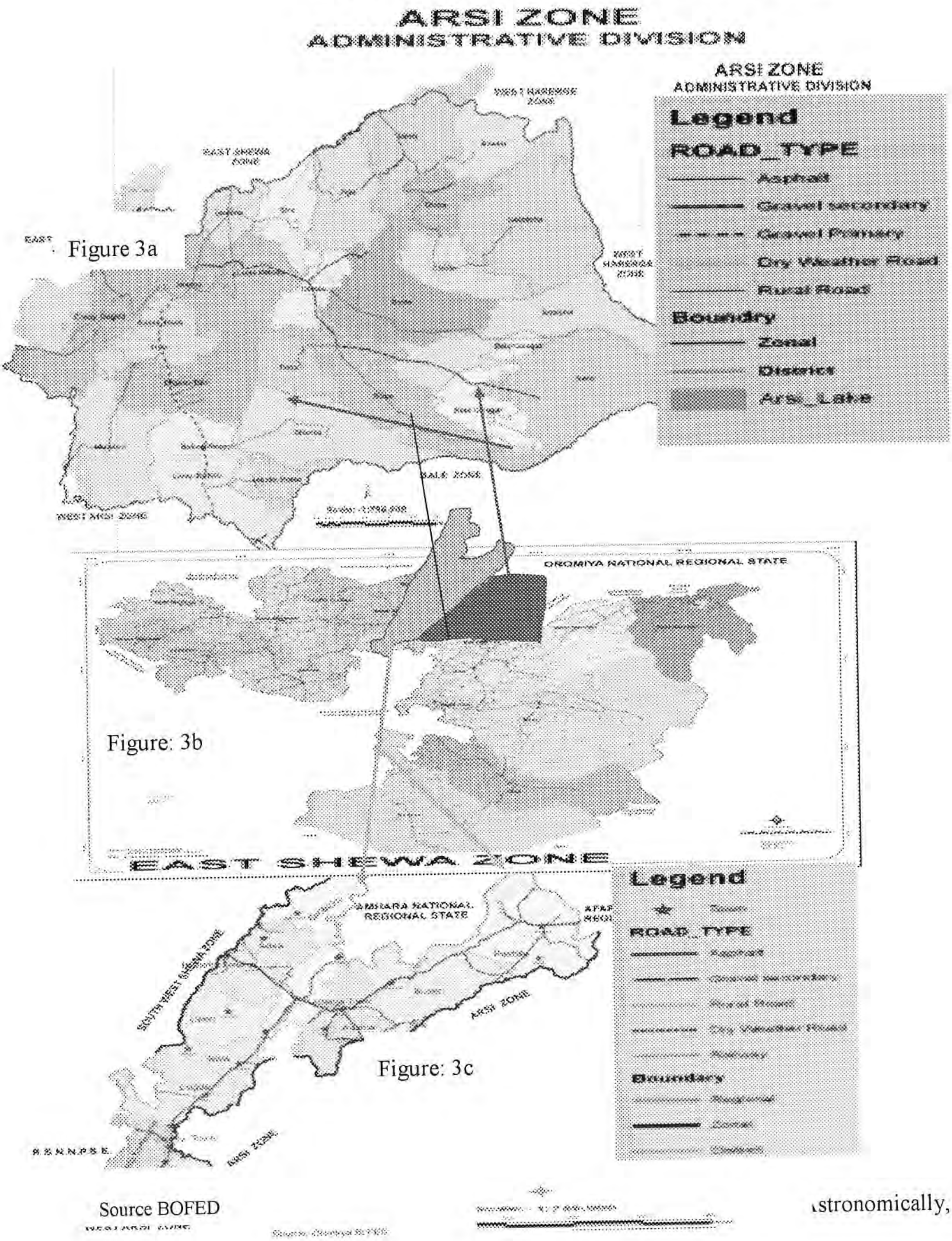
3.1.1 Overviews of Oromia Region

Oromia, Regional State is located in the very heart of the country; sharing boundaries with all Regional States except Tigray. It has Population of 27,158,471 which accounts for over 36.7% of population of Ethiopia (CSA 2007) cited in Oromia Today 2008/2009). Its total area is about 363,136 square kilometer which is 34.3% of total land area of the country. It encompasses: 18 Zones, 301 districts and 6,587 kebeles.

Astronomically it is extending from 3^0 26'N to 10^0 23'N and from 34^0 08'E to 42^0 55'E. (Refer figure 3b below) It has annual rain fall ranging between 200-2600 mm with ranging temperature between 14^0c in the highlands and 20^0c- 25^0c in the lowlands. With reference to its topography, 88% of its land lies within 500m – 2500m above sea level. It has large suitable area for agriculture which is the prevailing and the major contributor to the region's GDP 62% followed by Industry and Service that contribute 14% and 24% respectively (Oromia Today, 2008/2009).

Regarding infrastructure; all zonal towns and most district towns and some other small towns in the region have 24 hours electric supply. Besides, telecommunication services such as regular phone, wireless phone and mobile phone communication service are available in the Region. Added to this, all its Zonal towns and all district towns are connected with their respective capitals. Road density has reached to the level of 1000km^2 to 37.7km and Road to population ratio has reached to the level 0.45km to 1000 people. Ethiopian international Airport Bole is in the heart of the region. Additionally, its seven airfields are located in the Region. Similarly the coverage of social infrastructure such as education and health services in the region has reached 97 % and 82% respectively (Oromia Today 2008/2009).

Figure 3: Location Maps of the Study Areas



Source BOFED

ıstronomically, it is

situated between 7^0 08' 58'N to 8^0 49'00''N latitude and 38^0 41' 55''E to 40^0 43'56'' E longitude. It shares border lines with East Shoa zone in the North, North-West and North- East. With West Arsi zone it shares boarder line in the South and South-West; With Bale zone in the South, South -East and East, and with West Hararge zone in the North-East and East direction. It has a total area of 20,790.85 km^2 which accounts for about 5.87% of the total area of Oromia. (Refer figure: 3a). Its total population was estimated to 2,850,498. From this only 13.27 percent are living in urban area. And its crude population density was persons per km^2, in the year 2007(Arsi Zone OFED 2010).

Its mean annual temperature is found between 20^0C-25^0c in the low land and 10-15^0c in the central high land together with a slight variation between the months of the year. Summer is the largest rainy season both in amount and area coverage. The second rainy season spring extends from February to April. Its mean annual rain fall is 1020mm (Arsi zone OFED 2010).

Arsi has abundant natural resources. The major rivers, such as Awash, Wabe-Shebele Ejersa, Shanen and other have potential for irrigation activities. In addition, rivers such as Ketar, Wabe-Shebele and Awash Rivers have potential for hydro electric generation. At present only Awash and Wabe Shabale Rivers are used for generation of hydro electric power. With regard to Lakes Arsi zone shares Lakes Zewai and Koka manmade lake with East Showa, Melka- Wakena manmade lake with Bale zone. Besides, different species of wild life are available in the zone. Some are Mountain Nyala, leopard and Minilik bush back, lion, red fox, Columbus monkey, different bird species, antelope, warthog and hippopotamus. Besides, the endemic wildlife, the natural landform, natural water falls, cultural and religious places, traditional pilgrimage, and historical battle field (Anole Sallan) are some of the tourist attraction sites of the zone.

Agriculture is the dominant and the leading economic activity in the Zone. And there are small-scale industries such as grain mills, stone mill, edible oil refining, metal and wood work and medium scale industries such as: Assela Malt factory, Merti-jeju Agro- industry and Arba-gugu sow mill. There are eight Governmental financial institutes and one insurance corporation in the Zone for financial service provision. There are also seven micro- financial institutions established by Oromia saving and credit Share Company (Arsi zone OFED 2010).

Concerning infrastructure service the first is the road service. All capitals of the districts in the Zone are connected with capital of the zone by all weather roads. There are a total of 1242.50 km road. Only 160 km asphalt and 1185.5 km all weather gravel road. The road density is 60km per 1000km2 and .043km. per 1000 peoples. The second is Postal Services. There are 25 postal offices in the zone of which one is departmental; three of them are regular, 17 are agents and four of them are sub- departmental. And the third is telephone services. In Arsi zone all districts have access to telephone services. Most part of the zone has access to mobile types of telephone services there are also wireless telephone services in rural areas. Totally the coverage of telephone service has reached 95%. The next infrastructure is Electric service. From 56 urban centers in the Zone 37 urban areas have supplied with hydro electric power system and one with diesel electric power by the year 2009(IBID).

According to the document for Education service there are: 88 kindergarten, 912 primary school, 51 secondary school, 15 technical and vocational schools, 5 preparatory, 5 colleges and 1 University in the Zone and coverage of education has reached greater than 100%. Likewise, there are 2 Hospitals, 39 Health center and 259 Health posts for the provision of health service. The ratio of population to health facilities is far below standard of WHO in the Zone. That is for hospital, health center and health post (1,000,000, 25,000 and 5,000) respectively.

3.1.3 East Shoa Zone

East Shoa zone is located between 7^0 33'50"N, $9^0$08'56"N and 38024'10"E -40^0 05' 34"E. It is boarder to the North by Amhara Region, to the South East by Afar Region, to the South East by Arsi zone, to the West by South West Shoa zone and West Arsi zone in the South. The total area of East Shoa zone is approximately 9,788.13 $km^{2.}$ This zone shares the longest and shortest boarder with Arsi zone and Afar Region respectively. About 93% of the total area of the zone is completely located in rift system. Its temperature varies from less than 10^0c along high altitudes to above 30^0c in tropical lowlands. Its rain fall potential also varies from 6oomm - 1000mm. The mean annual temperature varies between 18^0c and 30^0c and its mean annual rainfall is 410mm-820mm (East Shoa OFED 2010).

The total population of this zone is **1,159,062** and the crude population density of the Zone is 120 per Km2. Like Arsi Zone, East Shoa Zone also has an abundant natural resource. It has different types of lake that include Rift valley type lakes (Lake Zewai, Abijata, Shala, Beseka and Langano), creator type lakes (Lake Chukkala, Bushoftu, Hora, Hora oda, kuriftu, Green, and cheleleka) and manmade lake Koka is partly found in the Zone. In addition the rivers average annual surface water potential and distribution is estimated to *2.28* billion cubic meters. Many of the rivers have the potential for the development of irrigation in the lower parts of their basins and hydro electric power in their head water areas (IBID).

Regarding wild life, Awash National park and Abijata –Shala National parks are partially located in this zone. In this National Park there are different wild Oryx, gazelle, Soemmerings and carcal are the dominant. In addition about 450 species of birds are living within this park. Abijata Shala national parks have 300 species of birds together with numerous species of mammals. Lake Zewai on the other hand has huge aquatic vegetation that attracts different species of birds. What is more, East Shoa is also reach in Mineral resources: it is endowed with a variety of mineral resources deposits known to exist in the zone include industrial and construction mineral such as sand, soda ash, diatomite and geothermal resources. Moreover, it is endowed with rich and diverse tourist resources. These are: hot springs, recreational sites, waterfalls and historical and cultural sites (IBID).

The aforementioned source further describes that Agriculture is the major economic activity in the zone. It is known by the production of commercial crops like sugarcane, fruits and vegetables production and some cereal crops. In addition animal development activities such as live stock, apiculture and fishery are also carried. Trade and Industry are other economic activities of the Zone. There are about 900 legally registered businessmen with running capital of about 55 million birr in this Zone. Among this the number of whole sales was 16 with the running capital of about 46million.birr; while the number of retails and services were 418 and 461 with running capital of about 9 million birr respectively. There are also more than 70 Public and Private manufacturing establishments in the Zone (East Shoa OFED 2010).

With reference to infrastructure, this zone has relatively better access than the other zones. For instance, the major components of surface transport network are road on the land and marine on Lake Zewai and lakes found around Bushoftu. The total length of all weather and dry weather roads in the zone is 1,140 km; from which 443 km is asphalt, 503 Km is gravel and 193 km is rail way.Another infrastructure service isTelecommunication.Telecommunication Corpora tion, up to 2009 was 45 automatic telephones in zone town with 1,535 lines and 71,848 clients while the rural sectors were served by wireless telephone lines and private mobiles. There are also postal services however, concentrated in major towns only. The next is energy sources such as: biomass, electric power and commercial energy resources are used in the zone. The electric energy comprises energy generated from hydropower and steam or diesel. The diesel source at Koka and steam source at wanji power stations serve during power failures in their system; whereas, the electric energy source is serving urban centers of all districts in the Zone and rural areas found along asphalt and gravel roads (East Shoa OFED 2010).

The final infrastructure is the social infrastructure (Education and Health). In the case of education currently there are 87 kindergartens, 560 primary schools, 16 secondary schools and 7 preparatory schools. Hence Educational coverage of the Zone has reached 100%. Whereas, health institutions in East Shoa zone in 2009 was 3 Hospitals, 52 Health Centers, 14clinics and 326 Health posts. The zonal health services coverage has reached to 97% (One health station: 25,000 and one health center: 5000 people). Furthermore, in East Shoa there are different financial institutes. One Development Bank, seven Commercial Banks of Ethiopia are providing services in different towns. Besides, there are private commercial banks and insurance Banks like Awash, Anbesa, Oromia, Wegagen, Abyssinia and Construction and business. Added to this, there are 491 Savings and rural credits associations (East Shoa OFED 2010).

3.2 Methodology

3.2.1 Design of the Study

This thesis has used case study as design for it focuses only the case of two zones from Oromia in general and central Oromia in particular and applied a descriptive approach which refers to the type of research question, design, and data analysis that can be applied to a given topic. It also involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collected. Descriptive approach is also aimed at finding out "what is". More over, this approach helps to report summary data such as measures of central tendency and measure of variation such as mean, median, mode, deviance from mean, variance, percentage, and correlation between variables. Therefore, as the problem points out, the need for undertaking in-depth survey and analysis combining quantitative data with qualitative information of prospects and challenges of private investment of the areas considered so as to build a sound empirical foundation for informing the policy debate. In short, this approach was preferred and applied for it helps to describe facts and events about the opportunities and challenges of private investment.

3.2.2 Types and Sources of Data

In order to investigate the response of investors, investment experts, investment committee and other concerned stoke holders, about the prospects and challenges of private investment activities in achieving the intended objectives both qualitative and quantitative data was collected from primary and secondary sources of data. To collect primary data questionnaire survey both open ended and closed ended, interview, and focus group discussion were carried. Whereas, secondary sources obtained from various sources such as statistical reports, research documents, journals, books, and documents of licensed projects at different years by Ethiopian Investment Agency (EIA), Oromia Investment Commission (OIC), and zone investment offices.

3.2.3 Samples and Sampling Procedure

In this study samples/ respondents selected from different groups such as: investors, investment office experts, and the knowledgeable and concerned persons from different stoke holders.

Selection of Investor Respondents

The determination of the sample size is of paramount importance in ensuring that the sample is representative of the target population at the end of the day. For Jeff (2001) there is no set percentage is accurate for every population. An appropriate sample is based on a number of accuracy factors such as Goals, desired Precision of results, confidence level, degree of variability and response rate. On the bases of the later explanations and Manageability of the sample, logistics involved such as time and funds researcher has involved a total sample size of

375 investor representatives. The selection was done proportionately according to the population of each sector in the zones.

In this study investors who are the units of analysis, were contacted for questionnaires and samples were taken from all investors working in different sectors. In view of that, out of the total number of investors in both zones that is 4,169 that have taken **license** from 1992-2010, 375 respondents were selected by using the formula indicated below.

$$n = \frac{\dfrac{P[1-P]}{\dfrac{A^2}{Z^2} + \dfrac{P[1-P]}{N}}}{R}$$

n = sample size required
P= estimated variance in population as a Decimal =0.3
A = precision desired
Z= confidence level 1.96 (95%)
N= Target population = 4169

R = estimated response rate (Jeff,

After the determination of number of representative samples from the target population, types of random sampling that provides equal proportion and equal chances for each and every sector and investor/stratified and systematic random sampling/ were applied to select respondents from each and every sector . What was exceptional was for sectors with very small number of investor at least one investor was selected to represent that sector purposively.

