ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

MSC IN INTERNATIONAL BUSINESS SPECIALIZATION IN STRATEGIC INVESTMENT MANAGEMENT

"Determinants of Domestic Private Investment in the Manufacturing Sector in West Arsi Zone, Ethiopia"

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The Thesis Submitted to the Graduate Program of Addis Ababa University, College of Business and Economics in Partial Fulfilments for the degree of Masters of Sciences with specialty in International Business (Strategic Investment Management)

June, 2026

Addis Ababa, Ethiopia

DECLARATION

Student

Declaration I, Genamo Irensa, affirm that the thesis titled "Determinants of Domestic Private Investment in the Manufacturing Sector in West Arsi Zone, Ethiopia" is my original work. This thesis is submitted as part of the requirements for the MSc Degree in International Business, Strategic Investment Management. Yohannes Workaferahu, Ph.D supervised the thesis completion. I affirm that this work has not been submitted in whole or in part for any degree or diploma program at this or any other institution. I have acknowledged all sources of materials used in the thesis.

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Signature:  Date of submission: **06/24/2026**

CERTIFICATION

This postgraduate thesis entitled "Determinants of Domestic Private Investment in the Manufacturing Sector in West Arsi Zone, Ethiopia" submitted as part of the Master's Degree in International Business, Strategic Investment Management, is by the University's regulations and standards of authenticity and reliability.

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ACKNOWLEDGMENTS

I thank my academic advisor, Dr. Yohannes Workaferahu, for giving me intellectual freedom in my work, engaging me in new ideas, and demanding a high quality of work in all my endeavors.

I would also like to express my deep appreciation to my family and my wife, Amina Gemeda, for their constant encouragement, willingness, and support in helping me achieve my goals. Their valuable information, emotional support, and practical assistance were instrumental in my academic journey and the successful completion of this thesis proposal.

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ACRONYMS

ASENS……The association of south East Asian nations

EIC……...Ethiopian Investment Commission

CSA……..Central Statistical Agency

FDI……Foreign Direct Investment

GDP……..Gross Domestic Product

GTP……..Growth and Transformation plan

LDCs……Least Developed Countries

LMICs……..Lower-middle-income countries

MOFED ……..Ministry of Finance and Economic Development

MSE…….Micro and Small Enterprises

OECD……..Organization for Economic Cooperation and Development

PSD…… Private Sector Development

PIMS……Private Investment in Manufacturing Sector

SPSS ……...Statistical software Package for Social Science

UNCTAD……United Nations Commission for Trade and Development

UNICEF …….Unite Nations Children‟s Education Fund

MUDC...……..Ministry of Urban Development and Construction

UNDP ……United Nation Development Program

Abstract

Background: Domestic private investment in the manufacturing sector plays a vital role in promoting economic growth, employment creation, industrialization, and poverty reduction. Despite government efforts to encourage manufacturing investment in Ethiopia, domestic private investment in the manufacturing sector remains low, particularly in the West Arsi Zone due to financial, infrastructural, institutional, and market-related challenges.

Objective: This study aimed to assess the determinants of domestic private investment in the manufacturing sector in West Arsi Zone, Oromia Region, Ethiopia.

Methods: A cross-sectional descriptive and analytical study design was employed among domestic private manufacturing investors in West Arsi Zone. A stratified random sampling technique with proportional allocation was used to select 211 participants from a total of 382 registered investors. Primary data were collected using structured questionnaires and interviews, while descriptive statistics and multiple linear regression analysis were conducted using SPSS to identify determinants of domestic private investment.

Key Findings: The study found that domestic private investment in the manufacturing sector was positively associated with bank loan access (β=0.165, p=0.010), political instability-related factors (β=0.118, p=0.009), administrative factors (β=0.221, p=0.006), domestic market factors (β=0.757, p<0.001), infrastructural factors (β=1.222, p<0.001), and foreign market challenges (β=0.344, p=0.030). Conversely, financial constraints (β=−0.257, p<0.001), technological challenges (β=−0.155, p=0.017), and locational challenges (β=−0.655, p<0.001) negatively affected domestic private investment. Land access (p=0.313) and investment incentives (p=0.698) were not statistically significant determinants.

Conclusion: Domestic private investment in the manufacturing sector of West Arsi Zone is influenced by multiple financial, institutional, infrastructural, technological, and market-related factors. Improved infrastructure, access to finance, efficient administration, and stronger market opportunities are essential to enhance investment performance, while financial and technological constraints remain major barriers.

Recommendations: The government and relevant stakeholders should improve access to affordable finance, simplify loan procedures, strengthen infrastructure services, improve political stability and administrative efficiency, and promote technology adoption and innovation. In addition, efforts should focus on improving market access and creating an enabling investment environment for domestic private investors.

Key words: Domestic private investment, Manufacturing sector, Determinants, West Arsi Zone, Infrastructure, Access to finance, Ethiopia.

CHAPTER ONE

Introduction

1.1 Background of the Study

Investments can be defined as the act of committing funds in an effort to either profit or reduce risk in the future[1]. This activity ranges from simple societies to more complicated ones, from primitive societies based on hunting and gathering up to the current global banking industry. Modern investments involve money committed in assets for income or profit purposes[2].

Investment may be viewed either as capital improvement or capital accumulation. There will be an investment process where individuals, businesses, and governments opt to use their resources to acquire capital goods. It is critical to note that the main purpose behind any investment will be future income growth, increased efficiency, reduced unemployment rates, poverty reduction, and better standards of living [3]. The Investment process has been known for its contribution to economic growth at a global level because it leads to capital expansion. Through time, investments have become increasingly important in contributing to macroeconomic growth, especially in developing countries [3].

They widely agree that investment is a key driver of economic growth, with high investment levels considered essential for achieving sustained and long-term economic development [4]. The IMF [5], further notes that countries with regular and high investments in infrastructure, manufacturing, and technology witness high GDP growth. In supporting this point further, according to the OECD (2012), having a vibrant investment sector enhances the economy of a country through innovations, exporting goods, production, and providing job opportunities. It is therefore important that developing countries encourage investment because doing so will improve living standards and reduce poverty in these countries, particularly in African nations. The Ethiopian economy has greatly benefited from investments in different sectors of the economy. Job opportunities have been created; people have become more productive, and money has been earned through the exportation of products [6].

Private investment can be described as spending by privately held business companies on new structures, machinery, and equipment used in producing goods and services [7]. Private investment is said to play an important role in creating jobs, promoting growth, and alleviating poverty,

according to authors such as Frimpong and Marbuah (2010), UN (2002), and World Bank (2004). It is very important to effectively harness private investment because it facilitates economic growth. When private investment is low, productivity will be low as well, causing slow investment growth, unemployment, and no chance for the poor to enhance their standard of living.

Macroeconomics explains the meaning of private investment as the funding of capital asset acquisition. In private investment funds, there is the acquisition of assets and securities. Private investments are aimed at earning profit or appreciating the capital. In macroeconomics, private investment is understood as the funding of the acquisition of capital assets. Private investments involve buying assets and securities. The primary purpose of private investments is to earn profit or appreciate the capital [5].

Private investments have a very important role to play in the processes of economic development and growth. It has been established from researches carried out that private investment is more efficient and productive compared to public investment and hence shows a greater relation with economic growth [8]. The role of private investments in the manufacturing industry in the process of economic development cannot be underestimated because it helps in creating jobs, generating income and creating room for further investments, which will help the economy grow even better. Considering the role of investment in development, governments will make changes in policies in order to encourage private investments, especially in the manufacturing industry [6].

Private investments play a very important role in the promotion of economic development, as they ensure capital formation, creation of employment opportunities, and innovations among others. However, their extent is affected by several factors such as economic stability, political and institutional environment, socio-cultural environment, and geographical aspects [9, 10]. The development strategy used in Ethiopia which is a fast-developing country involves making efforts to enhance private investments in the manufacturing industries owing to the importance of the latter sectors in terms of development of the economy, job creation, and reduction of poverty. In this regard, Federal and Regional Micro and Small Enterprise Development Agencies have been established according to the law. Their mandate includes ensuring the use of local raw materials, production activities, creation of employment opportunities, and the development of industries from micro to large scale according to the efforts being made under the MUDC (2013). It should be noted that fostering development of industries from micro to large scale is an important element of industrial policy of Ethiopia, which plays a crucial role in the growth of industries and transformation

of the economy according to UNDP (2012). According to GTP, there are several advantages of industrialization including the creation of wealth, employment opportunities, and reduction of poverty.