Table 3: Sample Zones and Proportions of Samples of Invertors based on Sect oral Engagement

s/n	Sectors	Z O N E S					
		ARSI		**EAST SHOA.**		**TOTAL**	
		No of Projects	**No. samples**	**No. project**	**No samples**	**No of Project**	**No samples**
1	Agriculture	275	25	1076	97	1351	122
2	Construction	13	1	214	19	227	20
3	Education	18	2	111	10	129	12
4	Health	10	1	54	5	64	6
5	Hotel and Tourism	65	6	712	64	777	70
6	Manufacturing	49	4	942	85	991	89
7	Mining and querying	--	--	13	1	13	1
8	Real State	35	3	292	26	327	29
9	Trade	75	7	205	18	280	25
10	Transport	--	---	7	1	7	1
11	Others	--	--	3	0	3	0
	Total	540	49	3629	326	4169	375

Source: Oromia Investment Commission (OIC)

Selection of Experts Respondents

Respondents from staff members of the Oromia investment commission were selected purposively for they have appropriate know how because of their work exposure. Hence interviewee from management department, the follow up process owner, investment potential investigation and promotion process owners were selected. Similar system was applied to select expert representatives from the two selected Zones. Generally 18 experts were selected for interview.

KII Members

With reference to KII members, representative from Ethiopian Electric Corporation (EEPCO), Ethiopian Telecommunication (ETCO), Development Bank of Ethiopia (DBE), Commercial Bank of Ethiopia (CBE), Awash Bank, from Road authorities and from chamber of commerce a total of 14 members who were expected to contribute for the purpose were selected and interviewed. And the result was summarized and used for analysis in combination with the other instruments' results where necessary.

3.2.4 Data Collecting Instruments

Structured Questionnaires the themes of which included the general characteristics of the respondent, information pertaining to opportunities available, Issues related to challenges in relation to: opportunities, finance, market, infrastructure, Governance and issues related to enabling environment contributing to the achievement of private investment objectives. The second instrument used was KII interview for 18 experts from region to selected zones who were believed to have a particular opinion about investment due to their direct involvement in investment activities in the issues of investment managing, implementing policies, and taking part in investment decision processes. The third instrument applied was In-depth interview. This was conducted with selected members of different institutions.

3.2.5 Data Collecting Procedures

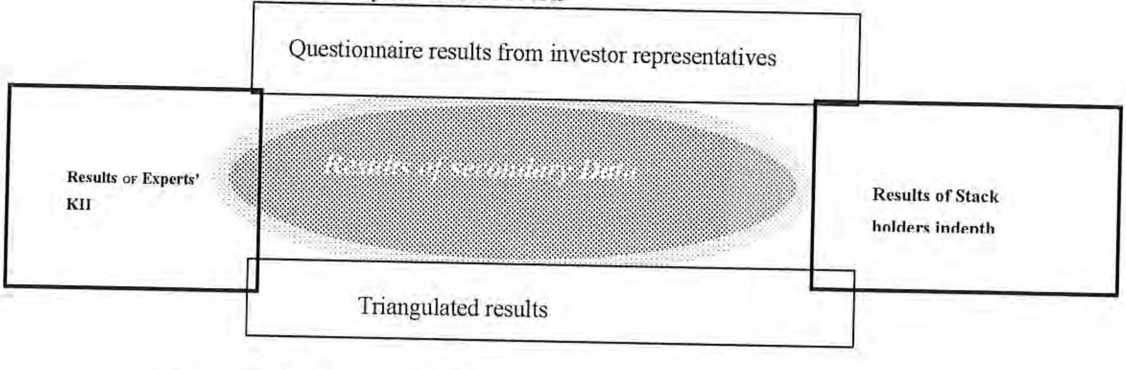
The researcher first carried discussion with investment office experts of the area where selected investors projects are found and got their willingness to distribute and follow up questionnaires to investors selected under their supervision. Then questionnaires distribution process was accomplished from 10th of December 2010-23rd.of December 2010. Researcher himself was taking part where he can reach. In this process distribution of questionnaire for 345 was succeeded. The researcher and investment office experts made subsequent visits and speak to all respondents repeatedly. The respondents were given 10-15days to complete the questionnaire. Simultaneously it was made greater effort to have effective communication through telephone as much as possible. In spite of greater attempts that had been made to have zero non return rates, the researcher managed and gleaned only 297 questionnaires out of 375 planned after 25 days. Nonetheless, according to Babbe E. and Mouton, (2001) a response rate of 50% is considered adequate for analysis, while, 60% is good and 70% is considered as very well. Therefore, the response rate obtained was in harmony with description (80%) for questionnaire which is greater than the value considered as very well. Hence, it is dependable rate of return.

3.2.6 Method of Data Analysis

The data analysis process in this thesis has gone through Processing and analyzing steps. Data gathered from various sources were analyzed using both qualitative and quantitative data analysis techniques. Most of the quantitative data came from the questionnaire response. For analysis purpose the 5 point likert scale was used. The value 5 is for the highest value, 4 for the second highest, 3 for moderate value, 2 for lesser value and 1 for the least value were used. First the two broader categories below and above the median was considered. The mean value further sub divided more for the value ≥4 and less for the value ≤ 2 for the purpose of generalization similar systems was applied for all similar computation.

This quantitative data obtained from the applied instruments such as questionnaires and other secondary sources were analyzed by employing some statistical methods and Microsoft office excel soft ware and the SPSS statistical package to tabulate the data and calculate the frequency, mean and standard deviation of the responses. Qualitative data that were collected using interviews and open ended questionnaires was first translated, next affixed codes, and was categorized in to various topics identifying major patterns and connection. After identification and categorization was carried accordingly,a more focused investigation observ ed communalities and differences was conducted. The data gathered so as to acquire insights about the real experience of the issue and important details was described using descriptive method. This concern points to the need for undertaking in-depth survey analysis by appropriately combining quantitative analysis with qualitative information on the areas specific features in order to build a sound empirical foundation for the challenges and policmakers.

Figure4 Analytical **Frame Work**



Source: Researchers own organization2011

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter dealt with presentation and analysis of the data. The data gathered through questionnaire, interview, and KII were treated. First data from questionnaires were analysed and then supported by summary of both interviews and secondary data results to make triangulation whenever necessary. Some are introduced using the concepts indicated in literature review about the issue. Major points included were: General information about investor respondents, available opportunities, challenges related to major variables such as: opportunities, finance, Market, Infra structure, investors'effort, other investment determinants and challenges related to enabling envir onment like investment policies and regulation investment protections ,investment incentives, requirements of investment permit and land ,and application of Good Governance principles.

4.1 General Profile of Respondent

Investors' respondents have some similarities and differences. Some of the major issues consider ed here under are: their ownership structure, their forms of legal status and level of education they have.

4.1.1 Ownership Structure of Investor Respondents

In Oromia there are both domestic and foreign investors that invest in different existing investment opportunities and alternatives.

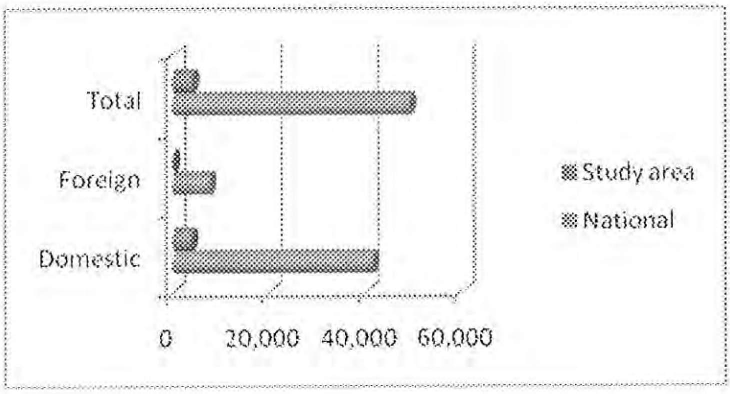
Table 4: Ownership structure of the respondents

S/N	Ownership structure	Number of respondents	Percentage (%)
1	Private Ethiopia only	232	78.1
2	Private Ethiopia foreigner	31	10.4
3	Private foreigner	21	7.1
4	Joint venture	13	4.4
	total	297	100

Source: questionnaire Responses, 2011

As the result in the above table prevails all forms of ownership structure are involved in the sample. 78.1%of the respondents are Private Ethiopian only. Private Ethiopian foreigners constitute 10.4% of the respondents. And private foreigners and joint venture owners' ship structures comprise 7.1% and 4.4 % respectively. Hence, the information obtained primarily indicates that private Ethiopian investors are very high in comparing the rest owner ship structure. In this regard the data from EIA, and OIC statistical data also confirms that Ethiopian or domestic investors' number is 41,583 which is 84.5% of the approved investors in the country where as foreign investors number is 7,641 which is only 15.5% of total approved investors in the nation. Similarly in the study area in both Zones domestic investors are 3,945 (94.6%) where as foreign investors are 226(5.4%) of the approved investors in both Zones. The other information observed from the same source was that the proportion of foreign investors becomes lesser and lesser as the distance from the center increases. That is the proportion in East Shoa is 0.6% where as in Arsi it is 0.2%. At the National level foreign investors involvement is dominant in manufacturing sector followed by Agriculture and Real Estate and construction business where as, in the study area the sector in which they are highly involved among other are agriculture followed by manufacturing and Hotel and tourism respectively (Statistical Data from EIA, 2009 and OIC, 2010).

Graph 2: Domestic and Foreign projects at National and Study area level



Level	Domestic	Foreign	Total
National	41,581	7,641	49,222
Study area	3,945	224	4169

Source EIA, 2010 and OIC, 2010.

Even though government made a great attempt to attract FDI the available proportion indicated above is insignificant

4.1.2 Legal Status of the Firms

Different Investment firms can have different legal status. In this regard the legal status of the respondents is shown as follows based on their responses.

Table 5: legal status of firms of the respondents

S/N	Legal status	Number of respondents	Proportion in %.
1	Sole proprietor ship	165	55.6
2	Partner ship	27	9.1
3	Family Business	51	17.2
4	Limited liability	42	14.1
5	Corporate ship	12	4
	Total	297	100

Source, Questionnaire responses, 2011

As it is shown in the above table, 55.6% of the respondents' firm legal status is sole proprietor ship. This is a firm or a project owned and managed by a single individual. Family business form of legal status is the second having 17.2% of respondents. The third is limited liability which is a legal form of company that provides limited liability to its owner and which blends elements of partnership and corporate structure constitutes a share of 14.1%. The rest 9.1 % and 4 % of the respondents are in the form of partnership and corporate limited. Corporate limited is legal entity which can be created under law having its legal personality and limited liability respectively. Thus, from this it is possible to conclude firms in the sole proprietor ship legal status is the dominant one. However, this is disadvantageous as the loss of the firm is the loss of the owner.

Education Level of Respondents with Sole Proprietorship Status

Education level normally assumed to have influence on quality decision making. It is believed that the better educational back ground he/she has the better he/she can see things critically and attaches value for pros and cons of the issues easily and reach on dependable decision. On the bases of this ground, respondents that are in sole proprietor ship statues were asked to indicate their education level.

Table 6: Education levels of respondents those in the legal status of sole proprietor ship

S/N	Education level	Number of respondents	Proportion in %
1	Primary Education complete	12	7.3
2	Secondary education complete	26	15.8
3	Diploma gradate	55	33.3
4	First Degree and above	72	43.6
	Total	165	100

Source: Organized from questionnaire response, 2011

The summarized result in the above table shows majority of the respondents (43.6%) have first degree and above education level and 33.3 % and 15.8% of the sole proprietor ship owners have diploma and secondary education complete education level respectively; whereas, the least number of respondents (7.3 %) are primary educations complete. Hence, all respondents are literate and do not have problem of educational level and it is expected that they could invest in new ideas and new facilities that strengthen the foundation of economic growth of all economies from the most to the least developed as indicated in literature review. Rivlin (2001) pointed out that the presence of educated and trained workforce in modern business organizations has an important influence on private investment flows. However the actual practice of the projects (95%) is the usual method of working (Experts interview result2011).

4.2 Investment Opportunities and Alternatives related factors

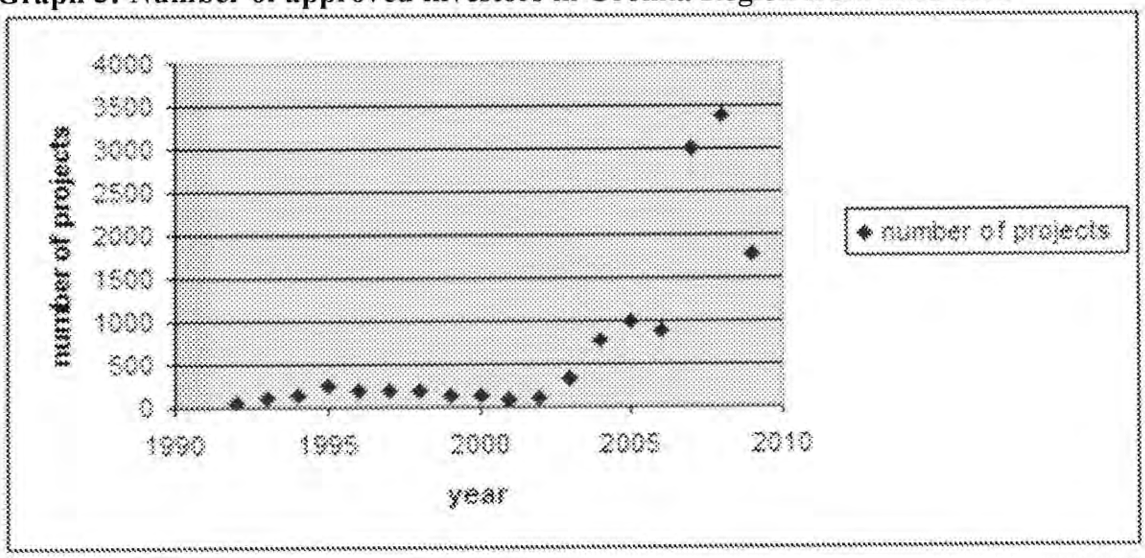
Do all the available investment opportunities properly identified, prepared and made ready for use?

As indicated in the literature review, Morisset (2000) describes that natural resource availability is very significant for the flow of investment specially FDI to developing count ries. Likewise, Jenkns and Thomas (2002) observed that resource-seeking investors locate subsidiary where securing a more stable or cheaper supply of inputs (raw materials and energy sources) and factors of production is easy.

According to socio Economic profile of OFED of the two respective Zones (Arsi and East Shoa) the areas have several agro ecological Zones and sub Zones, each with its own physical and biological potential that helps these areas favorable for under taking investment in various districts and towns. The major area of investment involves: *Agriculture-* a sector with abundant harvest of cash and food crops both in rain fed and irrigation system. These available potential can serve for: crop development such as crop of any denomination all with distinctive tastes, sizes, shapes and colours. Others for which the opportunity is believed to be suitable are horticulture (such as flori culture, vegetables and fruits, and growing herbs); forest development; tea development, cultivation and processing sugar cane, livestock which include: cattle breeding, raising poultry, hog farm, and apiculture; industry of different types such as leather industry, textiles and garment.

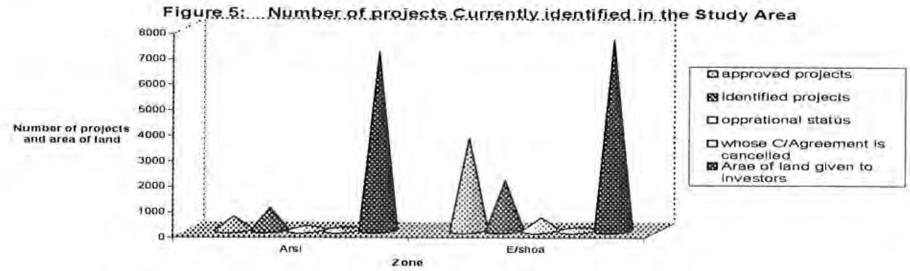
The efforts made so far in utilizing the opportunities and strengthening private investment is low in comparing with the proportion of the potential believed to exist.

Graph 3: Number of approved investors in Oromia Region from 1992-2009



Source: Ethiopian Investment Agency

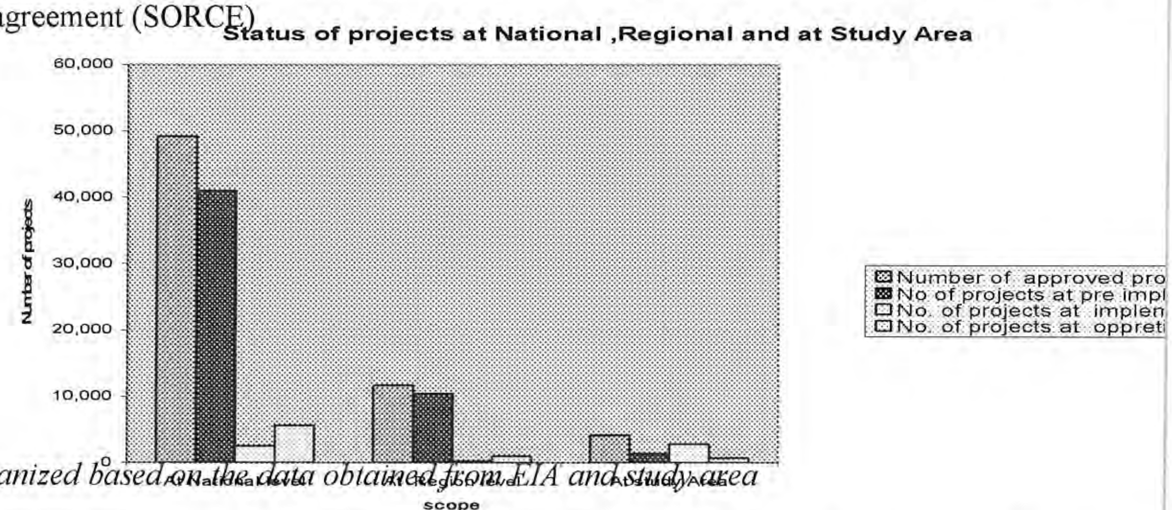
The figure gives a picture of trends of approved investors in the Region. The number of investors had been increased almost similarly from 1992-1995. And from 1995 onwards it had been slightly decreasing and decreasing and reached its lowest stage in 2001(73).This might be due to lack of Pease and stability because of Ethiopia Eretria and green hunger 2001/2002. Then, it started again increasing in 2002. It regularly continued increasing and reached its maximum in 2008(3,380) because of Ethiopian millennium and decreased almost by half in 2009 it seems due to the influence of global inflation and problem of getting land where needed. At Zonal and district level projects are not clearly and properly identified by status, by year, Nationality and level and by other necessary categories. But very recently an attempt has made to obtain the data indicated in the graph 4 below.



Source: the Arsi Zone and East Shoa Investment Office

The graph illustrates that in Arsi number of approved projects was 540; whereas, number of identified projects was 685. This was made to include projects without investment permit and projects with capital below 250,000 birr. From the indicated number projects at operational level were 188 only (21.7%). Likewise, number of approved projects in East Shoa was 3629, from these only 1963 (54%) was identified and among these only 514(14.2%) were at operational level .What is more, significant number of projects have made to return the land they had been rented out (leased out) in both zones due to their inability to utilize the land for intended purpose. That is in Arsi about 20(2.8%) and in East Shoa about 124 (3.4%) projects were made to cancel their contractual agreement (SORCE)

Graph 5.



Source: Organized based on the data obtained from EIA and study area

The figure illustrates, status of the projects at National, Regional level and study area (Central Oromia) level based on the data from EIA and the two selected zones (2010). Accordingly projects at pre implementation level of these three levels were 83.3 %(40,988), 89.9(10,455) and 32.2 %(

1341) from top to down. Similarly projects at implementation levels were 5.2 % (2,569), 2(232), 67.8 %(2,828). Concerning projects at operational level; at National level there were 11.5%, at regional level there were 8.3% and at the study area there were 16.7 %(computed from currently identified projects data). The computed percentage of projects both at implementation and operation level looks highest at the study area; lesser at National and the least at the Region level. However in all level projects at both statuses are low when compared against the proportion expected to be available. In short high investment flow is expected on the bases of the proposed potentials. Nevertheless even the approved small numbers are not involved in actualizing their plan to obtain their own target as well as the Nation's investment objectives.

BOX-1

land and environmental protection office representatives' Interview response of Arsi and East shoa

Date 14-19/01/2011

Major roles given to the office

Keeping the land, providing land owner ship certificate, Identifying, Preparing land for investment and for residence and Establishing land bank.

Actual work done in identifying and preparing land for investment

No significant work has been done in this regard because of: Lack of appropriate personnel, Lack of appropriate equipments (GPS, Total station), Lack of finance to compensate, Problem of infrastructure (road) in rural where there is big investment potential (Arsi)

Changes resulted on the pace of investment in the two zones,

No change at all is observed, as there is no land prepared by this office since then. The Land is searched and prepared after land is required as usual

Source –interview result carried with representatives of Land and Environmental protection offices of the two zones, 2011.

Preparation of land According to the discussion with investment office experts in interview; before the year 2008 had been assumed by investment offices of different level together with the local administrative bodies of the Region. However, the process had been very retarded. Giving immediate response for investor who seeks land to invest had not been possible. Hence to prepare land for investment, to protect, to manage land and other natural resources on the land, the office named Environmental Protection and Land management has established. Nevertheless, because of lack of sufficient budget to pay for the land compensation (in towns and in East Shoa), Lack of appropriate personnel, lack of land measuring instruments and problem of infrastructure no land has been prepared, site planned and kept in the land bank in both Zones(box 1). What is available is the opportunity which had roughly identified before the establishment of the office. (Annex 4)

Table 7: Roughly Identified Opportunities of Investment in the Study area

S/n	Sector	Zone	
		Arsi	East Shoa
1	For different Agriculture Activities	16o,773.155 hectares	**4,603.67 hectares**
2	For different industrial and agro-processing	160 hectares	11,368.98 hectares

Source: The two zones investment offices (annex 4)

Though Oromia in general and the study area in particular are believed to have big investment opportunities, it is not properly identified and made ready for use. As a result there is serious problem of prepared investment land for both urban and rural investment projects.

4.3 Challenge of private investment

4.3.1 Challenges related to Opportunity

One of the major factors attributed to this is availability of prepared land. Thus preparing land based on the received request takes time. The data gathered from investors' respondents regarding the time taken to acquire land was summarized as indicated in the table below.

Table 8: Duration of Time Taken to Get Land and to Begin Production or Service

Zone	Action	Number & proportion	<1	1-2	2-3	3-4	Mean	SD	CV	SE
ARSI	Time taken to get land	No	17	15	5	9	1.63	1.12	0.69	
		%	37	32.6	10.9	19.6				0.164
EAST SHOA		No	98	73	54	26	1.53	1.009	0.66	
		%	39	29.1	21.5	10.4				0.064
ARSI	Time taken to began production /service	No	7	9	16	14	2.304	1.034	0.45	
		%	15.2	19.6	34.8	30.4	-	-		0.153
EAST SHOA		No	50	72	91	38	2	0..974	0.49	-
		%	19.9	28.7	36.3	15.1	-	-		0.062

As it is illustrated in the above table to get land applied for investment took an investors an average of one and half a year in Arsi Zone; whereas, it took investors an average of one and five months in East Shoa. From this one can understand that land provision time is slightly longer in Arsi Zone than the time taken in East Shoa. To start production or service provision, it took an average of 2.4 years in Arsi; whereas, it took an average of 2years in East Shoa. This shows that projects in East shoa are a bit faster than projects in Arsi. The time taken for both actions is very long when compared with the standard set for the task and contractual agreement forms of the commission or the offices. That is 7days for the land provision and up to a year time to develop the land 100% and to begin production or service provision.

Another problem pointed out by interviewees (experts) in this connection was that component off a task in relation to land provision, that could be carried at one sector has made to be carried at four or more sectors; i.e. an investor is made to apply for land at investment commission and its branch offices. Land and site preparation is carried by Land and Environmental Protection Office. Then the case is presented to the investment committee for recommendation and send to OIB for the final decision. After the decision is carried by board, it will be sent back to zone administration or to the town administration for contractual agreement. Then again an investor needs to go to the zone administration or town administration office to sign contractual agreement. Next he/she needs to go to the zone justice's office to get registered for the agreement concluded. An investor also needs to go to the land and environmental protection office to get the land title deed and to hand over the land. Finally an investor needs to go to Work and Urban Development office to get construction permit. Thus this process is time taking and costly and even tedious process which is contrary to what is written in BPR document one stop shopping.

In some cases after a long process the area of land obtained may be far below the required. Therefore, to investigate to what extent Area of land secured by investors influences; respondents were asked in the questionnaire to indicate the proportion of the area of land they had requested against the area of land they have secured; Then the result is summarized as indicated in table 9.

Table 9: Proportion of Land Obtained

n=46 for Arsi and n== 251 for East Shoa

Zone	Number and proportion of respondents	Proportion of land obtained								
		<20	20-40	40-60	60-80	>80	Mean	SD	C.V	SE
Arsi	No	-	-	14	13	19	72.2	16.800	0.23	**2.48**
	%	-	-	30.4	28.3	41.3	-	-		-
East Shoa	No	11	18	49	68	105	69	22.73	0.33	**1.45**
	%	**4.4**	**7.2**	**19.5**	**27.1**	**41.8**	-	-		-

Source: compiled, organized and computed from questionnaire responses, 2011

According to the questionnaire results' computation average land proportion obtained in Arsi Zone was 72.2%; whereas, it was 69% in East Shoa. This shows that the proportion of land obtained in Arsi is a bit larger than the proportion of land obtained in East Shoa. Covariance in both cases is less than one 0.23 and 0.33 respectively. Hence the variation is insignificant. In both cases the result illustrates investor respondents' secured land below their desire hence it is possible to consider lesser area of land provision contributes for less contribution of investors.

Why investors fail to actualize their project?

The limitation explained in the experts' interview (refer annex4) has summarized from two major perspectives. One is limitation in relation to the office. This includes problem of having standard of land for each and every project as a result of which land has been provided based on the availability of the area of the land requested earlier. Thus wastage of land has been observed in both Zones. According to the interviewees investors engaged in agriculture activities more than 95 % have not developed more than 50% of the land they have secured. Besides, problem of carrying frequent follow up; problem of clearing and handing over the land timely; providing land for rent seekers because of the influence of some corrupted experts and committee members; and absence of appropriate action that provide lesson for others, take back the rented out land from some and taking no action on some others at similar status, fail to play proper role in the fulfillments of the needed infrastructure in the area (road, electric, water and net work);are the major ones.

in the fulfillments of the needed infrastructure in the area (road, electric, water and net work);are the major ones.

The second is Limitations on the parts of investors. The interviewed experts described the following investors' limitation: increment of cost of inputs, Some lack financial capacity, some lack know haw and entrepreneur ability, some fail to handle the local people accordingly and hence, enter into conflict; some fail to get loan, some fail to hire professional; some use very back ward technology (Arsi); some fail into conflicts among P.L.C members in (East Shoa); problem of having the right type of project proposal and some change the project now and then, are the influential reasons (annex 7). Hence limitation indicated from both parts can consider as serious challenges.

4.3.2 Challenges related to information about available opportunities

This was intended to assess if investors have sufficient information and what their perception is regarding the indicated opportunity related issues. Hence for the question that requires them to rate the level of identification, they rated from the most appropriately identified to least appropriately identified using the 5 point likert scale /5--1/and the result was summarized in table 10: below.

Note 5=the most appropriately identified 4=more appropriately identified 3=moderate 2= less appropriately identified and 1=the least appropriately identified. In considering only the two broader categories above and below the median; above 3 is considered as appropriate and below 3 taken as not appropriate. The mean value was further divided as more appropriate for the value ≥ 4 moderate for the value $3 \leq x \leq 4$ and less for the value ≤ 2 0r less for the purpose of generalization

Table 10: Rating level of Information Respondents has on Identification of Opportunity Related Issues.

S/N	Opportunity related factors	Rating								
		5	4	3	2	1	M	SD	C.V	SE
1	Investment opportunities and alternatives	26	135	62	19	55	3.2	1.26	0.39	0.07
2	Water potential at every investment potential alternative areas	31	90	113	25	38	3.2	1.14	0.36	0.07
3	Local people cooperativeness	42	131	73	11	40	3.6	1.18	0.33	0.10
4	Local people willingness to use the job opportunities created by the firm/the project	83	127	32	14	41	3.7	1.30	0.35	0.08
5	Availability of infrastructure where there investment opportunities.	44	118	74	25	36	3.4	1.18	0.35	0.07
6	The existence of peace and stability	94	107	44	12	40	3.7	1.30	0.35	0.08
7	Commitment of local Government authorities	19	103	91	30	54	3	1.07	0.36	0.06
8	Attractiveness of investment incentives	50	131	45	33	38	3.6	1.18	0.33	0.07
9	Applicability of investment policies	42	102	62	36	55	3.1	1.34	0.43	0.08

N=297

Source: Compiled and computed from investors' questionnaire Response, 2011

The above table illustrates that the mean of all of the descriptions (Investment opportunities and alternatives, water potential at every investment potential areas, local people cooperativeness, local people willingness to use the job opportunities created by the project, the existence of dependable peace and security in the area, attractiveness of investment incentives, investment opportunities and alternatives, availability of infrastructure, and level of commitment of local Government bodies and applicability of investment policies are between $3 \leq x \leq 4$. Hence they are moderately identified.

In this regard the interviewed investors indicated that, local government authorities' level of commitment has not properly known. From this it is possible to conclude that respondents do not have sufficient actual information with reference to identification of available investment opportunities of all type.

In Thailand as indicated in chapter two, BOI offers one-stop service which involves a wide range of services. It maintains comprehensive information on investment opportunities in Thailand, both by sector and by region. Information and investment advice are readily available to both Thai and foreign investors at no charge. It provides a free online service at www.asidnet.org It serves as a regional "Yellow Pages" through which businessmen can shop for cost-effective products and enables investors to make informed sourcing decisions. The extensive database consolidates a full range of information and profiles of supporting industries and manufacturers of parts and components in the 10 ASEAN Member States. It creates a strong business link between buyers from around the world and manufacturers in the ASEAN Member States. Thus from this it is possible to conclude that in the study area clear and sufficient information that enables investor to take investment decision confidently is not provided. Hence investors may not be free of insecurity.

Pertaining to the preferable sector to invest on, agriculture sector has more repeatedly (by 156or 52.5%) informed. It is generally known as preferable and most interesting for investors in the economy. Another sectors opportunity indicated as preferable and profitable to invest on are: Hotel and Tourism (by 29.3%) and Service sector (by18.2%).