In addition to this, UNDP (2012) pointed out that the development of industries from micro to macro levels is an important component of the country's industrial strategy. Such expansion plays a key role in the development of industries. GTP emphasizes the need for the industrial sector to ensure wealth creation, creation of employment opportunities, and reducing the poverty level of the country. As per the IMF, Ethiopia's GDP will increase to 6.6% in the fiscal year 2025. Ethiopia continues to be among the fastest-growing countries of Sub-Saharan Africa. Ethiopia's growth is supported by high performance in various sectors. For example, agricultural GDP is expected to rise by 7.0%, industrial GDP by 9.2%, and GDP of the services sector by 7.7%. According to recent figures, agriculture contributes 36%, industry contributes about 24.5%, and services contribute 39.5% to Ethiopia's GDP [11]. It shows that the country continuously works towards diversification of its economy. The major reason behind the growth of the services sector is foreign investments and favorable business climate. This growth makes Ethiopia as one of the fastest-growing countries of Sub-Saharan Africa

In the year 2025, the investment laws of Ethiopia have been updated in order to promote economic development and encourage investments from local as well as foreign sources. As per the Proclamation of Investments Act No. 1180/2020, there are certain sectors which allow foreign investment while others remain reserved for domestic investors along with the provision of investor protection. Alongside this act, Investment Incentives Regulations No. 517/2022 provides income tax exemption to new firms while providing further taxation concessions to export firms. Along with this, the government has adhered to Regulation No. 84/2003 where certain investment sectors remain reserved for domestic investors specifically for manufacturing firms [12]. According to the Ethiopian Investment Proclamation, the West Arsi Zone Investment Office was officially founded and operates under the national legal system. From the time of its establishment, the office was mandated to carry out legal registration and management of private investments, including investments in the manufacturing industry.

Nonetheless, although the government has been able to provide different kinds of incentives meant to encourage participation of the private sector in the development of the region, the level of private investments in the manufacturing industry in this area is still quite low. This underperformance has

mainly been attributed to several issues, including the high cost of production, ineffective use of the productive capacity of industries, over-reliance on imported raw materials, and little investment from abroad. Most of these constraints can be attributed to insufficient infrastructural support, low institutional capacity, underutilization of labor, and lack of adequate technology.

1.2. Statement of the problem

Private investment inside the manufacturing region perform a crucial function in economic improvement, because it contributes considerably to job creation, earning era, and the stimulation of similarity investment within the economic system[13]. latest research and reports spotlight that encouraging personal funding in Ethiopia's manufacturing region is crucial for driving innovation, boosting monetary improvement, assuaging poverty, generating employment, and improving the dwelling standards of low-earnings groups [14]. although, the sector's effect stays restrained in evaluation to different growing nations, more often than not because of ongoing problems like limited get admission to financing, inadequate raw substances, loss of ok working capital, and infrastructural constraints[14, 15]. Acknowledging the low performance of private funding, the Ethiopian authorities has bolstered its tasks to inspire and assist private traders with the aid of imposing coverage reforms, developing business parks, and offering incentives like tax breaks and greater get admission to financing [16].

Even after years of reform effort, de-velopment challenges in the industrial sector, particularly in developing economies continue to grapple with serious issues regarding their manufacturing sectors. Mozambique illustrates this challenge, with the economy sustaining 6%+ real growth on average (over 3 years) yet the sector is hampered by poor financing, limited skilled workforce and underdeveloped infrastructure[17]. Similarly, in India, industries dependent on infrastructure, external finance, and labor-intensive sectors have struggled to fully benefit from reforms[18].

The manufacturing sector is vulnerable to movements in agriculture output and commodity prices. A significant portion of its growth is negated by dependency on imports of intermediate inputs and very limited domestic value adding [19]. The manufacturing sector in Ethiopia still encounters quite a lot of challenges despite being an engine for economic growth of a country. In Ethiopia's manufacturing sector foreign exchange shortage and poor administrative mechanisms is an impeding factor for growth [20, 21]. The exchange rate being overvalued had hampered competitiveness and industrialization process [20]. The interaction between the different sectors is quite weak and

shortage of input is also another impediment [22]. Lack of working capital, shortages of raw material and need for trained labour force are major problems [21].

Multiple factors affecting private investment in the Ethiopian manufacturing sector have been found in recent literature. For instance, Chala and Uka (2024) found that investors' level of education and the amount of land they possess has a significant influence on manufacturing investment in Ambo town, Oromia regional state. The investors who have higher levels of education are capable to deal with complexity of the sector, while those investors with greater possession of land contribute positively to setup and development of the manufacturing sectors[23]. Similar to this, Worku (2020) lists the major obstacles faced by owners of enterprises in Gurage Zone such as; the inability to acquire bank loans, technology, bureaucratic impediments, location disadvantages, local and international market problems, electricity and fuel price, lack of working capital and shortages of raw material which impede the increase in domestic private investment to manufacturing sector [24].

Ethiopian government has introduced a number of industrial policies and strategies such as the GTP I and II to enhance the growth of the manufacturing sector and encourage the involvement of domestic private investment in the sector [25]. However, domestic private investment is low in the Ethiopian manufacturing sector especially in the regional levels such as West Arsi Zone. The West Arsi zone is part of Oromia Regional State and possesses rich natural resources and growing labour force and can get proximity access from agricultural raw material to feed industrial sector, but due to the presence of a wide variety of factors such as limited access to finance, poor infrastructure, access to markets, weaker institutions and irregular policy implementation domestic private investment is constrained[26, 27].

Moreover, local manufacturing businesses also experience problems that constraint their growth and performance. Amongst these; lack of access to finance due to high collateral needed is one of the major problems [28]. Previous studies in Ethiopia mainly focused on macroeconomic determinants of private investment at the national level, with limited attention to micro-level determinants affecting manufacturing investors in specific zones such as West Arsi. Therefore, this study aims to fill this empirical gap by examining the determinants of domestic private investment in the manufacturing sector of West Arsi Zone.

1.3 objective of the study

1.3.1 General objective of the study

The main objective of the study was to investigate the determinants of domestic private investment in the manufacturing sector in the West Arsi Zone, Oromia Region.

1.3.2 Specific objectives of the study

The specific objectives of this study were to:

- Identify the key factors that influenced domestic private investment in the manufacturing sector in the West Arsi Zone.
- Determine the measures that the government needed to take to reduce or address the factors affecting domestic private investment in the manufacturing sector in the study area.
- Provide evidence-based recommendations to policymakers and stakeholders to promote and enhance private investment in the West Arsi Zone manufacturing sector.

1.4 Significance of the Study

There were three key benefits that arose from the undertaken study.

The first benefit was the empirical finding about the primary factors driving domestic private investment in manufacturing sub-sector within West Arsi zone, which to a little extent had been studied so far. Thus this research tried to provide insights on enabling factors and constraints to investors, fill a gap in existing research and shed light on what is happening with private investment in the region. The second benefit of the study came to the assistance of the investors/owners of businesses; by identifying the major challenges and enabling factors influencing their investment decisions and guiding them make well-informed decision-making strategy to invest or expand their existing business in manufacturing sub-sector.

The third benefit of the study went to academic/future researcher in terms of providing a reference book for those, in other field, to make research over similar issues especially to less explored region like the West Arsi zone. All together, the study has tried to put some footmarks in the endeavor to accelerate economic growth, boost job opportunities and eradicate poverty by improving private sector investment in manufacturing sub-sector.

1.5. Scope of the study

The objective of this study was to analyze the determinant factors of domestic private investment in manufacturing sub-sector (including micro, small & medium enterprises as well as large private manufacturing firms located) within the West Arsi zone, Ethiopia. Factors which were examined in this study as a determinant of investment include financial factors (credit, availability of capital etc.), infrastructure (electricity, transportation, land etc.), institutional & administrative factors, investor specific factors (education, previous experience, motivation etc.). The geographical limitation of this study was West Arsi Zone, hence, findings may not be generalizable to other regions of the country or sectors outside manufacturing. Both primary and secondary data sources were used. Primary data was gathered using surveys and interviews of business owners, investors, major business stakeholders, while secondary data was gathered from reports, secondary studies, government reports etc.

CHAPTER TWO

LITERATURE REVIEW

2. Theoretical reviews

2.1 Definition of investment

Broadly speaking, investment is putting one's resources in some projects or assets that are expected to yield profits or prevent risks in future. It implies buying of assets or investment in some project that aims to provide profit, normally at a higher rate than would be earned from risk-free assets [29]. In the context of International Investment Agreement, 'investment' is generally interpreted to cover various classes of assets [30]. Investment, in a general sense, implies that at a certain point of time, money is placed (such as dollars, birr) for a specified period of time to obtain an amount in the future which should compensate for keeping the capital at that time, time horizon, and risk involved in it in the form of future returns. Through this sense we can grasp why individual is investing and what the ultimate aim is, namely that individual would like to earn return either in the form of income or capital gains by sacrificing consumption of today. Investment is concerned not only about how much capital is allocated, for what purpose and to do so to prevent risk but also with risks of that capital that may be caused in two ways. First is that investment is placing one's money with the view of not only protecting the amount and aiming to produce return from it but also distinguishing it from speculative activity [31].