Table 11.The most preferred sectors to invest on

S/N	Sectors preferred	Number	%
1	Agriculture	156	52.5
2	Hotel and Tourism	87	29.3
3	Service sector	54	18.2

Likewise government has given priority for projects like: Agro-processing, Commercial farming, and Manufacturing (Annex 8). Similarly Thailand has placed priority on promoting agriculture and agricultural products and activities with technological and human resource development, basic transportation, infrastructure and services, environmental protection and conservation and targeted industries.

4.3.3 Financial Plan and Source of Finance related challenges

Financial power is the major factor that determines the success of any private investor. Hence, each and every investor is expected to have enough financial preparation before engaging in investment activities. According to the information obtained from investment office experts, at least 30% of total financial plan of the project need to be fulfilled by any investor, hopping that the rest 70% could be fulfilled by loan from DB, CB or from private banks based on the type of project and the amount of capital required. In this connection the data sources of finance used by the respondents and the amount of their financial plan has summarized as indicated in the table below.

Table 12: Financial Plan and Source of Finance

S/N	Amount of Financial plan	Source of finance					
		Self funding		**Family or friend**		**Own capital and Bank loan**	
		No	%	No	%	No	%
1	<1 m	55	18.4	2		23	7.74
2	1 -2m	12	4.5	2		17	4.5
3	2-3 m	6	2.3	-		11	2.3
4	3-4 m	6	2.3	9	2.3	4	1.3
5	4-5 m	12	4.5	-	-	-	0
6	>5m	19	7.1	12	4.5	107	36.02
Total		110	39.1	25	6.7	125	51.86

Source: Compiled and Computed from investors questionnaire response, 2011

According to the summary of the above table self funding, family or friend, and Bank loan sources have been used by the respondents. The amount of their financial plan has indicated ranges from less than one million to greater than five million. The greatest numbers of respondents (53.1%) from all groups have indicated that their financial plan is greater than 5 million. The next financial plan with greater number of respondents (30.8%) is less than 1 million. When the source is considered both own capital and Bank loan which comprises 51.86 is the greatest followed by 39.1% self funding. Hence it is possible to conclude that the greatest figure 51.86 indicates majority of the respondents are dependent on bank loan.

Nonetheless, the respondents in this survey indicated that they have been poorly provided the bank loan service. And to evaluate this complaint against the service, their success rate was computed using the categories in the table below.

Table 13: Success rate of Investors in Getting Bank Loan
N=251

Categories of percentage of Success rate	0-25%	26-50%	51-75%	75-100%	Mean
Number	14	8	30	99	72.93
%	9.3	5.3	19.9	65.6	

Source: compiled and computed from investors' questionnaire response 2011.

The above table presents that 65.6% of the respondents' success rate in getting loan service was greater than 75% whereas, 19.9 % of the respondents were served less than 75% of their request. Similarly the computed mean of these data (72.93) witnesses that the respondents' success rate was about 62.5 %(51-75 range). The other 9.3% of investors were served less than 25% of their request. And other 5.3 % of the respondents got positive response in the range of 26-50%. From these it is possible to assume that however, majority of the respondents were served more than 50% of their application; a number of investors who were served less than 50% of their interest 14.6 % is significant and can indicate that there is dissatisfaction in the services provided by the Banks or financial institutes. Is this due to the absence of developed capital markets and financial intermediation in developing economies as briefly indicated in literature?

The brief description given by representatives of the financial institutes (DB, CBE, and AIB OF Assela and Adama branch (refer annex 8) disproves the view of credit constraint but problems on the parts of investors to fulfill the requirements of the banks.

These Banks however focus on Government priority areas mentioned above. The criteria these Banks require investors or projects to submit are: bank statement, project proposal, title deed certificate, investment permit, construction permit and Clearance from National Bank.

DB specially provides advisory service, follow up service and saving services in addition to loan provision for its clients. It is also unique in that it provides huge capital with minimum interest rate of 7.5% for long term (10-20 years) payment. CBE usually fills the gap left by DB; whereas, private banks are assumed to provide loan for medium and small scale firms. They similarly require Bank statement for at least 50% of total project capital in place of 30%. And mostly they provide working capital. Moreover, it also provides loan for fixed capital, if and only if the plan of the project is properly studied and checked profitable (Annex 8).

The discussion with these financial institute representatives further pointed out their challenges in serving investors. Some projects miss uses the land, they submit false proposal, existence of un ethical and irresponsible personnel's in concerned sectors who create collusion with speculator investors and failure of everyone concerned to carry his/her assignments genuinely. Moreover, most private investment projects are unable to fulfill the required criteria and unwillingness to submit the required documents timely as a result of which the Banks obliged to delay its service for 2 or more months. What is more, they do not have any formal relationship on investment issues with investment office (annex 8).

Concerning availability, in Arsi Zone there are: eight governmental financial institutions (six Commercial Banks of Ethiopia), four corporate private banks (Awash International Bank, Oromia International and Oromia Cooperative Banks) and one Ethiopian Insurance corporation, seven Micro- Financial Institutions established by Oromia Saving and credit Share Company (Arsi zone OFED,2010). Similarly, in East Shoa there are: one DB, one Insurance Corporation., Seven Commercial Banks of Ethiopia, six private commercial Banks and 491 Savings, rural credits and associations are available (East Shoa OFED, 2010).

Despite the aforementioned facts private investors protest against the services. Thus, one can realize from this that though encouraging attempt has been made to assist development projects, all projects have not been fortunate to get the advantageous service from DBE due to the Government policy priority which influences Banks to be selective in loan provision. That is projects out of Government priority and small projects are disregard However according to the above mentioned facts there is no credit provision constraint duet absence of financial institutes but problem of investors themselves. From this it is also possible to conclude the effect of public sector borrowings (crowding out effect of private sector was observed here. For instance 1.2 billion birr was borrowed to a single sugar factory (public enterprise).

4 .3.4 Market Related challenges

Market access is one of the key determinants of private investments. Each and every private investment project is expected to work on the detail examination of market nature and access both locally, nationally and internationally;while developing the market plan of the project.Examination of the individual investor's response to question related to types of market shows that the majority, (60.27%) use domestic market. Other two groups comprising 26.269 and 13.47% indicated that they use foreign market and both markets respectively.

Table 14: Types of market

Domestic Market	Foreign Market	Both	Total
179	78	40	297
60.27	**26.26**	**13.47**	**100**

Source: compiled from investors' questionnaire response, 2011

Market access is a focal point that should be focused to establish any firm (project). In this regard the response of the respondents was summarized using the following categories.

Table15: Market Location of Firms

n=271

Distance category	0-50km	50 -100km	100-150km	15-200km	Mean	SD	CV
Number of respondents	156	72	19	24	58.58	47.23	0.81
%	52.52	24.24	6.4	8	-	-	

Source: Compiled and computed from questionnaire response, 2011

The table depicts that the majority of the respondents (52.5%) have market access with in less than 50km distance. 24.24% have within 50-100km distance. The table also shows 6.4% of the respondents are located within a distance of 100-150km a ways from their market place. And still some others such as 8.1% have market access with in a distance of 150-200km; whereas, others 8.8 % of the respondents have indicated that they use foreign market. The average distance of the domestic market is 58.58 km. which may not take more than an hour drive at no rmal circumstance. The value of the computed covariance is also less than one (0.81).Hence the variation of the distance is not as such significant. In short market availability and access is not a problem in the study Area. Hence this result is complementary with what is indicated in literature review regarding market. That is its population of more than 80million is a big domestic market. In addition, to facilitate foreign market Ethiopia has concluded few bilateral trade agreements with European Union, with Common market for Eastern and Southern Africa (COMESA) which contains 20 members state with USA in the African growth and opportunity act (AGOA) and with India. From the aforementioned facts it is possible to conclude that both availability and access of market for the products or service of the projects is not a challenge.

The Firms' Promotion Strategy

There are different promotion strategies that have been used by different firms. Better promotion strategy believed to increase demand. For the question presented to investor respondents concerning promotion strategies used by their firm, the following responses were abridged. Most investors use similar promotion strategies among which the following are the major ones. These are television, radio, news paper, Magazine broacher, templates/ flights, sponsoring programs, meeting potential buyer, providing quality product/ service and the required quantity. And still some have believed that quality service promotes itself. Hence they planned to keep their products/services quality and it is possible to conclude that most projects do not have demand problem except failing to produce their product or provide service as much as they can for both domestic and foreign market. As indicated in table 20- p70 problem of demand is not serious problem. But the problem is inability to provide quality product/service as much as needed.

4.3.5 Infrastructure related challenges

In promoting investment, infrastructure development and improvement is crucial. Good infrastru cture attracts better investment and facilitates production and reduces operating cost as well. A poor infrastructure increases the cost of doing business and reduces the rate of return on investment. Other things constant, production costs are typically lower in countries with well-developed infrastructures than in countries with poor infrastructures. Hence investors prefer economies with a well-developed infrastructure (network of roads, airports, water supply, uninterrupted power supply, telephones, and Internet access). According to (Morisset 2000) Countries with good infrastructures are therefore expected to attract more investor. Obviously, the extent of its impact varies based on the location where the investment firms are. In the periphery the problem of infrastructure becomes tougher and tougher. Especially in electric power supply, Road and telecommunication service. To evaluate to what extent infrastructure is influencing private investment activities in the study area some infrastructure related question were presented to both investor respondents and concerned stack holders representatives. The respondents of most investors in East Shoa indicated electric power shortage, water and interruption of net work as a serious problem. Whereas, road is the major among all in Arsi.

Table 16: The Most Serious Infrastructure Problem

S/N	Problems	Arsi Zone	East Shoa
		Rank	Rank
1	Electric Power	2	1
2	Telecommunication	3	3
3	Water	4	2
4	Road	1	5
5	net work	5	4

Source: Compiled and computed from questionnaire response, 2011

The computed rank correlation result witnesses that the two zones moderately correlated in opposite direction. That is their computed correlation is -0.4. In other words the two zones are negatively correlated in terms of infrastructure problem. To give specific examples as indicated in chapter three, currently every district everywhere has all weather roads that connect its capital with the capital of the Zone. Nevertheless, there is still road problem in Arsi within the districts. According to the experts' explanation in the interview; every kebele has not yet connected by all weather roads. Hence, accessing areas where investment opportunities is estimated high has been very difficult for they are located 10-40km away from the main road. For instance Seru district which has investment land estimated more than 50,000 hectares, Gololcha more than 40,000 hectares and Hanqollo Wabe about 40,000 hectares. Whereas, this accessibility problem is not serious in East Shoa for its identified opportunity is along the main road. Regarding infrastructure the discussion result obtained from FGD group complements the above finding. The result of focus group discussion with representatives of concerned institutes such as: ETC (the current Ethio- telecom), EEPCO; RRA of both zones has summarized as follows.

With regards to telecommunication service the corporation currently provides two major types of services.

Box-2

Interview result

It was carried at both respective branches from 8-10 January, 2011.

The corporation currently provides two major types of services. One is land line service which is provided at district town levels. It has known for the past 100 years. Another is new generation net works which is currently given high attention and established to compensate the limitation of land line service. That is, land line requires maintenance cost, spare parts and high installation cost. Currently all districts have provided with new Generation Network which involves: wireless mobile and broad band internet. As a result mobile service coverage has reached 98% where as fixed wireless services coverage in the study area has reached 93-95%. The institute's major constraints in provision of the service required from sector are: most firm owners do not know as they are expected to provide appropriate documents to the corporation before starting their construction; as a result many investment projects have exposed for extra costs for installation process. Problem of getting input domestically is another serious problem that adds time cost. Added to this there is no effective communication with investment office.

Source –interview result carried with representatives of Ethiotelecom of Assela and Adama Branch, 2011.

Though, it is both the inlet and out let for investors, it has been attempted nothing to play a role in co-coordinating, informing and initiating the sectors for the purpose. However except clarity and frequent interruption the telecommunication coverage looks encouraging.

Box – 3

Responses given by EEPCo of Assela and Adama Branch representatives

Date 12-14 January, 2011

- In Assela town the corporation provides 265kw where as at Adama it provides 20mw

-To provide its service it requires months to a year. This is because it uses imported materials.

- Its function related with the function of other development agents such as -Telecommunication and Road Authority.

-To solve the problem of dalliance in its service the sector suggested that in put (cable) need to be produced in the country and adding additional power from new dams

-The sector provides its service based on the set priorities. That is first Construction, second Telecommunication, third water service, fourth Education, Fifth Health, the six is exports and the

According to the interview result indicated in Box -3 above, amount of power provided to the two Zone towns is very limited. Besides its service provision process requires longer time due to absence of inputs locally and power limitation. Thus these are serious challenges of the sector to provide the service required. For instance in Adama town according to the result from experts interview, one project has applied for 20 MW which is exactly equal to the power given to the town (discussion with Adama town IO 2011). Similarly in Dukem town more than 20 projects fail to start production because of electric power service problem (challenge raised by Dukem town IO, 2011). Although the seriousness of the type of infrastructure has slight variation, in both zones as indicated projects are affected by lack of sufficient infrastructure.

4.3.6 Efforts of investors related challenges

Private investment, as indicated in literature review, encourages efficient economic growth and development. Hence, it is a source of: wealth, dynamism, competitiveness knowledge, new jobs, and incentive for private firms to invest in the future. In this regard firms /investors effort need to be very vital. As indicated in the conceptual frame work their objectives, their financial potential, their entrepreneur ship capacity to take risk to tolerate costs, and to win barriers of competition and their motive to work honestly to achieve their objectives in particular and the nation's in general.

Hence, to assess to what extent private investment projects are contributing for the achievement of private investment policy objectives; percentage of their estimated efforts against success of their own plan is summarized and indicated here under.

Table17: Contribution of Investors in the Achievement of Private Investment Objectives

N=297

S/N	Objectives	Estimation of their contribution in percentage (%)								
		0 -20	20-40	40-60	60-80	80-100	M	SD	C.V	SE
1	Accelerating the economic development of the country	51	86	49	74	37	47.3	26.12	.055	0.09
2	exploiting and developing the natural resources of the country	69	80	43	73	32	44.5	26.84	0.6	1.56
3	Developing the domestic market through growth of production , productivities and services,	88	42	81	50	36	43.5	27.39	0.63	1.59
4	Increasing foreign exchange through promotion of export,	135	47	44	36	35	35.8	28.74	0,8	1.67
5	Strengthening the inter sect oral linkages of the economy by encouraging balanced development and integrated economic activities among regions,	102	77	62	34	22	36.3	25.11	0.7	1.46
6	Enhance the role of the private sector in the development of the economy by using the enabling conditions for investment,	97	83	65	33	19	36	24.26	0.67	1.41
7	Influencing foreign investment to play its proper role in the country's economic development	115	76	38	37	31	36.1	27.28	0.76	1.58
8	Creating wide employment opportuni ties for nationals by fostering the transfer of technical knowhow, material skills and introduction of appropriate technologies.	72	86	45	43	51	44.3	28.34	0.64	1.64

Source: compiled and computed from questionnaire response, 2011

As it is portrayed in the above table the mean, of the estimated percentage contribution of respondents for objectives in relation to: increasing rate of economic development (47.3%); utilizing the existing natural resources(44.5%); developing domestic market(43.5%) and creating wide employment opportunity (44.3%) is in the categories of (40 -60)%. And the mean of the remaining rests in the category of (20-40) %. Their contribution for increasing the rate of economic development is the leading followed by their efforts made in properly utilizing the natural resources rented out to them(44.5%) and for creating employment (44.3%). Table 15 also summarized that respondents has been least contributed in increasing the foreign exchange earrings (35.8%) followed by the second and third least contribution for enhancing the role of the private sector in the development of the economy by using the enabling conditions for investment (36%) and influencing foreign investment to play its proper role in the country's economic development (36.1%).In all cases the mean of their effort is less than 50%.What is more the coefficient of variation for all variables is less than one and is insignificant thus show less variability.

According to the summary of interview result indicated in the annex 4 the reasons provided for this by experts of the area are: most projects are working traditionally opposite to the system they have planned to use .They also fail to utilize the potential they have planned and they do not want to take any risk. Added to this in Arsi some investors who engaged in agricultural investment have rented the land they had rented for traditional local workers by the price about 37 folds greater than the price they have rented out themselves (up to 5000 birr per hectare per year) (Discussion with Arsi Zone IO). On contrast, they are not willing even to pay the yearly land rent which is 135 birr per hectare. According to the experts description, it is only very few (not more than 5%) who are honestly and fully engaged on their work as they have planned from investors who have engaged on agriculture sector investment projects. This is contrary to what is stated in literature review. That is investors are expected to learn new skill, making of best uses of resources, taking risk to invest in a new venture that will raise productivity, open up new opportunities and generate tax income for the state. The contractual agreement they have concluded obliged them the same. For instance: to give job opportunities to the people residing in the investment areas unless it requires special skills; to develop the land by employing appropriate experts; to increase productivity of the land by using appropriate in puts and produce better crops than farmers in the area (The contractual Document).Nevertheless most investors are scarcely contributing to the achievement of investment objective

Percentages of Capacity Utilization

As briefly stated in the review part, Entire deployment of existing resources requires total investment and total consumption equal to the total output that would be produced. Regarding application of full capacity of the project, the contractual agreement document used by the regions as well as by the two Zones explains that except for floriculture which is expected to use its full potential in the fourth year for it is highly costly project, every other projects are required to Commence its project activities on the land leased within six months starting from the data of handover of the land rented or leased out and to develope100% within the first 12 months of the contractual agreement period (Contractual agreement document). However, the computed out mean of the percentage of capacity utilization of projects that had been used was about 50%.

Table 18: Percentage of Capacity Utilization

n=156 in 2007, n=182 in 2008 and n= 230 in 2009

Year	Percentage of Capacity Utilization								
	0-20	20-40	40-60	60-80	80-100	Mean	SD	C.V	SE
2007	45	39	25	18	29	43.2	29.3	0.68	2.35
2008	27	45	37	30	43	51.9	27.86	0.54	2.06
2009	35	55	47	38	55	52	28	0.73	1.85

Source: compiled and computed from questionnaire response, 2011

Table 17 illustrates that the mean of capacity utilization percentage in 2007 was 43.2 and that of 2008 and 2009 was 51.9 and 52 respectively. Though a number of respondents who gave response for the three years are not equal the computed mean shows slight progress in utilizing the capacity. Similarly the computed covariance shows slight variation and less than 1 for all. And capacity utilization of the projects is about 50%. They are not strong enough to significantly influence the amount of the nation's revenue, to encourage the growth of economies and to sustain the reduction of poverty over the long term.

Employment

As Boutonand (2000), briefly stated creation of employment opportunities is one of the objectives and the way out of poverty. Where investment is low, the productive capacity of the economy fails to increase. In turn results in lower rates of growth and job creation and less opportunities for the poor to improve their lively-hoods. In this connection the data collected from the respondents was summarized in table 18 below.

Table 19: Employment condition of the respondents from the year 2007 -2009

N.B. n =161 for 2007, 203 for 2008 and 222 for 2009

Year	Categories of number of employees							
	0-50	**51-100**	**101-150**	**151-200**	**Mean**	**SD**		**SE**
2007	88	47	26	-	55.7	37.4	0.67	2.9
2008	97	66	23	17	65.1	47.1	0.7	3.3
2009	94	75	37	16	69	46.5	0.67	0.21

Source: Compiled and computed from questionnaire response, 2011

As it is pointed out in this table (18) the average employment of 2009 (69) is the greatest and that of 2008 (65) is the second where as 58 average employment in 2007 is the 3rd. Although a number of investors did not respond for the number of employment they have created by their firm; it is possible to estimate that the condition is increasing though the greatest average indicated is not contented result. The firms are still expected to attempt to create job opportunities for the local job seekers by increasing their capacity.

4.3.7 Challenges in Relation to other private investment Determinants

As indicated in chapter two, Private investment is predominantly affected by the profit motive. Though many factors except wage and input costs in an open economy are beyond the control of investors profit expectations center on the future price level and export competitiveness.

It is briefly stated that: the challenges that have connection with the major variables (firms, Enabling environment, natural environment and the business environment) are listed out in the review. i.e. uncertainty about the economy, Government attitude toward private investment,high tax, problem of getting credit, high interest rate, demand problem, shortage of raw materials, infr astructure, investment legislation, investment administration procedures, and investment incen tives. To check if this holds true and to assess the major challenges of the area, respondents were required to rate the extent of these factors' influence on the bases of their experience they have in their own work. The summary in the next table points out that the mean of the rating for all challenges related with Government attitude towards private investment (2.75), too high level of taxes (2.46), and demand (2.27) is less than the median (3) and these are not serious challenges.

Whereas the computed mean of all the other challenges such as: problem of getting credit (3.53), too high interest rate (3.91), lack of raw materials (3.99), infrastructure (4.38), general investment legislation (3.70), investment administration procedure (3.66), cost of doing business (3.73), investment incentive (3.13) and uncertainty about the economy (3.50) rated as serious challenges of private investment in the area. Table 21 also depicts that infrastructure with mean of 4.38 was rated as more serious challenges.

Table 20: Rating Responses of Private Investment Challenges
n=297

S/N	Challenges	Rating from the most serious challenges to least challenges								
		5	4	3	2	1	Mean	SD	C.V	SE
1	Government attitude towards private investment	42	58	62	55	0	2.75	1.401	0.51	0.081
2	Level of taxes too high	30	75	76	77	9	2.46	1.198	0.48	0.0695
3	Problem of getting credit	90	81	63	21	42	3.53	1.35	0.38	0.078
4	Too high interest rate	100	117	45	22	13	3.91	1.081	0.28	0.063
5	Lack of demand	15	53	37	83	109	2.27	1.261	0.56	0.073
6	Lack of raw materials	121	89	59	19	9	3.99	1.065	0.27	0.062
7	Infrastructure problem	159	115	10	3	10	4.38	0. 876	0.15	0.0508
8	General Investment Legislation	85	93	76	32	11	3.7	1.219	0.33	0.0707
9	Investment Administration procedure	63	120	76	26	12	3.66	1.099	0.3	0.0637
10	Cost of doing business	61	121	98	9	8	3.73	0.91	0.24	0.0031
11	Investment incentive	62	79	51	45	60	3.13	1.429	0.46	0.083
12	Uncertainty about the economy	43	135	60	45	14	3.5	1.061	0.3	0.062

Source: compiled and computed from questionnaire responses, 2011

The table further illustrates that the greatest deviation from the mean is 1.43 that of investment incentive however coefficient of variation is less than one for all hence the variation among these factors is insignificant. On the other hand the computed mean of the rating of all challenges indicate that though the seriousness varies all have hindrance influence in the areas' private investment.

This finding also complements the brief description of White (2004) indicated in literature review. That is, factors influencing the success of private investment can be endogenous versus exogenous and specific versus generic. Exogenous factors refer to the ones that are not controlled and cannot be influenced by the country in question while endogenous ones refer to the factors that can be influenced by the country. Generic factors on the other hand, refer to general factors influencing investment in all sectors and not just the sector in question such as general investmen legislations, administrative procedures, explicit cost of doing business and investment incentive.

Since investment decisions take time to be actualized, expectation of what will happen in the future is very important in the investment decisions. In this instance the respondents were required to rate some of the causes of uncertainty indicated in literature review. These are: demand rate, political situation, interest rate fluctuation, exchange rate, tax condition, inflation rate, threat of propensity and the result in the next table 20 was obtained.

Table 21: Rating Responses of Causes of Insecurity

n=297

S/N	Causes of in security	Rating g(from the most serious causes to the least serious causes)								
		5	4	3	2	1	Mean	SD	C.V	S.E
1	Demand rate	8	44	70	95	80	2.34	1.105	0.47	0.064
2	Political	54	33	99	71	40	2.97	1.271	0.43	0.074
3	Interest rate	49	56	132	40	2 0	3.25	1.091	0.34	0.063
4	Exchange rate	74	76	70	64	13	3.45	1.1998	0.35	0.070
5	Tax	45	61	134	50	7	3.29	0.994	0.3	0.056
6	Inflation Rate	77	82	75	58	5	3.57	0.930	0.26	0.054
7	Threat of propensity	67	63	121	30	16	3.45	1.313	0.38	0.076

Source: compiled and computed from questionnaire responces.2011

Table 20 shows the computed rate of demand rate (2.34) and political situation (2.97) were rated as not serious causes of uncertainty. The rest such as: interest rate (3.25), exchange rate (3.45), tax (3.29), inflation rate (3.57) and threat of propensity (3.45), have the mean greater than the median and hence these were rated as serious cause of uncertainty. Inflation rate is the first serious cause. The greatest standard deviation is 1.3 that of threat of propensity. And coefficient of variation is less than 0.5. This result confirms the finding of others indicated in the literature review. That is availability of information about the level of demand and supply in the market, lack of trust between the transacting parties, Unavailability of uncertainty decreasing instruments, and unavailability or poor functioning of court of arbitration and litigation can force the private investor to internalize the distribution function. Moreover, the summary of the investors, experts as well as members of focus group discussion result regarding the challenges, has indicated that private investment activity in the study area has been affected by, existence of less committed leaders and experts, existence of rent seeker investors and corrupted personnel, poor awareness on importance of investment by all concerned including the local people, problem of the necessary resources by the offices, frequent turnover of investment committee members and heads of investment office(annex 7).

4.4. Enabling Environment related challenges

As mentioned in literature review, the success of private investment and achievement of investment objectives is positively related to each and every individual factor, given that all other factors remain the same. A more conducive investment climate, a less impeding business environment, a lower risk sector, higher productivity and profit potential and this in turn can lead to achievement of investment objectives. As growth depends on private investment; private investment in turn depends on a sound investment climate. Its three major elements cost, risk and competition to barriers were analyzed in relation to, policy issues, Investment Guarantees and Protections, tax condition, incentives, Investment Administration, requirements for investment permit and land request and application of principles of Good Governance and challenges related to major investment determinants in brief here under.

4.4.1 Investment Policy Issues

As briefly indicated in chapter two; variations in Government policies and behaviors affect the investment climate and thus achievement of investment objective. Removing unjustified costs, risks, and barriers to competition faced by investment firms of all types is necessary. Government authorities at all levels intended to give a top priority to improve the investment climates of their societies in general and private investors in particular. In this regard efforts made to formulate workable policy is proved by the responses of knowledgeable experts as it is encouraging but commented that it is implemented in distorted manner.

In Ethiopia, both domestic and foreign investors can undertake investment as a sole proprietor or Joint with domestic or with the government. The Minimum capital requirement for wholly owned foreign investment is USD 100,000 for a single investment project in cash and/ or in kind. Whereas, USD 50,000 in cash and or in kind per project is required in area of engineering, architecture, accounting and audit services, project studies or business management consultancy services; or publishing. And minimum capital requirement for investment in partnership with do mestic investor is USD 60,000 in cash and /or in kind when, USD 25,000 required if the investm ent is made in areas of engineering, architecture, accounting and audit services, project studies or business management consultancy services or publishing. No capital requirement for an investor who: exports at least 75% of his/her outputs; reinvests his profit or dividend (EIA, 2009).In case of requirements of the minimum capital though the amount varies both Ethiopia and Thailand require.

4.4.2 Investment Guarantees and Protections

With regard to protection of property right, no investment is expropriated except when required by the public interest and then only in compliance with the requirements of the law where adequate and prompt compensation corresponding to the current market value shall be paid in advance. Moreover, since Ethiopia is a member of the Multilateral Investment Guarantee Agency (MIGA), a World Bank affiliate, which issue guarantee against non-commercial risks in signatory countries; What is more, it has signed the World Bank treaty, the international conventional convention on settlement of investment disputes between states and National of other states (ICSID). It has also accomplished bilateral investment promotion and protection agreements with many African, Asian, Middle East and European countries (EIA, 2009).

Furthermore, capital repatriation and remittances are granted to foreign investors to be made inconvertible currency at the prevailing exchange rate on the date of remittance. Profits and dividends accruing from an investment, payments related to technology transfer of management agreements, proceeds from sale or liquidation of an enterprise; proceeds from the sale or transfer of shares or of partial ownership of an enterprise to a domestic investor; compensation paid to a foreign investor; expatriates employed in an enterprise may remit, in convertible foreign currency; salaries and other payments accruing from their employment; and repayments of foreign loans,(EIA, 2009).

Investment protection and grantee regulation seems similar with Thailand. That is in all cases there is no expropriation except when required by the public interest. All have signed many multilateral and bilateral Agreements regarding this issue and other non commercial issues. Hence, in this connection Ethiopia's regulation looks attractive.

Regarding tax Condition as indicated in table 21 there are principal taxes that are currently in place.

Table 22: Ethiopian tax system compared with Thailand and Singapore

TAX TYPE IN %	ETHIOPIA	THAI
Profit tax	30	**2-30%**
Turn over	2	-
Value added	15	7
Excise tax	10-100	-
Coms dutyust	0-35	-
Withholding tax	3	10-Jan
Income tax from employment	Oct-35	Oct-37
Land /Property	-	12.5

Profit tax, value added tax, withholding tax, employment income tax are common in both countries. But excise tax; turn over tax, custom duty taxes are treated by Ethiopia whereas, Land or property tax is common for Thai land. Concerning the value, value added tax of Ethiopian case seems double that of the Thailand. Nevertheless the response of the investors' regarding amount of tax is reasonable. Other taxes include dividend income tax, royalty and stamp duties. A foreigner, who lives in Ethiopia for more than 138 days in a period of twelve months, whether ceaselessly or erratically, is regarded as being resident for the entire tax period and taxed in accordance with the provision of income tax. Proclamation No.286/2002)

4.4.3 Provision of Incentives

Ethiopian investment policy provides to investors incentives on the bases of the set investment regulations as listed in table 22 below.

Table 23 Ethiopian Investment incentives compared with Thailand's and Singapore's

Incentives provided by Ethiopia	**Incentives provided by Thailand**
-100% exemption from payment of import duties and other ta levied on all capital goods and spare parts that worth up to 15% their values. An investor who exports 50% of his/her product or supplies, 75% his /her product as perdition input to an exporter is eligible to 2 years Income tax exemption Payment of import duties and other ta levied on all capital goods and spare parts 2-7 years perennial cr on area of more than one hundred hectares cereals, pulses and seed under rain fed on a land left fallow or virgin for a period more than 5 years, will be free of land rent payment for 2 to 3 yea Fruits, vegetables and produces food crops or oil seed un irrigation schemes will be free of land rent payment for 2 to 4 yea flowers, herbs and spices will be free of land rent payment for three years. -Improved seeds will be free of land rent payment for 3 years. -Land rent holding of up to 4 years will be given for production Cash crops and other perennial crops. Land is also granted free charge for forestry development. Right to mortgage and/or ple land holding and properties on the land as collateral to secure loan from banks or other sources. And Extended land lease payment over 40 years period is provid Land rent /lease period 45/99 years	-3 years exemption from corporate income tax projects located within industrial estates, Central provinces or promoted industrial zones, provided that such projects with capital investment of million baht or more. - Exemption from or reduction of taxes on imported capital goods 50%-100% -1 year exemption of import duty on raw or essential materials used in the manufacturing of export products. -5 years exemption of import duty on raw or essential materials used in manufacturing of export products;30-60 years

Types and amount of incentives set by Ethiopian government looks better and attractive than the Thailand's.