Private investment refers to the amount of capital invested by individuals or individuals collectively, it has a significant contribution in making a country developed. Though government does a lot of things to bring economic development in a country but there is a limit for the capacity of a government in generating development and it cannot do it by itself and therefore, the government provides a conducive environment and creates opportunities for the private sector to play an important role and then, private investment can contribute more effectively for the development process of the country and as a result of it, it can have a significant role in creating income, employment, stabilization of economy and more important role is poverty reduction. Private sector is crucial in the sense that it makes positive impact by reducing poverty through generating employment, increasing income levels, creating employment and so on. Two crucial foundations for lasting poverty reduction are: fostering an investment climate and strengthening the poor's capacity

[32]. Private investments contributed positively toward poverty reduction through enhancement of economic growth, creation of job opportunities and increasing of incomes particularly in the areas of infrastructure, agricultural sector, technology sectors etc [33]. The contribution of private sector is higher in terms of multiplier effect than that of public sector although it has also important role and thus it should play a leading role in stimulating growth in sub- Saharan Africa, where public investment should complement private investment in order to realize sustainable development and effective poverty reduction [34].

2.2 Theoretical framework: determinants of domestic private investment

2.2.1 Finance factors and acquiring a bank loan

Access to credit especially through loans from commercial banks is an important determinant of domestic private investment in Ethiopia. Both theoretical models and empirical investigations support that financial conditions are crucial factors for decision making on investment. Constraints imposed by finance especially lack of finance (lack of capital or financial resources) are significant impediments to the operation of firms that have to use self-finance or assets to start-up or expand business [35]. For example, Teklay (2016) showed that financial factors, specifically the money supply, bank credits, and foreign exchange availability positively affect private investment in Ethiopia. Using an annual time series data from 1975 to 2015 and employing the method of Johansen cointegration and OLS regression for estimating long-term models, he concluded that improving financial resources and access to credit boosts investment in the private sector [36].

Also Woldemariam (2018) concludes that access to bank credit positively impacts on private investment in Ethiopia. An examination of the time series data of 1996 to 2016 has shown that high lending interest rate have a negative impact on private investment, emphasizing the need to make finance affordable for investors [37]. Waktola (2011) noted that credit availability play a key role for the determination of private investment. In his study conducted using time series data from 1975 to 2009, he concludes that improving access to credit attracts private investment [38]. Together, these studies have revealed the crucial role of finance in determining the level of domestic private investment in Ethiopia.

2.2.2 Access to land

Land access is normally understood to be how individuals or entities get rights and options to access and use the land. In this study, an investigation was made on private investors to know if they have experienced any obstacles to their investment activities because of access to land and the assessment included land tenure systems, bureaucracy in the land access system, cost of lease and availability/size of land. To address the land acquisition problems, government had adopted measures to decrease the minimum lease prices and increase land supply to curb inflation of land prices at auction. Government had been taking efforts to remove the bureaucracy in identifying and delivery of land; to prepare and develop infrastructures in land designated to be leased; to promote good governance in the major town, to remove the obstacles in the bureaucracy in the land delivery process to investors. The government also consulted with the private sector to make a consensus and common agreement on further improvement of the land lease system.

2.2.3 Political instability

Political instability is known as one of the key factors influencing domestic private investment in developing countries. It is observed that the country's private investment is negatively affected by political instability in Nigeria [39]. These conditions make for an adverse investment environment, hampering investment and the rate of growth of the economy. Other factors that influence private investment are: macro-economic instability, inadequate infrastructure and expensive lending rates [39, 40]. Some of the researchers recommend that for private investment to take place, the political environment should be made stable, infrastructural facilities should be improved, availability of credit for private sector should be expanded, and also resource base of the economy should be diversified[39, 41]. With respect to the Ethiopian economy, it is indicated by Wale (2015) and Gizachew (2017) that political instability is one of the hindrances to private investment by shaking the environment[6, 42]. These findings emphasize the importance of addressing political and economic stability to encourage private investment and foster economic growth in developing countries.

2.2.4 Investment incentives

Investment incentives represent key policy tools used by governments in an effort to spur the participation of the private sector in investing projects through the reduction of the investment projects' cost and risk. The term incentive is defined by Barbour (2005) as "any identifiable benefit accorded to selected enterprises or classes of enterprise by, or under the direction of, government" Investment incentives encompass diverse forms such as, duty holidays, tariff reduction, sub-sidies

and less red tape. Investment incentives serve to lure private actors to undertake investment projects since these incentives render investment projects both cheaper and profitable. The investment incentives such as tax holidays and investment allowances have a significant impact on the attraction of private investments (mainly in the manufacturing sector) in Ethiopia according to Wale (2015) and Gizachew (2017) but there are several obstacles such as, bureaucratic delays and policy inconsistently that are sometimes posing a constraint to the efficacy of such policies[6, 42].

2.2.5 Access to infrastructure facility

It discusses whether the investor had to face delays on account of lack of accessibility to the facilities infrastructure. Provision of a robust infrastructure such as roads, water supply, power and telecommunication ensures the attracting more investors and positively influence the trend of investment. The role of infrastructure in industrial development is quite dominant, and power, transportation and communication forms its building blocks, affecting business competitiveness more prominently. Infrastructure development provides significant and positive effects on private investment and economic growth, as highlighted by Caldern and Servn (2010), particularly in case of developing countries, where infrastructural improvement lowers the cost of entry, ensures the efficient supply of goods and services, and enhance the investors' confidence [43].

2.2.6 Application of information technology (Technological factors)

The use of technology, especially information technology (IT), also has an important effect on domestic private investment. As Apulu and Latham (2011) concluded, use of ICT will increase the competitiveness of private investment [44]. The adoption of IT could increase production efficiency and effective communication; decrease transaction cost; improve access to markets; and promote innovation and competition. Based on Romer's endogenous growth theory, technological development is a fundamental determinant of long-term economic growth, and this directly affects the decisions of private investment [45]. However, if the access to the ICT infrastructure is limited, the cost is high, and if the availability of human resources is inadequate, the effects would not be strong and decrease private investment [46]. Thus it is very important to enhance the digital infrastructure and facilitate IT adoption.

2.2.7 Administrative challenges

One category of obstacles which private investment faces in developing countries is the difficulties associated with the administration of investment rules. This includes complicated procedures for entry, delay in acquisition of land and licenses, policy distortion, corruption and inefficiency on the part of government administration [47]. There is often a positive relationship between these types of obstacles and level of corruption and quality of governance [48]. In investor-state dispute settlement arbitrations, administrative law issues often arise, and arbitrators are required to work within the complicated domestic system [49]. Administrative reform should be made as part of the overall process involving liberalization, anti-corruption measures and public sector development [48].

2.2.8 Marketing factors

Market variables are indeed important in affecting the size and increase of domestic private investment, especially in the manufacturing sub-sector. Inability or inadequate access to both local and international markets will certainly determine the ability of a company to compete, expand its production and achieve its profit targets. For Ethiopian domestic investors, access to markets still constitutes one of the key constraints. In many instances local firms face inadequate distribution systems, limited marketing infrastructure and absence of reliable market information.

2.2.9 Domestic and Foreign market challenges

There are three types of distortions that can hinder structural change: market failures, coordination failures and knowledge/technology acquisition failures. The conventional thought about economics is that markets will produce efficient outcomes on their own, and government interventions in allocating resources among sectors should be limited. However, it is more widely accepted now that markets can fail and the state can have a role in generating outcomes that might be better or more efficient. One of the cases where industrial policy can potentially fix a market failure is information and cost discovery externalities.

A main challenge in the domestic market is low purchasing power. Domestic market size is limited due to low per capita income in developing countries and poverty which leads to low effective demand for manufactures (Ethiopia). It is maintained by Hausmann and Rodrik (2003) that information externalities will deter agents from undertaking new activities in the economy. The absence of property rights in some sectors also affects this [50].

2.3 Empirical studies on the determinants of domestic private investment

In general, modern empirical observations argue that to encourage private domestic investment an integrated framework encompassing macroeconomic stability, deep financial sector, prudent fiscal policy, enhancing institutions and better integration into the global economy is needed. These variables are; Public Investment, Private sector credit supply, External Debt, Economic Openness, Corporate Tax, and Democracy; while GDP growth, real interest rates, inflation and real exchange rate is statistically insignificantly related to private investment in Ghana. This analysis found that, there are positive and significant impact of public investment, real GDP, external debt servicing, availability of credit from bank on private investment over time. While interest lending rate, and FDI are negative impact on private investment. In a study conducted by Legass, Derese and Shikur (2022), they found that the inflation rate, real GDP growth and population growth were relevant determinants of private investment in Ethiopia [51]. Empirical studies for Malawi indicate that high real interest rates inhibit private investment through their impact on borrowing costs while trade openness (in short-term) has a positive relationship with private sector activity through increased market access and resource availability [52].

According to Fujaw (2018) using OLS regression analysis investigates determinants of private investment in Ethiopia. This study identified that public investment, real GDP, external debt servicing, access to bank credit have positive and significant relationship with private investment whereas interest lending rates, FDI have negative relationship with private investment over the time span. Fujaw conclude that policy makers have to focus on increasing real income and strengthens the public investment and institution so that private investment increases. While examining the trends of inflation and national monetary reserves the study identified that the variables in this regard did not have any significant relationship on private investment in Ethiopia over the time span [37].

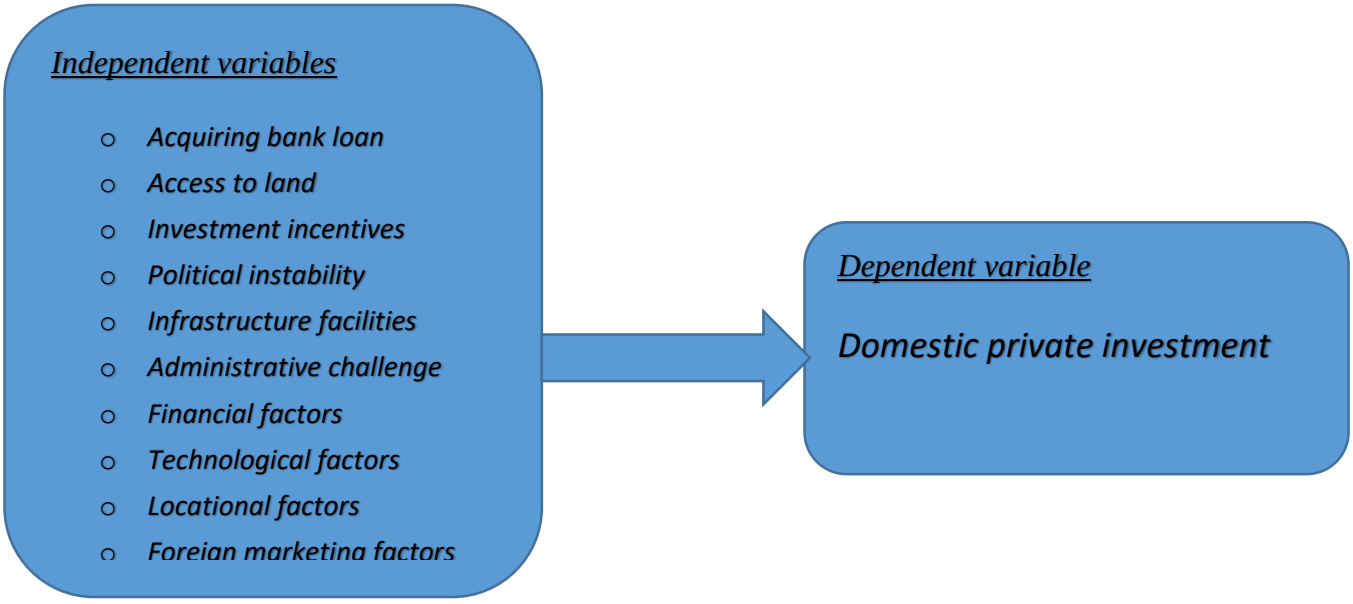
According to researches done for Ghana, by using an OLS technique, with time series data for 1980-2010 multiple linear regression models show several factors as significant variables affecting the private investment in Ghana, they include; Public Investment, Private sector credit supply, External Debt, Economic Openness, Corporate Tax, and Democracy; however, GDP growth, real interest rates, inflation and the real exchange rate had a statistically insignificant relationship to private investment. In light of these results, the study recommend to follow tight fiscal policy in order to

minimize the crowding-out impact of government policies on the private sector and to pursue foreign trade and trade liberalization for the better performance of private investment in Ghana [53].

The empirical research conducted by Ekpo (2016), through an empirical study, indicates that inflation rate in domestic economies, market size and growth, availability and accessibility to bank credit, interest rates, fiscal deficits, public investment rate, lack of infrastructure, political and economic stability and the general investment climate and institutions factors as important determinants that had a statistically significant impact on private investment in Nigeria [54]. However, modern empirical studies (Bedhiye & Singh, 2023) show that access to credit and financial inclusion and efficiency in the banking system facilitate firms tofinance their investment projects. In the meantime, they observed that policy changes on tax and reduction in import duties facilitate private investment; however the increase in the budget deficit and government expenditures can adversely affect it since there are limits to financing private investments [55].

Generally, modern empirical evidence points out that stimulating domestic private investment requires a holistic approach; stable macroeconomy, strong financial sector, prudent fiscal policy, improving institutional quality and effectively integrated global economy. As a result, policymakers of developing countries must adopt a multidimensional approach.

2.4 Conceptual Framework



Source: Adapted from Work(2020) [24]

2. 5 Operational definition of variables and study variables

It was hypothesized in this research that many factors influence on operation and performance of private investors in the study area. Several main determinants factors of the growth of private investors in the manufacturing industries are described, discussed and identified. Each of the determinant factor was stated with their descriptions, the sign and direction of the effect to the private investor's performance and growth, and the variable that would be used which also comply with the operation definition of independent variables - performance and growth of private investor.

Dependent variable

Domestic Private Investment (DPI): As far as this study is concerned, we considered "Domestic Private Investment (DPI)" as, "private individuals taking over capital assets so as to generate either an income or a capital gain or both". A capital asset could be considered as the purchase of a relatively illiquid asset or resource in expectation of a future profit. To calculate the DPI, we examined the proportion of private investment (equity, loan or equity+loan). Equity was defined as "business's value in excess of liabilities; the share of private investors in a firm". Loans was define as the original principal borrowed or balance due on new loan, and/or fixed monthly payment amount, a fixed loan maturity and fixed nominal annual loan interest rate. Total assets represents what was owed to private domestic investors (liabilities) and total owed by the private domestic investors (total equity).

Independent variables

***Acquiring bank loan (Acbl*) (External Credit Access):** This refers to that an individual or business reaches the stage where they are able to access financial products, for instance loans and deposits. Access to loans by financial institutions (availability of bank credit to private investors) significantly affects the operation of private investors in all statuses. The study examines whether investors' operational activities have been influenced by their actual access to credit facilities, considering key factors such as collateral requirements, bureaucratic processes, interest rates, and the amount of credit available[24].

H1: Access to bank loans will have a positive and significant influence on domestic private investment in the manufacturing sector.

Access to land (Atl): It is the process by which individuals or groups obtain rights and opportunities to access and use land. This access may serve productive, economic, or social purposes and can be either temporary or permanent. The private investors were asked whether they experienced a delay due to access to land for their investment activities or not by considering the land tenure system, bureaucratic procedures, lease prices, and the size of land[24]. This study will re-examine its potential influence within the current context of the manufacturing sector.

H2: Access to land will have a positive and significant influence on domestic private investment in the manufacturing sector.

Investment incentive (Int): Investment incentives in Ethiopia have been a focal point for stimulating domestic private investment. Aschalew Kassa (2023) discovered that while other tax incentives had little impact, tax holidays and export duty exemptions in particular greatly increased capital accumulation in Addis Ababa [56]. favorable long-term effects of tax incentives on domestic investment, showing that a 1% increase in tax incentives might result in a 1.401% increase in domestic investment between 1982 and 2017 [57].

H3: Investment incentives a positive and significant influence on domestic private investment in the manufacturing sector.

Political Risk (PR): Private investment in developing countries, particularly in the manufacturing sector, is influenced by various political and economic factors. Political instability, especially violent uprisings and unconstitutional government changes, hinders private investment[40]**.** The

determinants of domestic private investment in Ethiopia's manufacturing sector have been extensively studied. Key positive factors include GDP per capita, political stability, and public investment [58, 59]. Macroeconomic uncertainty and political instability also hinder investment [59].

H4: Political instability risk has a negative and significant influence on domestic private investment in the manufacturing sector.

Infrastructure facility *(IF):* It represents whether the investor incurred delay or not due to unavailability of access to infrastructure facility. Poor infrastructure facility including lack of road, water, electric and telephone services etc. To have influence over the investment and contributions to the advancement of investment [13].

H5: Infrastructure facilities positive and significant influence on domestic private investment in the manufacturing sector.

Financial factors (FF) (Internal Financial Capacity)*:* The financial aspects; such as shortage of finance or money: was a problem because it is a business that has to mobilize money or its resources to start and grow its business. Furthermore, difficulties on obtaining bank loan in the developing countries due to the high obstacles in getting bank loan, low profit, and lack of collateral [60].

H6: Financial factors have a negative and significant influence on domestic private investment in the manufacturing sector.

Technological factors (TF): Empirical evidence indicates that the most prominent challenges facing the manufacturing sector are the low quantity and quality of imported materials and technologies and the low level of skills. CSA's study revealed that over 50 percent of firms stated that first biggest reason behind their low utilization of capacity is low utilization of technology.

H7: A technological factor has a positive and significant influence on domestic private investment in the manufacturing sector.

Administrative challenges (AD): Empirical evidence has shown that the problems encountered at the level of administrative problem varies from broader one (policy dimension) to narrower one (firm specific administrative conditions).some policy maker has argue that there has been problem for investing into manufacturing, that weak policies and, more importantly, weak law enforcement and other imperfections. The bureaucracy was also a concern and it has been stated that the problem of bureaucracy may be why staff turnover is so high and firm loyalty is so weak [61].