4.4.4 Investment Administration

Investment administration in the region is carried out at various levels. Region's Cabinet is the higher body where policy issues, regulations, directives and core investment matters are decided. Investments Board of Oromia is expected to make day to day subsequent follow up for the implementation of these policies and is responsible for the allotment of land. The investment commission on its part is responsible policies and is responsible for the allotment of land. The investment commission on its part is responsible to: promote, follow up and support investment projects in the region. Besides, it needs to coordinate all investment related activities in the whole parts of the region. It is also expected to provide all supportive services and assistance for the acquisition of different facilities. Likewise, zonal and district level investment offices do the same in their reach. (OIC, 2010)

Concerning land administration urban and areas the above source further describes that it is subject to the size and location of the land in each specific town or area. Urban land is also provided in negotiation or bid. It can be given with the maximum price for a short period based on the interest and capacity of the investor. Additionally, its decision relies on the types of the project. Lease payment is effected within 30 years for holding periods of less than 40 years and within 40 years for holding periods equal to 40 years and above. Consequently, investors are obliged to pay 10% down payment from the total lease charge.

Table 24: Land Lease Price in Urban Areas of Oromia Region

S/N	Types of project	Minimum lease price in birr per m^2per year	Maximum lease price in birr per m^2per year
1	Hotels		
	Four star hotel in first grade cities	8.00	13.6
	Three star Hotel	7.00	10.2
2	Industries		
	First grade cities	-	-
	Second grade cities	6.50	-
	Third grade cities	5.85	-
3	Agro- Industries	-	
	First grade cities	-	-
	Second grade cities	7.00	-
	Third grade cites	6.30	-
4	For various purpose in different cities	8.5	14.45
5	Beach areas in town for resorts		
	Three star	12.80	-
	Four star	12.00	-
	Five star	9.00	-
6	For other areas	3.90	12.00
	lease period	30 years	99 years

Source own organization based on the data from OIC, 2010

Table 25: Initial Price of Investment Land Lease in Addis Ababa

s/n	Location of land	Land Grade	Initial price per m2
1	Central Business Zone	1	1167.30
		2	1062.9
		3	916.2
		4	751.5
		5	619.2
2	Places which are under transition	1	716.4
		2	647.1
		3	559.8
		4	472.5
		5	384.3
3	Expansion Zone	1	245.7
		2	207..0
		3	150.3
		4	132.3

Source: Addis Ababa City Government Authorities,

The urban land lease price of Oromia is cheaper than the lease pries of Addis Ababa. The minimum lease price in Oromia is 3.90 birr per m^2 and the maximum is 14.45 birr per m2 per year (table 24). Whereas, in Addis Ababa as it is indicated in the above table, the minimum land lease price is 132.3 birr per m2 per year and the maximum is 1167.3birr per m2 per year.

To conclude, the minimum lease price of Addis Ababa surpasses that of Oromia minimum land lease price 33.9 times and the maximum land lease price of Addis Ababa exceeds that of Oromia 80.6 times. In the same way, the rental rate of rural land for agricultural purpose has set based on the development level of the zones and distances from all weather roads. Accordingly, the minimum and maximum annual charge for one hectare of rural land in Oromia is birr 70.40 and 135.00 respectively. More specifically in the study areas the minimum is 114.66. (Refer table 26 below)

Table 26: Initial Investment Land Price in birr Per Hectare at the study area

Distance in kilometer from all weather road				
<10	11-25	26-40	41-55	> 55
135	129.60	124.42	119.44	114.66

Source OIC manual, 2001form 1

And land can be held on rental basis from 20- 45 years based on the type and magnitude of the project. According to table1 in the literature agricultural land lease rates of Ethiopia cOmparing with other African countries and other regions; shows that Ethiopia's lease prices are among the lowest in the world. Therefore land rent price as well as land lease price is not challenge in the study area and in Oromia in general.

4.4.4 Formalities for acquiring investment Permit

In accordance with Article 25 of the investment Proclamation No, 280/2002, foreign investors, foreign Nationals taken for domestic investors, excluding Ethiopian by birth, a domestic investor who is required to obtain business license from concerned federal organ and also eligible for incentives, and domestic and foreign investors making investments in partnerships are required to obtain investment permits form the Ethiopian Investment Agency. Investment permit request by a domestic investor is made in a form designed for such purpose and submitted together with documents such as : a photocopy of his power of attorney (When the applications is signed by an agent); a photocopy of his identification card (when the investment is made by an individual person); Status as a domestic investor and his recent two passport size photographs; (When the investment is made by business organization), photocopy of its article of Association and memorandum of association: or where the business organization is to be nearly established, in addition\ photocopies of the share holders identity cards of photocopies of certificates evidencing their status as domestic investors; and When the investment is to be made by a cooperative society, a photo copy of its article of association. With regard to the time taken to provide investment permit, it is reduced to 20-30 minutes; however, zones and districts except Arsi, East Shoa, and jima where the services is not rendered, investors are still exposed for transportation, energy and time cost. The processing of work permit applications or renewals could be completed within 3 hours, assuming all required documents are provided.

In Thailand BOI requires documents such as permanent residence permits, industrial subcontrac ting investment match making and gain access to public utilities such as water, electricity and telecommunications to provide official permit. The approval process will normally take 15-60 working days for projects under 750 million baht and 90 working days for larger projects. In whatever cases the process of investment permit provision is not challenge in the study area.

4.4.5 Formalities for Acquiring Land

Land acquisition for investment has its own procedures. At the outset, application is submitted to Regional Investment Commission or zone investment offices or city administrations. Docume nts required are: investment permit from regional investment Commission or its branches and for foreign investors from Ethiopian investment agency. Besides, photo copy of investor's or the General Manager's (in case of PLC/SC), ID/ Passport/Green Card/ for foreigners; land request format duly filled and signed by the requestor; project proposal together with environmental impact assessment; letter of promise to pay 10% of the land rent/ lease payment in advance; notification of being Ethiopian by birth only for diasporas and recommendation letter written from their respective embassies; whereas, Bank Statement for at least 12 months which accounts a minimum of 30% of the registered capital of the project (for domestic investors), and in case of PLC/SC the members' Bank Statement should be submitted. Nevertheless, newly founded company the request of Bank Statement shall not be applicable. Similarly Bank Statement is not required for investors who want to invest in area where investment is not widely spread. Concerning the criteria used to provide land no complaint is heard from investor's representatives. However experts of the area indicated that the criteria are not enough to screen potential investors. Thus from this it is possible to conclude that screening honest investors using the indicated criteria is challenging.

4.4.6 Challenges related to Application of Principles of Good Governance

As indicated in literature review part, issues related to good governance such as: transparency, reducing corruptions, strong rule of low and the right regulations are essential for sustainable investment, economic growth and poverty reduction. As it is ultimate in making investment decisions firms need to assess the interaction of formal policies and governance. In this regard, efforts was made to appraise how appropriately the principles of Good Governance have been applied in any level of investment offices (from OIC-to district level investment desk), where the respondents are often used to get service. Investors representatives were requested to rate their evaluation against manner of application of each and every principles. And the result was summarized by computing the average of the rating of application of the principles in the two zones to check if there is Good Governance principles application difference besides evaluating to what extent the principles are applied to enhance the achievement of the stated objectives.

Table 27: Good Governance Principles Application Manner

n=297 'n 'for Arsi 46 where as 'n' of E/Shoa=251

S/N	Principles	EAST SHOA ZONE				ARSI ZONE			
		Mean	SD	CV	SE	Mean	SD	C.V	SE
1	Participation	2.9	1.114		0.004	2.54	0.994	0.39	0.146
2	Rule of law	2.28	1.018		0.064	2.48	1.058	0.43	0.156
3	Transparency	2.35	1.068		0.067	2.26	0.9	0.4	0.123
4	Responsiveness	2.49	1.045		0.066	1.89	0.814	0.43	0.12
5	Consensus oriented	2.58	1.051		0.066	2.35	1.005	0.43	0.148
6	Equity and inclusiveness	2.3	1.069		0.067	2.2	0.924	0.42	0.139
7	Effectiveness and efficiency	2.35	1.017		0.004	2.26	0.943	0.42	0.139
8	Accountability	2.77	1.26		0.08	2.09	0.83	.40	0.122

Source: compiled and computed from questionnaire response, 2011

The summarized data in the above table illustrates that the scored mean of the rating of the responses for all principles application were less than the median (3) all are not properly applied in Arsi. More over principles Responsiveness is the least applied in Arsi for its computed rated mean is between 1 and 2. The same is true in East shoa. All principles scored a rating between 2 and 3 which is to mean less appropriately applied. The greatest standard deviation is 1.058 that of the principle 'rule of Law'. From this result it is possible to scrutinize that the difference of application of these principles is not significant. It is almost the same and in both cases less appropriately applied and this further indicates that there is problem of Good Governance in an effort made to achieve private investment policy objectives.

This result is harmonized with the summary of the interview conducted with investment office exports.They ascertained the existence of limitation in realizing the principles of good governance in general by stressing problems implementing principles like responsiveness because of un availability of prepared investment land and the lengthy decision procedure. The other principle with limitation is unfair and unequal treatment because of the presence of unethical personnel and rent seeker investors (Annex 4).

Is the currently created and existing condition strong enough to attract investors?

Creating attractive condition needs integrated efforts from everyone concerned. As clearly indicated in chapter two; from among Economic fundamental determinant of investment, availability of appropriate human resource, infrastructure, the availability natural resource, regulatory frame work, business environment and the like tends to attract investors. More importantly, government policies can provide a friendly investment climate and attract more investment (WDR, 2005). Moreover, investors are usually attracted to a particular country by the comparative advantage that the country or region offers. For instance, multinational companies may establish foreign subsidiaries in country to take advantage of its lower costs or its large market size. (Harrison et al 2002). In this regard data collected from the questionnaire that requires investors' respondents to evaluate the degree of attractiveness of the factors using 5 point likert scale rating from the most attracting to the least attracting (5-1(Note 5=the most attractive 4=more attractive 3=moderate 2= less attractive and 1=the least attractive)), has summarized in table 27 below.

Table 28: Rating Response Frequency of Opportunities Attracting Investors

n=297

S/N	Factors	Rating from the most attracting to the least attracting factors.								
		5	4	3	2	1	M	SD	CV	SE
1	Availability of investment land	86	117	70	12	12	3.9	1	0-26	0.058
2	Availability of water for irrigation	129	49	43	45	31	3.7	1.4	0.38	0.082
3	Availability of electric power	138	86	32	23	18	4	1.18	0.3	0.069
4	Availability of road	143	87	31	18	18	4.1	1.17	0.29	0.068
5	Availability of telecommunication	136	94	32	23	12	4.1	1.12	0.27	0.004
6	Availability of labour both skilled and un skilled	107	123	49	12	6	4.1	0.84	0.2	0.049
7	Location	136	79	53	14	15	4	1.13	0.28	0.066
8	Market potential	57	122	68	38	12	3.6	1.06	0.29	0.061
9	Investment promotion	64	113	79	23	18	3.6	1.09	0.3	0.063
10	Availability of Incentives	37	91	90	42	37	3.2	1.19	0.37	0.069
11	The availability of peace and stability	64	86	80	62	5	3.5	1.1	O.31	0.064
12	Protection of property right	94	112	61	27	3	3.9	0.98	0.25	0.057
13	Availability of financial institutes and financial service	68	117	49	25	38	3.5	1.1	0.31	0.064

Source: Compiled and computed from questionnaire response of investor respondents, 2011

As can be seen from the above table the median of the rating is (moderately attractive).All the scored means of the factors are rated as attractive. More specifically factors such as availability of: electric power, road, telecommunication, labour both skilled and unskilled peace and location were rated as more attractive. All the rest factors indicated in table were rated as moderately attractive because the rated mean of the factors lay between3and 4. Hence this result is in harmony with what is stated by WDR, 2005, and Harrison et al, 2002.

To sum up factors indicated in literature review(conceptual frame work) firms, Government regulation, Business environment and the geography have their own contribution in influencing the success of private investment in general and particularly achievement of investment objectives. Investment climate in the area seems conducive, on contrary

Productivity of the firms is low. Therefore it is possible to conclude that challenges related to the firms themselves are dominant.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Based on the presentation and analysis of the quantitative and qualitative data collected from both primary and secondary sources, the following summary of major results are obtained under three major issues such as: results related to available opportunities, result related to challenges and result related to enabling environment.

Investment opportunities,

- The study areas have different investment opportunities for private investment of different type such as agriculture, Agro-industry, Manufacturing, Hotel and Tourism, Construction, Real state, Education, Health and Transport services. Private investors have engaged in the aforementioned sectors and about 14,500 hectares of land has provided for the purpose so far in both Zones. Nevertheless the available opportunities and alternatives are not properly identified, prepared; site planned and kept in the land Bank. Only little attempt has observed in both zones. Arsi had attempted to roughly identify about 160,000 hectares of rural land and about 160 hectares of urban land before the establishment of Land and Environmental protection office (2006). East Shoa on its part had tried to identify only about 5000 hectares for different agriculture purpose and about 11,000 hectares in the Industrial zone that can serve for industry and other agriculture and allied activities.

Major Challenges related

- Challenges in relation to opportunities is, shortage of prepared potential. Hence to get the land applied for investment took investors an average of one and half a year and one and five months in Arsi Zone and in East Shoa respectively. To start production or service provision, it took an average of 2.4 years in Arsi; whereas, 2years in East Shoa. In addition in both Administrative Zones investor respondents' secured land below their desire (72.2% and 69%, Arsi and East shoa respectively). For this shortage of prepared land, where the investors need to have, poor infrastructure where there is sufficient area of land, and' lack of and' lack of finance to pay compensation in the case of East Shoa where obtaining land by compensation is possible were stated as a reason.

- Information for investors about Investment opportunities and alternatives, water potential at every investment potential areas, local people cooperativeness, local people willingness to use the job opportunities created by the project, the existence of dependable peace and security in the area, attractiveness of investment incentives is moderately identified. Whereas, the mean of the description: investment opportunities and alternatives, availability of infrastructure, and level of commitment of local Government bodies and applicability of investment policies are less appropriately identified.
- Financial plan of the Majority (51.86) shows that they are dependent on bank loan. However, the computed mean of these data (72.93) witnesses that the respondents' success rate was about 62.5 %. In this connection The DB, CBE, and AIB OF Assela and Adama branch indicate that the credit problem of investors is not due to credit constraint caused by absence of developed capital markets and financial intermediation. But it is due to problems on the parts of investors to fulfill the requirements of the banks. However, Projects out of government priorities are unfortunate to be benefited from the service of DB as well as CBE. Moreover, they are highly challenged by criteria of private Banks for they give due attention for location and collateral.
- Regarding Market Majority of investor respondents (60.27%) use domestic market.The aver age distance of the domestic markets is 58.58 km. which may not take more than an hour drive at normal circumstance. The value of the computed covariance is also less than one (0.81) which is insignificant variability.
- Road problem in Arsi is still tough to reach areas far away (10-40km) from the all weather road. But in east shoa dalliance, frequent net work interruption of telephone and internet and electric power service was seriously challenging.
- Too high interest rate, lack of raw materials, infrastructure, general investment legislation, invest ment administration procedure, cost of doing business investment incentive and uncertainty about the economy are serious challenges of private investment in the area. In the same manner it is verified that interest rate, exchange rate, tax, inflation rate, and threat of propensity are serious

causes of uncertainty. In addition existence of corrupted experts and leaders, speculators, shor tage of budget, problem of misplacement and lack of budget for land compensation are challenges that have been affecting achievements of investment policy objectives in the areas.