H8: Administrative challenges have a negative and significant influence on domestic private investment in the manufacturing sector.

Locational factors (LF): Gebrewubet (2017) indicates that if observations from distinct socio-economic or eco-environmental zones are in the sample then it is relevant to introduce dummy variables for location of investment [62]. Area-specific variables identified in relation to investment decision: access to market, access to infrastructure, and distance to raw material and costs that have to be incurred for specific reason of being at that specific location.

H9: A locational factor has a positive and significant influence on domestic private investment in the manufacturing sector.

Domestic and foreign market challenges (DM & FM): In a case study of Ethiopia's manufacturing firms provide strong evidence about the significance of firms coordinating and network to trigger technological innovation. The results of empirical works demonstrate that local business relationships is the important way through which firms absorb information on market opportunities, products, competitors and production processes

H10: Domestic and foreign market challenges have a negative and significant influence on domestic private investment in the manufacturing sector.

Variables	***Measurement***
Acquiring banks loan related problems	Collateral Requirements Of Banks/Financial Institutions Bank Paper Work/Bureaucracy/ Loan Delivery? High Interest Rate? Corruption Of Bank Officials? Inadequate Credit/Finance? Banks Require Detailed Feasibility Study
Land access factor	Existing Land Tenure System Bureaucratic Procedure Getting Land High Lease Price
Investment incentive structure	Incentives Income Tax Holidays Custom Duty Access To Bank Loan Market Incentives
Political stability	Border Conflict Weak Security System Public Offices Unnecessary Interference

Administrative challenges	Poor Enforcement Of Laws, Rules And Regulations Tax Rates And Administration Complex Legal And Institutional Framework Negative Attitude Against Consumption Of Locally Produced Goods
Financial Factors	Financial Institutions High Cost Of Raw Material And Other Inputs High Interest Rate On Bank Loan Low Credit Facility To Get Bank Loan Macroeconomic Uncertainty (Inflation, Exchange Rate) High Cost Of Working Capital High Energy Cost
Technological factors	Research And Development Works Appropriate Technology Supply Information And Communication Technology
Infrastructural factors	Road Construction/Transport Electric Power

CHAPTER THREE

RESEARCH METHODOLOGY AND MATERIALS

3. 1 Study area and period

West Arsi is a zone in the Oromia Region of Ethiopia. This zone is named after a subgroup of the Oromo, who inhabit it. It covers an area of 11,776.72 km^2, divided into 13 districts (*weredas*) and 2 cities [63]. The population was officially estimated at 3,066,731 in 2024 [64]. The administrative center of this zone is Shashamane, with an estimated 230,019 inhabitants in 2024 [64]. other towns in this zone (with estimated populations in 2024) include Arsi Negele (419,302) in Arsi Negele District, Dodola (308,806) in Dodola District, Asassa (287,430) in Gedeb Asasa District, Kofele (271,494) in Kofele District, Adaba (210,583) in Adaba District and Kokossa, Kore, shala, Nensabo,Wondo, Hajjee, Siraro. Based on the 2024 population estimated by the Central Statistical Agency of Ethiopia (CSA), this Zone has a total population of 3,066,731, of whom 1,514,357 are men and 1,552,374 women. 622,962 of population are urban inhabitants [64].

3.2 Research Design and Methodology

A cross-sectional descriptive and analytical research design was employed. The cross-sectional design was chosen because data were collected from manufacturing firms at a single point in time. The design was appropriate because it enabled the researcher to collect data from manufacturing investors at one point in time and examine the relationship between domestic private investment and its determinants efficiently in terms of time and cost. The descriptive component summarized the characteristics of respondents and investment patterns, while the analytical component enabled the examination of relationships between independent variables (economic, infrastructural, and institutional factors) and the dependent variable (level of domestic private investment). This design was well-suited for the purpose of finding the determinants of investment and giving evidence-based recommendations.

3.3 Source and Type of Data

Both primary and secondary data sources were employed in this research. Primary data were obtained from the semi-structured questionnaire and interview. The structured questionnaire was administered on a sample of domestic private investors participating in the manufacturing sector in West Arsi Zone. The variables used for the questionnaire included information about access to credit, infrastructure, market access and institutional environment, among others. To acquire further information from investors and managers in the manufacturing sector, interview technique was used. These interviews aimed to complement the information obtained from the questionnaires and provide further insights into investment implementation, relevant policies, and decision-making processes within the sector.

Secondary data were also utilized, including journals, books, the Ethiopian Investment Proclamation, documents from the Ethiopian Investment Commission, Oromia Investment Commission, the Zonal Investment Office, and manuals and policies from the Zonal Trade and Industry Office and manufacturing companies. However, secondary data were not used for statistical analysis in this study.

3.4 Target Population

All registered domestic private investors in manufacturing industries in the West Arsi Zone, Oromia Region, Ethiopia were the target population of the study. Records acquired from the West Arsi Zone Investment Office shows that a total of 382 registered domestic private manufacturing investors were operating in different parts of the zone namely in Shashemene, Nagele Arsi, Dodola, Gedeb Hasasa, Adaba and Nensabo. These investors were considered the target population as they were directly involved in manufacturing activities and they have practical experiences on issues pertinent to domestic private investment in the manufacturing sector.

3.5 Sample frame

The sampling frame consisted of the complete and up-to-date lists of registered domestic private investors obtained from the West Arsi Zone Investment Office. This included name and address details of all the 382 investors with their current investments within the manufacturing sector. Each individual investor was allocated an identification number so that it would be possible to draw samples randomly. A sampling frame was then taken from this and proportionally drawn samples from each stratum such that all the investors in the sample frame had a known and equal probability of selection.

Table 1: The Sample frame of the study and Proportional Allocation of Sample by Stratum

Investment Areas	No of population	Kinds manufacturing	Sample size	Status of companies
Shashemene Town	104 investors	2 Bottle water factor's 5 flour mill factor's 2 Food Oil	58	Active
Nagele Arsi town	25 investors	1 Food Oil 3 flour mill factor's	14	Active
Dodola Woreda/town	15 investors	3 flour mill factor's	8	Active
Gadab Hasasa Woreda	36 investors	5 flour mill factor's	20	Active
Adaba Woreda	10 investors	7 meals factors	6	Active
Nensabo Woreda	196 investors	100 coffee factor's	109	Active
Total	382		215	

Source: Zonal investment office (2025)

3.6 Sampling technique

This survey used a stratified random sample with proportional allocation. This gave the same number of respondent for each of the 6 adminisrative/investment zones. (Shashemene Town, Nagele Arsi, Dodola, Gadab Hasasa, Adaba, and Nensabo). These administrative zones were treated as individual stratum and total sample size distributed proportionally in relation to number of investors in each stratum. Within each stratum, sample selection of investors was carried out by using simple random sampling method from updated investor lists. If there is a non-respondent then it is replaced from within the stratum.

3.7 sample size determination

The sample size for this study was determined using Yamane's (1967) formula, which is appropriate when the total population size is known. This formula provides a simplified method for calculating sample size at a specified precision level.

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

$$n=\frac{382}{1+382(0.05)2} =195$$

Add 10% non-response: 195+19.5=**215**

3.8 Data Collection Tool

The study employed a structured questionnaire for data collection. The questionnaire was designed after taking into consideration relevant literature and empirical studies carried out in similar contexts as well as the specific circumstances of the Ethiopian manufacturing sector. The questionnaire contained standard questions compatible to the aims of the study and it was hoped that response can be consistent and comparable. Majority of the questions were close-ended (Likert scales, multiple-choice questions and Yes/No format) so that they can be analyzed quantitatively. Some open-ended questions were also appended to gather further information on investment opportunities and difficulties. The question dealt with the crucial variables which include personal and firm characteristics, investment decisions, and determinants of private investment and so on. The questionnaire was drafted with clear and simple questions that the respondents can easily understand.

Reliability and validity of the instrument was ensured through pre-testing it on a small sample of manufacturing investors and revising the instrument according to the responses. Face to face interviews were used to collect the data from business owners or managers of manufacturing firms. In order to ensure accurate, unbiased and standardized collection and analysis of data trained enumerators were used to ask questions from respondents with the help of questionnaire.

3.9 Data Quality Assurances

The questionnaire was first drafted in English then translated to Afan Oromo (local language) and Amharic languages. Once all questionnaires had been translated into other languages, the translator back-translated the translated versions into English. This back-translation process was done to ensure the quality and consistencies of the measurements. A pre-test for the questionnaire was conducted on 5% of the total sample in a different locality similar with the study area which was not part of the main study and in order to ascertain the accuracy of the questions, reliability of the answers, time needed to collect data and clarity of question. The data collectors received both training and briefing before collecting the actual data and were supervised throughout the data collection process. Questionnaires were retrieved daily, checked for completeness and coherence.

3.10 Data Processing and Analysis

Profile of the respondents and other factors related to the study were describe by means of descriptive statistics: frequency, percentage, mean, standard deviation. The descriptive statistics presented below indicate the investor's attributes: demographic characteristics of the investors (age, level of education) types of manufacturing firms investment amount, and the nature of their investment (e.g., availability of finance, infrastructure, access to market, bureaucratic issues, land acquisition issues etc.). Descriptive statistics: frequencies, percentages, mean and standard deviation, were used to describe the profile of respondents and other relevant variables to the study. These descriptive results have identified the characteristics of the investors such as demographic (age, educational level) aspects of the investors, types of manufacturing business, investment size, and credit access, infrastructure, market accessibility, challenges of bureaucracy, land acquisition etc.

Multiple linear regression analysis: in order to determine the significant factors that affect the domestic private investment in the manufacturing business the regression analysis was conducted. The tests conducted before conducting regression are multicollinearity (VIF) test, heteroscedasticity test (Breusch-Pagan test or White test), test for normality of residuals (Shapiro-Wilk or Jarque-Bera test) and test for model specification (Ramsey RESET test). The regression results was summarized in tables and discussed and graphs also presented, using bar-charts and line graph, to support with adequate description. Lastly, conclusions and recommendations were made and were interpreted with the findings of previous studies and the local context of the West Arsi Zone.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Socio-demographic and Socio-economic Characteristics

The descriptive statistics on the respondent characteristics and firm-related information on the manufacturing industries of the West Arsi Zone are presented in this part.

Sex of Respondents

From the findings, it can be concluded that a large number of male investors are involved in the manufacturing sector in the area. A majority of the respondents (79.5%) was male with 171 male respondents and a minority (20.5%) was female with 44 female respondents. This shows that the manufacturing sector in the area is male-dominated. The minimal number of female investors may be caused by cultural and social barriers; restricted access to finance, low level of women involvement in industrial investment.

Educational Level of Respondents

In relation to the level of education achieved, none of the respondents possessed any degree level qualifications, i.e. Master's or doctorate. Just15 out of the 215 respondents (7%) possessed a first degree, the remaining 200 (93%) only held a diploma or less. This suggests that for the most part investors within manufacturing firms only have a comparatively low level of education. This may influence business performance, use of technology, decision-making capability, and so on.

Age Distribution

Based on the age of respondents, it appears that most respondents who are actively participate and having experiences are investing in this sector. The greatest proportion of respondents was in age 41-50 where there are 207 respondents (96.3%). While for age over 50 there were 2 respondents (0.9%) and for age between 31-40 there were only 6 respondents (2.8%). Based on the age of respondents, this sector mainly invests by the senior and experience investor rather than younger investors.

Years of Engagement in Manufacturing

From the experience perspective, most respondents had considerable experience in the manufacturing sector. The majority of respondents, 121 (57.3%), had between 6 and 10 years of experience, while 83 (39.3%) had more than 10 years of experience. Only a small number of respondents had limited experience, with 4 (1.9%) having between 2 and 5 years of experience and 3 (1.4%) having less than 2 years of experience. This indicates that most investors in the manufacturing sector have substantial industry experience, suggesting that the sector is largely dominated by well-established investors rather than new entrants.

Type of Manufacturing Activity

The results indicate that most of the investors were working in food and beverages industries (129 respondents: 60% of all. Then wood and furniture (70 respondents: 32.6%). Only a small part of respondents work in metal and engineering (9 respondents: 4.2%) and in other non-metallic products industries (7 respondents: 3.3%). It can be seen that there is a concentration of production industries (at least, in the region being studied) which seem to be rather low capital intensive (as opposed to machinery or chemistry sectors), as well as quite "traditional".

Perception of Educational Level on Investment Delay

Whether the level of education of respondents influence delays in investment actions. Most of the respondents answered positive (107 (49.8%) of respondents agreed and 37 (17.2%) strongly agreed), whereas 41 (19.1%) of respondents strongly disagreed, 20 (9.3%) disagreed and 10 (4.7%) neither agree nor disagree. So the respondents are indicating that a lower education may increase delays in investment activities due to, in the opinion of the respondents, lower managers skills or know-how.

Source of Finance

The study results indicate that the greater part of the investments was funded by shared contributions, 187 of the respondents (87%) making use of this type of financial contribution, whilst 28 respondents (13%) made use of personal contributions. This would imply dependence on community-type mechanisms for financial contribution, possibly due to restriction to institutional finance.

Legal Form of Investment

The legal structure of the business: The vast majority of respondent owned shares business; there are 157 respondents, that is 73%, and a partnership business and a sole proprietorship business equally owned 27 respondent. that is 12.6%. It seems that a proper and formal business structure is preferred, in the aspect of capital mobilization and risks sharing.

Access to Financial Institutions

As far as questioning investors about whether or not they have approached banks for loans are concerned, many investors responded positively to the questions asked. A total of 125 investors (59.2%) "Strongly agree" while 31 (14.2%) "Agree". The majority of the investors were seeking for loans from banks. There were 26 (12.3%) investors who "strongly disagree" and 23 (10.9%) who "disagree".

Difficulty in Accessing Finance

Even though effort was made to contact financial institutions, majority of the respondents experienced problems in getting finance. The responses given are that for most of the respondents i.e 93 (43.3%) it was very difficult, for 73 (34%) it was difficult, and for 8 (3.7%) and 5 (2.3%) of them it was easy and very easy respectively, and for 36 (16.7%) of them it was of average nature. This fact indicates clearly that access to finance is a binding constraint for private investors in the manufacturing sector, sector.

Table 2: Socio-Demographic and Investment Characteristics of Respondents in the Manufacturing Sector of West Arsi Zone, 2025/2026

Variables	*Category*	*Frequency*	*Percent*
Sex	Male	171	79.5
	Female	44	20.5
Educational level	PhD	0	0
	Masters	0	0
	1st Degree	15	7
	Diploma and Under	200	93
Age	31-40	6	2.8
	41-50	175	82.9
	Above 50	30	14.2
years been engaged in manufacturing	lessthan 2 years	3	1.4
	2-5 years	4	1.9
	6-10 years	125	58.1
	more than 10 years	83	38.6
Type of manufacturing activity:	Food and beverage	129	60
	Wood and furniture	70	32.6
	Metal and engineering	9	4.2
	Non-metallic products	7	3.3
educational level affect to delay	Strongly disagree	41	19.1
	Disagree	20	9.3
	Neutral	10	4.7
	Agree	107	49.8
	Strongly agree	37	17.2
source of finance for your investment	Own contributions	28	13
	Share contributions	187	87
What is the legal form of your investment?	sole proprietorship	27	12.6
	share company	157	73
	partnership	27	12.6
have you ever approached financial institutions (such as banks) for a loan as a source of finance	strongly disagree	26	12.1
	Disagree	23	10.7
	Neutral	6	2.8
	Agree	35	16.3

	Strongly Agree	125	58.1
finance difficulty accessing sources of finance	very easy	5	2.3
	Easy	8	3.7
	medium	36	16.7
	Difficult	73	34.0
	very difficult	93	43.3

Source: Survey (2026) done by the researcher, based on SPSS output.

Domestic private investment

The researcher used parameters where: 1= strongly disagree 2= disagree 3= Neutral 4= Agree=5= strongly agree

Table 3: Responses on domestic private investment

Domestic private investment	**SD**	**DA**	**N**	**A**	**SA**	**M**	**SD**
Increasing income or Equity year to year	0	6	75	112	22	3.71	0.68
Increasing loan or liabilities	0	37	26	145	7	3.58	0.81
Increasing total asset of investment	0	0	44	72	99	4.26	0.76

These result demonstrate that domestic private investment in manufacturing in the West Arsi Zone is broadly experiencing growth. More than average respondents agree that their income or equity have been growing over time (Mean=3.71 and S.D. =0.68), suggesting relative respondents' similarity in their replies. Likewise, more than average respondents have accumulated total assets (Mean=4.28 and S.D.=0.76), also suggesting relative respondents' similarity in their replies and it can also show that accumulating total assets can be the most important indicator of investment growth; thus indicates that investors have increased the capacity and financial strength of their businesses on increasing pace.

In contrast, loans or liabilities have also been growing over time (Mean=3.58 and S.D.=0.81), demonstrating moderate level of respondents' similarity in agreement; implying that many investors borrowed capital to accelerate investment growth while variation in responses could possibly indicate the presence of difference in financial management practices of entrepreneurs and access to credit. In conclusion, it implies that though there is investment growth on the basis of income and

total assets in the zone, loans and liabilities have also been contributing their part for such growth. Low value standard deviations of all these factors indicate that the result is relatively consistent and hence improving accessibility to the most appropriate source of financing is crucial for accelerating further investment.