- Most investors have been scarcely contributing to the achievement of investment objective in all cases the mean of their effort in achieving private investment objectives is less than 50%. The reasons provided for this by interviewed experts of the area are: most projects are working traditionally opposite to the system they have planned to use. They need to learn new skill, making of best uses of resources, taking risk to invest in a new venture that will raise productivity, open up new opportunities and generate tax income for the state. On contrary they use not more than 50% of the potential they have planned. in Arsi some about (10) investors who engaged in agricultural investment have rented the land they had rented for traditional local workers by **the price about 37 folds** greater than the price they have rented out themselves (up to 5000 birr per hectare per year) in town about 5% have transferred to the third party without the knowledge of the concerned body. According to the experts description, it is only very few (not more than 5%) who are honestly and fully engaged on their work as they have planned from investors who have engaged on agriculture sector investment projects.

Enabling Environment related

- Efforts made to formulate workable policy is encouraging but it is implemented in distorted manner. The reasons are: frequent turn over in investment offices heads and investment committee member offices' head and most experts of the area lack commitment and sufficient knowledge on investment policies.
- Regarding protection there is no threat of expropriations, capital repatriation and remittances problem. The tax system is not as such different from other countries and it is not challenging. Moreover, Ethiopia's lease prices are among the lowest in the world. Apart from this there is tax exemption better than other countries (e.g. Thai land).
- Investment permit service is provided by OIC, Arsi Zone investment office, East Shoa investment office and Jimma Zone investment office within 20-30 minutes. However, where

5.2 Conclusion

The result of the study revealed opportunities that contribute for the success of the firms in particular and the achievement of investment objectives in general; and the challenges that have been impeding the efforts made by all concerned and the available enabling environment to simplify the challenges and to smoothen the process. Based on what the result have displayed and highlighted above; the following conclusions have drawn.

- Though there is a belief of existence of big investment potential in the region as well as in the study area, it is not properly identified, prepared and kept in the land bank due to lack of appropriate personnel, measuring instruments like GPS and Total station, problem of Road (Arsi) and budget for compensation for town and East Shoa. This in turn has created problem of shortage of land to provide response for land request timely; providing land lesser than the required. Added to this for Investors of both Zones it took twice of the time (more than 2years) indicated in set standard (12 months) to develop the land and to begin production or service provision. As a result number of investors at pre implementation level has increased and their cost especially time cost has increased. Moreover, the land decision process has bureaucratic nature due to disintegration of components of a task to be performed by four or more sectors. Investors are obliged to go here and there to get the service in relation to land provision contrary to the principle of one stop shop service. Hence, it has become costly and tedious.
- Investment offices at Zonal and district level lack to maintain comprehensive information on investment opportunities in their reach. Information and investment advice are not readily available to both domestic and foreign investors. Additionally, OIC and Zonal offices do not provide a free online service which contains fully fledged information like Thailand do.
- Financial plan of the Majority (51.86), of the respondents seems dependent on bank loan. In this regard investors get less service (62.5%). This is due to failure of investors to fulfill the banks collateral requirements.
- Concerning infrastructure, road problem, lacks clarity and frequent net work interruption of telephone, internet and electric service, and dalliance due to shortage of electric power and

absence of the inputs used in the local market are projects serious infrastructure problem of the area.

- Most investors contribute below their planned potential (less than 50%) for the achievement of private investment objectives because most of them are rent seekers apart from this infrastructure problem (electric power problem for manufacturing firms and road problem in Arsi are the most serious).

  too high interest rate, lack of raw materials, general investment legislation, investment admi nistration procedure, cost of doing business investment incentive and uncertainty about the economy are serious challenges of private investment in the area. In the same manner it is verified that interest rate, exchange rate, tax, inflation rate, and threat of propensity are serious causes of insecurity of investors in their investment decision.
- Policies are implemented in distorted manner.
- Regarding protection there is no threat of expropriations, capital repatriation and remittances
- A minimum capital requirement is not considered as challenge, and the tax system is not as such different from other countries and it is not challenging. Moreover, Ethiopia's lease prices are among the lowest in the world.
- Investment permit service is the only task provided with in short period of time (20-30 minutes where the set standard is 2:30 hour). However this service is not given by all zones and districts.
- Application of Principles of Good Governance has limitation. Still there is dalliance of investment related service provision at all level. Added to this it is only OIB that have mandate to decide on land of any size. Hence decision making power seems still concentrated at Board level

5.3 Recommendation

Based on the aforementioned findings and conclusions drawn, the following solutions have forwarded to address the challenges of private investment in the achievement of the investment policy objectives.

- **Identifying and preparing the available opportunities for investment in advance:** On contrary to big investment opportunities expected to be available in the study area; there is serious problem of shortage of prepared investment potential. Up to now in both zones below 15 thousand hectares of land has been used for the purpose. This is the main reason to have a greater number of investors at pre implementation level waiting for response to land request. To avoid un necessary costs and tedious *go for* of investor and to provide land re quested with in the set standard of time, the available opportunities and investment alter natives should be clearly identified properly measured, made clear, site planned and kept in the land bank before any promotion is carried out by Land and Environmental office as it is established for the purpose.
- **Necessary information and support need to be provided fairly for investors.** To solve problem of information on investment opportunities to both domestic and foreign investors; the concerned promotion department, division or unit of investment offices need to organize and provide comprehensive information.
- **Investor should have sufficient financial preparation and appropriate project plan be fore securing investment land.** A well-functioning financial market is crucial for managing the risks associated with creating firms and expanding production, especially for the many small domestic firms that rely on internally generated cash flows and money provided by family and friends. Majority of investors are not independent concerning sources of finance and have challenges of finance shortage. However, this is due to investors' failure to fulfill the requirements of the banks. Thus investors need to finish the process of Loan provision with the financial institute they have planned to obtain from before applying for the land. What is more, Banks on their part need to provide sufficient information for investors by any possible mechanisms. Furthermore, to enable small and medium projects benefited from the relatively lesser interest rate and long term loan service of DB, it need to

allocate some quota to strengthening its potential so as to consider all types of projects that are profitable.

- **Infrastructure problem need to be improved.** Though Arsi and East Shoa relatively have better infrastructure services, still there is serious challenge. In Arsi Road problem is tough to reach areas far away (10-40km) from all weather road. But in east shoa Dalliance, frequent net work interruption of telephone, internet and electric power service was seriously challenging. Hence, incredible efforts need to be made to improve infrastructure service provision of Road electric power, water and net work for huge investments potential areas of the two zones. Poor attempt has been made by the investment office and other concerned bodies in co-ordination and involving integrated teams from all concerned in order to address the constraints in the enabling environment (physical infrastructure such as: road, electric power, water, transportation, and telecommunications as well as soft infrastructure such as regulatory frameworks, which are economic growth and private sector development and achievements of investment objectives. Therefore, EIA, OIB, OIC, and zone investment offices need to establish and coordinate the integrated team from sectors working on infrastructure related activities (EEPCo, Ethio telecom and RRA), to undertake any possible intervention. Added to this, to simplify this problem especially electric power, Government should also invite private sectors to supplement its efforts at expanding, generation and distribution.
- **Applying the set investor screening criteria honestly. Though there are challenges related with Enabling environment** Most investors contribute below their planned potential/less than 50% for the achievement of private investment objectives because most of them are speculators / rent seeker. The private sector on its part need to identify major constraints of investment and lobby for and help implement change. Therefore, private sectors and stakeholders need to be initiated to engage in political process and to implement policy reforms. Capacity of private sector's ability to cope with constraints and changes in the business need to be improved.
- **Principles of Good Governance need to be applied appropriately without any negotia tions.** Due to existence of less committed leaders and experts, existence of rent seeker investors and corrupted personnel, poor awareness on importance of investment by all

concerned including the local people, problem of the necessary resources by the offices, fre quent turnover of investment committee members and heads of investment offices, principles of Good Governance have been implemented poorly in both Zones. A more competitive investment climate that improves efficiency encourages innovation is a key to drive productivity improvement in the short run by sequenced removal of policies or laws that protect markets or allow anti-competitive behavior by public or private sector actors. So, to actualize enhanced success of private investors and achievement of investment objec tives, implementing principles of Good Governance by every local government authorities in general and investment offices in particular without any negotiation is ultimate. Therefore, working much on changing the attitude and increasing commitment of employees, as well as other concerned stoke holders to contribute as much as they can for the success of investment objectives is paramount.

- **Retarded investment service provision need to be avoided.** There is dalliance of investment related service provision at all level especially land provision decision. One stop shop service is carried at EIA only. OIC and its branches have not been playing significant decision making role independently. Even Still duties and responsibilities that can be performed independently by these offices are not properly actualized. Number of projects have not even clearly identified and known by year, status, sector and other necessary categories. There is discrepancy between the data at national level and at region level about the region. Similarly, data available at zones investment offices and the data at the region about the zones are different. If the office fails to know projects at implementation and operational level under its supervision as expected, what is the purpose of its existence after all? Therefore, to give one stop shopping service as set by BPR study of the OIC, concentrating investment related services at investment commission and investment office at zonal and district level together with the necessary decision making power is important rather than disintegrating components of a task to different sectors. Thus, to avoid the bureaucratic working system similar activities need to be concentrated at concerned office (investment offices) and policy makers (OIB) need to de-concentrate decision making power to downstream branches so that the cost of investment can be reduced.

Finally, the researcher also invites further in depth investigation on:

- Challenges of preparing investment land by compensation
- Importance of running investment issue decisions by investment committee and/investment board vis-à-vis implementation of BPR principles To improve investment climate,

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APPENDICES

Annex I

ADDIS ABABA UNIVERSITY

SCHOOL OF POST GRADUATE STUDIES

COLLEGE OF DEVELOPMENT STUDIES

INSTITUTE OF REGIONAL AND LOCAL DEVELOPMENT STUDIES

Questionnaires to be filled by Investor Respondents

Dear respondents the purpose of this study is to assess the prospects and challenges of private investment in the achievement of private investment policy objectives in Oromia the case of Two selected Zones/Arsi and East Shoa; so as to identify the major obstacles and seek feasible solution. Besides, the study is intended to the partial fulfillment of Masters of Art in Regional and Local Development Studies. Giving response to the questions may not take you more than 30 minutes. The Researcher also assures you that your individual response will be kept confidential. Therefore, you are kindly requested to reply the questions with much sincerely and honesty. The researcher thank you in advance for your co-operation

I. **General Back Ground Questions**

1.1. Name of the firm or Owner____

1.2. Person to contact____

1.3. Address/Location ____

1.4. Sector____

1.5. Date of application for land _____________________________________

1.6. When was the land obtained ____________________________________

1.7. When did the firm begin production? _____________________________

1.8. What is the main product produced or service provided by the firm?

____

1.10. What is the owner ship structure of the firm/investment project? Please under line only one

i. Private Ethiopian only ii. Private foreigner only iii Private Ethiopian and Foreign Ownership

1.11. What is the legal status of this firm?

i. Sole proprietorship ii. Partnership iii. Family business iv. Limited liability

v. Cooperative vi. Multinational Corporation

vi. .If other please specify______________________________________

1.12. If your response for 1.11. is sole proprietor, what is your education level?

i. Primary Education complete ii. Secondary Education complete

iii. Diploma graduate iv. Degree and above

v, If other please specify____

1.13 What percent of the land you have rented is developed? __________________

2. Opportunities Related questions

2.1. What area of land is/was planned to obtain for your firm/ project?

i. <100ha ii.100ha-200ha iii. 200ha-300ha iv. 300ha-400ha

V.400ha.-500ha vi.>.500ha vilify other please specify______________________

2.2. What area of land is actually obtained for your project? i<100ha ii100ha-200ha iii .200ha- 300ha iv. 300ha -400ha v. 400ha.-500ha vi.>.500ha

2.3. If the land you have secured is less than the area of land you need to have what do you think the reason is? ____

2.4. How long it took you to secure this land?

2.5. What comments do you have for the criteria required for land acquisition?

2.6. Why do you think a number of investors are in pre implementation level?

____

2.7. Why most of those who have secured the land fail to develop as per their plan

____

2.8. The following are some of the potential related factors that attract investors to invest in the particular area/location. Please rate the degree of motivation factor using thick mark. /5 =the most attracting, 4= More attracting 3. Attracting 2= less Attracting 1= the least attracting /

S/N	Opportunity related Factors	5	4	3	2	1
1	Availability of investment land					
2	Availability of water for irrigation					
3	Availability of electric power					
4	Availability of road					
5	Availability of telecommunication					
6	Availability of labour both skilled and un skilled					
7	Location					
8	Market potential					
9	Investment promotion					
10	Availability of Incentives					
11	The availability of Administrative efficiency					
12	Protection of property right					
13	Availability of financial institutes and financial service					

2.9. How do you think foreign investors perceive the current investment climate?

i .Not conducive to private investment ii. Somewhat conducive to private investment ii conducive to private investment iv. If other please specify________________________

2.10. The following questions are opportunity related issue please show your opinion for each and every description.Note5= the most appropriately identified, 4=More appropriately identified, 3= appropriately identified 2 =Less appropriately identified, 1= Least appropriately identified

S/N	Description	5	4	3	2	1
1	Investment opportunities and alternatives					
2	Water potential at every investment potential alternative areas					
3	local people cooperativeness					
4	Local people willingness to use the job opportunities created by the firm/the project					
5	Availability of infrastructure where there is investment opportunities.					
6	The existence of peace and stability					
7	Commitment of local Government authorities					
8	Attractive ness of investment incentives					
9	Applicability of investment policies					

2.11. If other potential Investor asked you information about preferable sector which sector would you inform him/her better productive sector to invest on

____

3. Financial Plan and Source of Finance

3.1. Indicate the category in which your project capital is? I. Less than1million

ii. 1million to 2million iii.2 million to 3million iv. 3 million to 4 million

V. 4million to 5million vi. Greater than 5 million

3.2. What is your firm's source of capital? i) Self funding ii) Local Banks iii) Family or Friend IV), If other please specify________________________

3.3. If your response for question 3.2.is both loan and from own capital; what is the Proportion________________________________

3.4. Have you applied for a bank loan recently/since 2007/? i. yes ii. No

If yes, how many applications have you been made? ________________

For how many applications you have succeeded? ________________

What is the pre requisite to get loan from the bank? ________________

3.5. How easy is to access bank loan for investment?

i. Very easy ii. Easy iii. Difficult iv. Very difficult

4. Market Access

4.1. Which market do you use to sell your products? i. Domestic ii. Foreign iii .Both

4.2. How far is the local market from your investment firm? ____________________

4.3. Do you have access to have market segments as much as you need locally foreign?

4.4. Is your firm's product or service demanded by the market? __________________

4.5. What promotion strategy do you use to promote your product or service?
____

4.6. At what percentage of full capacity had you been operating in

i. 2007____ % (ii) 2008_____%. (iii) 2009 you ____%.

4.7. Have you planned to use your firm's potential fully next year?

i. yes ii. No iii. I don't know

4.8. How was your investment profit over the last 3 years i. increasing? ii. about the same?

iii. Decreasing? iv. If other please specify____________________________.

4.9. How was your fixed investment in the past recent 3 years have been?

i. increasing? ii. Decreasing? iii. about the same? ii. iv. N/A

4.10. Total number of employees Employed in i. 2007.____ii.2008.____iii.2009______

5. Infrastructure Services

5.1. Which public services does your firm/ investment project use?

i. Electricity only ii Water only iii. Telecommunication iv. Road v. Bank service vi. all vii. If other please specify__________________________

5.2. What main problems have you been facing in this regard? i. Occasional interruptions

ii. In frequent, and longer interruptions iii. Cost problem

iv. if other please specify_____________________________________

5.3. What is your investment /firm's the greatest infrastructural problem? __________

6. Private Investment Objectives Related Issues

This question is to evaluate to what extent investors are contributing or influencing the achievement of the private investment objectives. Evaluating your own actual performance against the plan you have set in relation to the achievement of your own and investment policy objectives: please indicate your percentage estimation under the given categories of percentage in the table below.(use a thick mark only one for each.)