4.2 Descriptive Statistics of Study Variables

4.2.1 Descriptive Statistics of acquiring banks loan in the study area

The descriptive statistics in Table 4 reflect the main obstacles experienced by the respondents in borrowing a bank loan in the area. The overall mean score for acquiring bank loan problems was 3.95 with a standard deviation of 0.95. This shows that respondents generally agreed that institutional and financial factors were limiting access to bank loans. Amongst the factors reported, complicated paper work, bureaucracy and slow delivery of loan had the highest mean score (M= 4.9, SD=0.766). This shows that for most of the respondents, complex procedures and lengthy processes in the banking system are the greatest obstacles for bank loans and these findings agree with results in many developing countries. Work done in Tanzania, Zambia and Ghana, show that heavy bureaucracy and demanding documentation procedures are sometimes significant barriers to getting institutional finance. Many small and medium-sized enterprises investing in manufacturing bear the brunt of such institutional factors, mainly because they have the lack of adequate staff and expertise to handle complicated lending [65-67].

The problems associated with finance were also very pronounced: high interest rate (M = 4.18), the collateral requirement being too strict (M = 3.8) and the access to credit being too restrictive (M = 3.94). In total, however, these constraints still hinder investment from the industrial sector in securing finance. This result corroborates the result obtained in Vietnam where the collateral requirement and interest rate were revealed to be significant hindrances. This reflects the general trend occurring in developing economies where bank lend on the basis of much tighter requirements and higher interest rates for SMEs than for larger firms [68]. But in the case that add in 1, these studies coming from different economics or geography background indicates a broader picture. It is the way how banking sector in developing country structured and thus the limited access to finance that limits the investment in manufacturing sector, not merely the domestic characteristics.

Table 4: Descriptive Statistics of acquiring banks loan in the study area

The researcher used parameters where: 5=Strongly Agree, 4=Agree, 3 = Neutral, disagree, 2= Disagree and 1=Strongly Disagree

	acquiring banks loan	**SD**	**DA**	**N**	**A**	**SA**	**M**	**SD**
	High collateral requirements of financial institutions	2	28	17	127	37	3.8	0.91
	Bank paper work/ bureaucracy/ delay in loan delivery	0	7	0	107	65	4.9	0.766
	High interest rate	0	2	17	134	58	4.18	0.604
	Corruption of bank officials	29	38	25	77	42	3.31	1.343
	Inadequate credit/finance	9	17	10	117	58	3.94	1.015
	Banks require detailed feasibility study information on customer	3	52	10	120	26	3.54	1.038
	Mean of mean for Acquiring bank loan problems						3.945	0.95

Source: Field survey, 2026

4.2.2 Descriptive Statistics of land access in the study area

Table 5 reveals major problems relating to access to land in the study area with respect to descriptive statistics. In institutional and economic sense, access to land among respondents was made possible with different degrees of constraints. This explains why land tenure insecurity, bureaucratic constraints and high lease prices appear to be important structural constraints to access to land in developing regions. This finding is backed up by data collected in Ethiopia and SSA and also many other developing regions. This result, which suggests that the most severe problem, among the listed ones with regard to access to land, is land tenure systems (M = 2.68, SD = 1.521), supports the results of much of the empirical evidence from across Ethiopia and SSA.

The existence of insecure land tenure in Ethiopia in particular, has been noted as having contributed considerably to the slow pace of business and participation in the land market. It has been found that uncertainty over ownership and tenure rights constitutes significant problems for businesses, and large-scale land certification program experiences found improvements in tenure security to be associated with a reduction in problems with investment and participation on millions of plots[69, 70]. Conflict between customary and statutory tenure systems was identified as a constraint on the

development of agribusiness in Sub-Saharan Africa more broadly, though with mixed results across the region's states [71].

This suggests that the difficulties faced when navigating through the complexities of administration and institutional effectiveness in urban land management pose significant impediments to access land for business enterprises, which is consistent with our finding for bureaucratic procedures (M = 2.66, SD = 1.443) [69]. As in Ethiopia research in Nigeria indicated that bureaucratic inefficiency and regulatory obstacles were prevalent impediments to access land in developing country cities, with fragmentations of land markets contributing to discouragement of private sector investment [72]. The findings of the lease price (M = 2.51, SD = 1.371) echo existing documentation for Ethiopia and for developing countries. Ethiopian studies for example indicate high increases in urban land lease bid prices across the board make it inaccessible for most private enterprises and tenure security is found more important than type of ownership to draw investment in Ethiopian lease towns [69, 73].

Table 5: Descriptive Statistics of land access in the study area

Land access	**SD**	**DA**	**N**	**A**	**SA**	**M**	**SD**
Existing land tenure system	**56**	**74**	**9**	**26**	**46**	**2.68**	**1.521**
Bureaucratic procedure getting land	49	77	25	17	43	2.66	1.443
Lease price	56	72	36	13	34	2.51	1.371
Mean of mean for land access problems							

Source: Field survey, 2026

4.2.3 Descriptive Statistics of on political Instability in the study area

The descriptive statistics show that, the whole study area had mean political instability score 2.84 and standard deviation 0.80. This suggests that the respondent's attitude on political instability factors present in the study area was in moderate level. From the data output, public office unnecessary intervention (M=4.23, SD=1.027) and low system of security (M=4.19, SD=0.782) have the highest mean scores suggesting the respondents agreed the two factors were major causes of political instability in the study area. In Amhara Ethiopia research identified that weak governance and ineffectiveness of institutions increase the probability of political instability (B=0.434, $p<0.01$) [74]. Similarly, Research conducted in the Banking sector noted thatethnic conflicts and political

violence have negative impact institution performances in Ethiopian banking [75]. Political instability has long been recognized as a cause of failure in Sub-Saharan Africa. There is severe economic disruption due to political instability [76]. In many developing countries in Sub-Saharan Africa, Asia and Latin America political and security stability is necessary for food security and reduce under-nutrition [77]. Along the same lines, instability destroys social cohesion at the regional level and disrupts essential services [78] .

In the other hand border conflict (M=1.58, SD=0.715) and high trade restrictions (M=1.37, SD=0.680) had low means indicating respondents generally disagreed that these are causes of political instability in the study area.

Table 6: Descriptive Statistics of politically instability the study area

political Instability	**SD**	**DA**	**N**	**A**	**SA**	**M**	**SD**
Border conflict	115	70	25	1	0	1.58	0.715
Weak security system	0	6	30	93	82	4.19	0.782
High trade restriction	156	33	21	1	0	1.37	0.680
Public offices unnecessary interference	4	15	23	55	114	4.23	1.027
Mean of mean for political Instability						**2.84**	**0.8**

4.2.4 Descriptive Statistics of on Infrastructural factors in the study area

The output data presented in Table 7 reflect the respondents' opinions regarding the contribution of infrastructural factors on domestic private investment in manufacturing in West Arsi zone. Some infrastructural services are relatively well developed and investor-friendly, whereas others are insufficient and restrict the industrial expansion.

The research findings are consistent with general trends of SSA where infrastructure, especially energy, transport, ICT, water supply, etc has been shown as vital factor for the manufacturing expansion. This findings go with the results of this research that water supply (Mean=4.79) and power (Mean=4.93) has positive impact on the investment [79]. Ethiopian data shows that public infrastructure investment now exceeds 15 percent of GDP annually, with a growing emphasis on power and road investments in order to unlock the manufacturing potential of the country [80]. In the case of Ethiopia, evidence also show that whereas road infrastructure investment enhances firms

entry and growth, the pattern of manufacturing firms continues to be geographically concentrated [81].

On the other hand the transportation infrastructure shows an average high mean (Mean=4.26, SD=0.51), that is it has a moderate impact on domestic private investment. This indicates that to the firms manufacturing in this area has relatively better access on raw materials, transportation on labor, and market linkages due to improvements on the roads and transportation system. Ethiopian data previously carried out revealed that transport is critical for economic growth; however substantial infrastructure investment still remains as a binding constraint on small businesses. According to studies infrastructure-related costs represent a significant portion of annual sales, and frequent power outages adversely affects business performance [81, 82]. Further analysis revealed that the factors that influences private investment are found to be differing across different locations; while the impact of public investment depends on local context, real GDP growth tends to promote investment more in Asian and Latin America countries than in SSA[83].

Port facilities scored lowest mean (Mean=1.18, SD=0.385), indicating that investors in this area have the perceptions that port related infrastructures are poor and are not accessible. The low mean on Port facilities (Mean=1.18) could have explained by the landlocked position of Ethiopia. Ethiopian data indicated that significant infrastructural development is required to attract private investment. Filling logistical gaps, especially with respect to external transportation route, are critical for manufacturing growth and competitiveness [38]. Being landlocked, manufacturing sectors can be disadvantaged by poor port access as it rely on external transportation corridor.