S/N	Objectives	0 -20	20-40	40-60	60-80	80-100
1	accelerating the economic development of the country					
2	exploiting and developing the natural resources of the country					
3	developing the domestic market through growth of production , productivities and services,					
4	Increasing foreign exchange through promotion of export,					
5	Strengthening the inter sect oral linkages of the economy by encouraging balanced development and integrated economic activities among regions,					
6	enhance the role of the private sector in the development of the economy by using the enabling conditions for investment,					
7	Influencing foreign investment to play its proper role in the countries economic development					
8	Creating wide employment opportunities for nationals by fostering the transfer of technical knowhow, material skills and introduction of appropriate technologies.					

7. Investment Constraint related issues

7.1 Rank the following hindrances to investment Note /1 = the least serious challenge, 2 =less serious 3 = moderate 4=more serious 5=the most serious challenge

S/N	Challenges	5	4	3	2	1
1	Government attitude towards private investment					
2	Level of taxes too high					
3	Problem of getting credit					
4	Too high interest rate					
5	Lack of demand					
6	Lack of raw materials					
7	Infrastructure					
8	General Investment Legislation					
9	Investment Administration procedure					
10	Cost of doing business					
11	Investment incentive					
12	Uncertainty about the economy					

7.2. If others please specify ______________________________

7.3. Is any form of uncertainty about the economy a constraint to expanding your business?

i. No ii. Yes

7.4. If yes to rank the following uncertainty factors to investment using a thick (√) mark. Note /1 = the least serious cause of Uncertainty, 2 =less serious causes cause of uncertainty 3 moderate causes of uncertainty 4 = more serious causes of uncertainty / 5 = the most serious causes of uncertainty /

S/N	Causes of in security	Rating				
		5	4	3	2	1
1	Demand rate					
2	Political					
3	Interest rate					
4	Exchange rate					
5	Tax					
6	Inflation Rate					
7	Threat of propensity					

7.5. If other please specify______________________________

7.6. If your response is no, what is the most significant obstacle facing investors in this Zone?

8. Policy related issues

8.1. Licensing

8.1.1 If your investment is licensed, how long did it take to obtain an investment license?

____

8.1.2. What is your impression about the time it takes for licensing?

i. Short ii. Reasonable iii. Long v. too long

8.1.3. What comment do you have for the pre requisite criteria required to have investment license and to get land?

8.2 Tax payment related issues

8.2.1. Do you pay taxes to Regional/Zonal/District authorities? i Yes . ii. No

8.2.2. What do you think of the level of investment taxes?

i. Too low ii Low ii. Reasonable iii. High iv. Too high

8.2.3. Do you know the tax conditions offered by other countries for private investment? for similar activities? iii. Yes ii. NO

8.2.4. If yes, how do Ethiopia's tax conditions in comparing with those other countries?

8.2.5. What is your assessment of the tax collection systems in this Zone?

i Very efficient ii . Efficient iii. In efficient IV. Very inefficient v. If other specify

8.2.6. If you have any suggestion in relation to tax please specify

8.3 Investment policy related issues.

8.3.1 What do you think of current government investment policies?

8.3 .2 Are you very familiar with Ethiopia's investment policy? i. yes ii. No

8.3.3. Are you familiar with the investment policies of other countries? i. Yes ii. No

8.3.4. Do you think that the policies clear? i. No ii. Yes iii. Don't know

8.3.5. If no, which areas are unclear?________________________________

8.3.6. Do you think the policy offers good incentives for private investors?

i. Yes ii. No iii. Don't know

8.3.7. In terms of attracting private investors, how do you compare Ethiopia's investment Policy with others? i. less attractive ii Similar to iii. Offers better incentives vi. If other please specify________________________________

8.3.10. Do you think the legal framework for guiding private investment is clear?

i. yes ii. No iii. I don't know

8.3.11. If no, which areas do you think need amendment?

8.3.12. To what extent trade liberalization program affected your business?

8.4. Issue related to Good Governance

To evaluate the application of good governance principles by the investment offices at regional, Zonal and district level the principles of Good governance are listed in the table below, please rank the degree of applicability of the principles in the investment offices you often used to get services. Show your evaluation by using thick marks under your preference. Note 5=most appropriately applied 4= more appropriately applied

3= appropriately applied 2 = less appropriately applied 1=least appropriately applied

S/N	Factors	5	4	3	2	1
1	Participation					
2	Rule of law					
3	Transparency					
4	Responsiveness					
5	Consensus oriented					
6	Equity and inclusiveness					
7	Effectiveness and efficiency					
8	Accountability					

9. General opinion questions

9.1. How do you think foreign investors perceive the current investment climate?

i .Not conducive to private investment ii. Somewhat conducive to private investment ii conducive to private investment iv. If other please specify________________________

9. 2. What is your impression about the future direction of investment?

i. major improvement ii. Slight improvement iii. Remain the same

iv. Slight deterioration v. Major deterioration

v. Un predictable vii. If other please specify____________________

____

9.3 What solution do you suggest to solve the major investment challenges of the Zone?

Annex II

II. KII CHECKLIST FOR EXPERTS

Part One Opportunity related questions

1.1. What are the major duties and responsibilities of investment office in relation to investment opportunities identification, preparation, facilitating and giving for investors who are applied for?

1.1.1. Who is responsible in identifying potential sites; establish land bank, prepare lease terms and contract and exercising over site over?

1.1.2. Do all the available investment opportunities /alternatives/ properly identified and made clear to decide on it? Or is that in the land bank established at Regional/Zonal/District/ Town level?

1.1. 3. Do the identified and prepared potentials are easily accessible and have the basic infrastructure (water, electric power supply, telecommunication access and road)?

Part two: Other challenges related questions

2.1 Why many investors (greater than 90%) fail to get the investment land they have applied for? And why those who are in implementation level are not performing well or fail to realize their plan?

2.2. What are the major challenges that hinder the investment activities of the Region? The Zone? / The district? /the town?

2.3. What are the major limitations observed on the parts of investors?

2.4. What improvement measures have been taken by the Commission /the Investment? Board / investment committee/? And what progresses have been observed?

2.6 How long does Provision of license take an investor currently?

2.7. How long does it take an investor who applied for investment land to get land? What is the progress in this regarded?

2.8. Is there a progress duet o the progress of investment promotion your office has been carried in the last three recent years?

2.9. How often do investment projects are visited and provided the necessary support by experts and other concerned bodies

2.10. Which of the offices function are carried best and customers witnessed for it?

2.11. Which role is carried poorly? Why?

2.13. How do you evaluate the application of principles of good governance in your service provision? Which principles are properly applied?

2.14. What are the major complaints of your customers against your service provision?

Part three: Efforts made to create conducive condition

3.1. What types of incentives are provided to investors in your Region/ Zone?

3.2. Are there clear, transparent and effective criteria used to identify potential? Investors? What comments do you have in this regard?

3.4. To what extent investors are striving to implement the investment policies properly so as to contribute for the achievement of investment objectives?

3.5 What other opinion do you have to minimize the constraints of private investment and to enhance the achievement of investment Objectives?

Annex -3

IV. Interview Guide line for stock holders

In the focus group discussion points in relation to prospects and challenges of private investment; the stack holders involved in the discussion are intended to raise their ideas based on the guide line questions given here under and they are also expected to give for related unstructured questions.

a. Question in relation to EEPCO Service

1. What is the level of the coverage in the electric power supply service in the Zone?
2. What is the effort made to provide the power service to Private Investor in the Zone?
3. To what extent priority is given to address investment potential areas in the Zone?
4. Do you think the Sector is providing the necessary service for private investors as much as needed?
5. What are the major constraints of the corporation in providing sufficient service for the private investment firms?
6. How cooperatively is the corporation working with investment office?
7. What is the corporation plan in addressing the shortage and dalliance of the service in the potential areas?
8. What other ideas do you have in this regard?

b. Question related to Bank service

1. What is the Banks role in addressing the financial problem of the private investors?
2. Does the Bank provide sufficient service for private investors as much as they need?
3. What criteria are used by the bank to provide the service?

4. What are the major constraints in providing the required loan provision by the bank?
5. What types of private firms get priority in getting the service?
6. What is the banks future plan in assisting private investment by providing the necessary loan?
7. What other services are given by the bank other than loan provision service?
8. What other opinion do you have to strengthen private investment activities and enhance achievement of private investment objectives

c. Question in relation to ETCo services

1. What is the current coverage of telecommunication service in the Zone?
2. Does the corporation provide sufficient service to private investors as much as they? need and at the time they apply for?
3. Do you give priority for investment potential areas?
4. How strong is your relation with other development agents?
5. What are your major constraints in providing the service required by investment firms?
6. What do you suggest to solve the problem?
7. What other ideas do you have to enhance the provision of the service and to enhance? the achievement of investment objectives?

d. Question in relation to Environmental protection and land administration office Services

1. What is the major role of the office in creating appropriate investment Environment?
2. Is there sufficient investment potential alternatives in the Zone?
3. Is the available potential properly identified?
4. Why do you think many investors are in the pre implementation period?
5. Why many applicants fail to get land?
6. What are the challenges you have encountered in preparing land for investment?
7. What is the progress achieved because of the establishment of the office in facilitating and increasing the pace of land provision for investors?
8. What other opinion do you have to create appropriate investment?

Annex-4

BOX-1

land and environmental protection office representatives

Date 14-19/01/2011

Major roles given to the office

-Keeping the land

-Providing land owner ship certificate

-Identifying, Preparing land for investment and for residence

-Establishing land bank

Actual work done in identifying and preparing land for investment

-No significant work is done in this regard because of

-Lack of appropriate personnel,

-Lack of appropriate equipments such as: GPS, Total station

-Lack of finance to compensate

-Problem of infrastructure (road) in rural where there is big investment potential

Changes resulted on the pace of investment in the two zones

1. No change at all is observed, as there is no land prepared by this office since then. The Land is prepared after land is required.

Source –interview result carried with representatives of Land and Environmental protection offices of the two zones, 2011.

Annex-5

Box-2

The corporation currently provides two major types of services. One is land line service which is provided at district town levels. It is known for the past 100 years. Another is new generation net works which is currently given high attention and established to compensate the limitation of land line service. That is, land line requires maintenance cost, spare parts and high installation cost. Currently all districts have provided with new Generation Network which involves: wireless mobile and broad band internet. As a result mobile service coverage has reached 98% where as fixed wireless services coverage in the study area has reached 93-95%. the institute major constraints in provision of the service required from sector are: most firm owners are not aware full and do not provide appropriate documents to the corporation before starting construction; as a result many investment projects have exposed for extra costs for installation process. Problem of getting input domestically is another serious problem that adds time cost. In addition, absence of effective communication with investment office.

Source –interview result carried with representatives of Ethiotelecom of Assela and Adama Branch, 2011.

Annex-6

Box 3 Responses given by EEPCo of Assela and Adama Branch representatives

Date

- In Assela town it provide 265kw where as at Adama it provides 20mw

-To provide its service it requires months to a year this is because it uses imported materials.

- Its function related with the function of other development agents such as - Telecommunication and road

-To solve the problem of dalliance in its service the sector suggested that the need to produce cable in the country and adding additional power from new dams

-The sectors provides its service shared on the following priorities

Construction, Telecommunication, water service, Education, Health, export and industry orderly

Intrview Responses of OIC, Arsi Zone, East Shoa Zone, Dukem, Adama, Assela, Dhera , Adama and, Dodota districts IOs. From	
Inductive Categories	Responses of the Interviewees
investment opportunities and alternatives related	The opportunity is available
Is the available Investment opportunities and alternatives properly identified, prepared, site planned and made ready for use?	Not properly identified and prepared,
Whose role is opportunity identification, preparation, site planning and making ready for use?	Up to 2001 there was no specific department at district and zone administration level But since 2001 Land and Environmental protection office has established at all level
Area OF land prepared	11,368,91 roughly identified and 58 hectare prepared properly in dukem town 161,000 hectares roughly identified but not by the office
Accessibility	Accessible in East shoa but in Arsi Difficult to reach where there is big investment potentials for instance,>50,000 ha in Manqollo wabe , >40,000 in gololcha and about 40,000 ha in Hanqollo wabe.

Provision of investment licence	Provided with in 20 -30 min this service is not available at district level as we
provision of Land	The set standard is 7 days however practically it depends on the availability of the required amount and type of land (From 3 months to a year) -Decision is carried by OIB, -Zone investment committee and the district level required to provide evidences and their recommendation only -When investors fail to submit what is required from them interruption due frequent meetings.
Promotion	Meeting, sponsoring program, media and flights, broacher -
Follow up and support provision	Not carried as the set standard that is 4 times a year Not all projects are visited only easily accessible are visited ones a year even poorly carried in Assela Town
major challenges	

Opportunity related	-Lack of prepared land, Lack of communal land ,-Lack of budget to prepare land by compensation and Lack of skilled personnel
Investor related	-presence of rent seekers among investors, Having weak financial potential -Fail to have project plan/,Fail to actualize what they have planed those who have plan -Transferring the land for the third party without the knowledge of the concerned body, Having no or low knowledge on investment policy and regulation -Fail to realize the obligation given to them on the contractual agreement document
Related to the executive bodies	-Lack of commitment, Lack of clear understanding of private investment policy objective, Seeking to satisfy private interest rather than public interest Fail to contribute what they can in implementing principle of G ood Governance -High turnover board members and head of the offices

Annex-8

Inductive category	DBE	CBE	AIB
Role of banks in solving investors financial constraints	provide loan based on government priorities	Provides loan mostly fills the gap of DBE	Provides loan for small and medium firms based on profitability of the projects
Projects given priority by the banks	Commercial farming ,Agro processing and manufacturing that provides better job opportunities	Commercial farming ,Agro processing and manufacturing that provides better job opportunities	Dependable profitability
Banks Criteria to provide loan	Bank Statement (30% of the total project financial plan), proposal, contractual agreement, construction permit, Title deed certificate,	Bank Statement (30% of the total proje ct Financial plan),proposal, contractual agreement, construction permit, Title deed certificate, collateral, location	Bank Statement (50% of the total project financial plan), proposal, contractual agreement, Construction permit, Title deed certificate,
Banks challenge in providing loan service	-investors acquire land without the knowledge of banks -Apply after they have started implementing the project Rent seekers Absence of communication with OIB, OIC ,and Investment offices. False proposal	-investors acquire land without the knowledge of banks -Apply after they have started implementing the project Rent seekers Absence of communication with OIB, OIC and Investment offices. False proposal	-investors acquire land without the knowledge of banks -Apply after they have started implementing the project Rent seekers Absence of communication with OIB, OIC, and Investment offices. False proposal
Opinion of Banks	Building effective communication between investment offices of all branch -Providing sufficient information to investors what to do first and then	Building effective communication between investment offices of all branch -Providing sufficient information to investors what to do first and then	Building effective communication between investment offices of all branch -Providing sufficient information to investors what to do first and then
Banks Criteria to provide loan	Bank Statement (30% of the total project Financial plan), proposal, contractual agreement, construction permit, Title deed certificate,	Bank Statement (30% of the total proje ct Financial plan), proposalcontractual agreement, construction permit, Title deed certificate, collateral, location	Bank Statement (50% of the total proj ect financial plan), proposal, contractual agreement, construction permit, Title deed certificate,

Declaration

I the under signed; declared that this thesis is my own original work and has not been presented in any other University. All the sources of the material used for this thesis have been duly acknowledged

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Declared by

Name Ayele Belete

Signature ____________________

Date 8/25/2011

Confirmed by

I conform that this thesis has been submitted with my approval as the supervisor of the same.

Name Issac Paul (PhD) advisor

Signature____________________

Date________________________

Place: Addis Ababa