Table 7: Descriptive Statistics of Infrastructural factors the study area

	Road construction/transport	0	0	7	142	62	4.26	0.51
	Electric power	0	0	0	15	196	4.93	0.253
	Water supply	0	0	0	45	166	4.79	0.411
	Air Transport	166	39	6	0	0	1.24	0.491
	Port facilities	173	38	0	0	0	1.18	0.385
	Mean of mean for Infrastructural factors						**3.28**	**0.41**

4.2.5 Descriptive Statistics of on financial factors in the study area

The descriptive statistics based on the Table 8 indicates the role of financial variables in domestic private investment in manufacturing sector in West Arsi Zone. The average mean of financial variable was 4.07 and overall standard deviation was 0.86, showing that the respondents generally agreed with financial factors' significant role in private investment in manufacturing sector. These findings support previous findings from Ethiopia, revealing credit availability as one of the major determinant of private investment. The evidence from Ethiopia indicate that there exists a positive correlation between private investment and bank credit, and the firms with access to credit are generally more responsive to business opportunities and investment initiatives [36, 81].

The variables, interest rate of bank loan (Mean= 4.10 and SD=0.668), has to be considered as important factor in determining investment performance because when cost of borrowing increases it discourage private investors. In line with this finding Ethiopia's findings show that, while high interest rate have a negative effect on investment decisions and credit availability have significant and positive long term effect on private investment, it support our finding (Mean=4.10) in that, high borrowing cost discourages investors [84]. Similar evidence from SSA and some other developing countries shows that in SSA and Asian countries private investment has stimulated by developments in financial intermediation and growth in private lending [83]. On the other hand the results from Latin America countries shows that credit plays a minimal role in the private investment. The variable Macroeconomic uncertainty has significant negative effect on investment decision (Mean=4.16) which support finding on SSA where macroeconomic instability has harmful effect[38, 82]. The results on manufacturing costs and infrastructure, energy cost (Mean = 4.04) and raw materials (Mean= 3.91), have to be considered as more than financial aspect. Data from Ethiopia shows that investment cost for infrastructure may be up to 52% of annual sale for small enterprises; there is also negative role for high interest rate and macroeconomic volatility in investment decisions, indicating that comprehensive policy reforms are required to foster private investment [38, 82].

Table 8: Descriptive Statistics of Financial factors the study area

Number of financial institutions	8	31	17	75	84	3.97	1.114
High cost of raw material and other inputs	9	30	25	71	80	3.91	1.130
Interest rate on bank loan	0	0	41	115	59	4.1	0.668
Credit facility to get bank loan	1	1	38	103	72	4.16	0.736
Macroeconomic uncertainty(inflation, exchange rate)	0	2	38	104	71	4.16	0.717
High cost of working capital	0	0	25	140	50	4.14	0.565
High energy cost	19	0	13	109	74	4.04	1.099
Mean of mean for financial factors						**4.07**	**0.86**

4.2.6 Descriptive Statistics of on Technological factors in the study area

The descriptive statistics from Table 9 indicate that there is respondent's perception about the impact of technological factors on domestic private investment in the manufacturing sector in the West Arsi Zone. Total Mean score of technological factors were 4.19 and total Standard Deviation was 0.57 signifying that the respondents agree that the impact of technology factors on the domestic private investment in manufacturing sector. In Ethiopia, especially technological innovation have positive and significant positive impact on the performance of the manufacturing business ($b=0.483$, $p<0.001$), this result supported by agreement of your respondents [85]. However, the implementation gap is critically important based on the current finding, Ethiopia had well organized institutions for R&D activities but the commercialization of R&D product in business sector is lack behind the under-investment 0.61% of GDP and weak business–academia linkages [86].

Evidence has shown that the factors influencing private investment varied considerably between Latin America, Asia and Sub-Saharan Africa. Both the stimulating effect of real GDP growth on investment in Asia and Latin America but insignificant on Sub-Saharan Africa and government spending promotes investment in Sub-Saharan Africa while reverse impact observed in Asia and Latin America indicated significant regional influence on the impact of both technological and economic factors [83]. The finding from this study suggesting that investment performance is not determined only by technological variables; in the case of Ethiopia, the level of skills, absorptive

capacity and the strong linkages between the suppliers affect FDI productivity spillovers positively and significantly [87]. In general, respondents agreement on technological factors (Mean=4.19) may be limited in terms of real investment performance unless there exists good infrastructure, human capital and coherent cross-regional policy implementation.

Table 9: Descriptive Statistics of technological factors the study area

	Research and development work	0	0	26	121	68	**4.22**	**0.617**
	Information and communication technology	4	19	85	107	0	3.4	0.81
	Latest technology supply	0	0	24	135	56	3.95	0.76
	Mean of mean for Technological factors						**4.19**	**0.57**

4.2.7 Descriptive Statistics of on Locational factors in the study area

The overall mean score was 4.70, with a standard deviation of 0.46, this indicates that the respondents strongly agreed on the extent to which these factors were significantly impacting the study area. Of the remaining factor, the availability of raw materials required obtained the highest mean score (M=4.82, SD=0.310) indicating a strong belief on the part of respondents in the significance of this factor, Ethiopian study agrees with the reported mean score of 4.82 regarding availability of raw materials. This finding agrees with previous studies in Ethiopia where due to the difficulty experienced by the SMES in obtaining raw materials, because they could not have access to their sources, their expansion was hindered [88]. Likewise 78.7% of variation in performance across the seven variables was attributed to characteristics related to materials, and are determinants of manufacturing companies' performance, and it was found to be significant [89].

Table 10: Descriptive Statistics of location factors the study area

	Skilled and customer attractive labor force	0	0	19	28	168	4.73	0.58
	Raw materials needed	0	0	0	41	174	4.82	0.31
	Locational to sell your product	0	0	0	100	115	4.55	0.49
	Mean of mean for locational factors						4.70	0.46

4.2.8 Producing at full capacity and Underutilization of capacity?

The result as given in Table 11 showed that, most respondents felt their companies were not working at full capacity. The statement "My Company was working at full capacity" was rejected by more than half of respondents (48.3%) and 13.7% responded with 'strongly disagree'. The main factor affecting their company was insufficient availability of manufacturing inputs, reported by 34.1% of the sample, in response to the question what factors explained underutilization. This indicates that access to needed machinery, raw materials and manufacturing resources restricted capacity. Not having sufficient domestic market was also stated as second highest factor in 25.6% of the respondents. This was an indication that the market was also constraining production volume.

The findings of the survey confirm that of previous studies carried out in Ethiopia where overall capacity utilization was found to be as low as 36 percent compared to 62 percent in this survey, and a proportion of the medium and large industries in manufacturing do not operate at their full capacity [90] Similar trends were also revealed in an international context. For example, the average capacity utilization rate in the food manufacturing sector in Bangladesh was about 65 percent[91]. while the installed capacity in Kenya's sugar sector was reported to be not fully utilized [92]. Infrastructural constraints and institutional weaknesses were also identified as important factors affecting productive capability and industrial performance in more than100 countries [93].

Table 11: Descriptive Statistics of Producing at full capacity and Underutilization of capacity

Do you agree that producing in full capacity at the Moment?		***Frequency***	***Percent***	***Cumulative Percent***
	Strongly disagree	29	13.7	13.7
	Disagree	102	48.3	62.1
	Neutral	53	25.1	87.2
	agree	27	12.8	100
	Total	**215**	**100.0**	
What makes your firm unable to operate at full capacity/ Reason for underutilization of capacity?		***Frequency***	***Percent***	***Cumulative Percent***
	Insufficient domestic demand	54	25.6	25.6
	Shortage of raw materials	72	34.1	59.7
	Limited export market	21	10	69.7

	Old plant and poor productivity of plant capacity	8	18.5	73.5
	Low labor productivity	39	8.0	91.9
	Breakdown of power	17	8.1	100
	Total	**215**	**100**	

Key assumption of the multiple linear regression models

Multicolinrearity Assumption test

The independent variables was examined using Tolerance and Variance Inflation Factor (VIF) statistics to check multicollinearity. When tolerance values are more than 0.10 and Variance Inflation Factor (VIF) values are less than 10, there is no substantial multicollinearity [94]. According to the findings, VIF values ranged from 1.057 to 1.827 while tolerance values ranged from 0.547 to 0.946. Despite having comparatively higher VIF values, the domestic market factor, international market challenge, and infrastructure factor all stayed within acceptable bounds. With the lowest VIF score, political instability showed little association with other variables.

Table 12: Multicolinrearity Assumption test

	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Acquiring banks loan related problems	0.804	1.244
Investment incentive structure	0.840	1.19
Political instability/Risk	0.946	1.057
Administrative challenges	0.660	1.515
Financial Factors	0.827	1.209
Technological factors	0.704	1.421
Infrastructural factors	0.547	1.827
Domestic market challenges	0.621	1.610
Foreign market challenges	0.591	1.693
Location factors	0.703	1.422

Table 12: Multicolinrearity Assumption test

Normality Assumption

A histogram with a normal curve overlay was used to evaluate the normalcy assumption. The data were generally normally distributed, as evidenced by the distribution of domestic private investment, which was roughly bell-shaped and nearly matched the normal curve. With a sample size of 211 observations, the mean and standard deviation were 3.86 and 0.435, respectively.

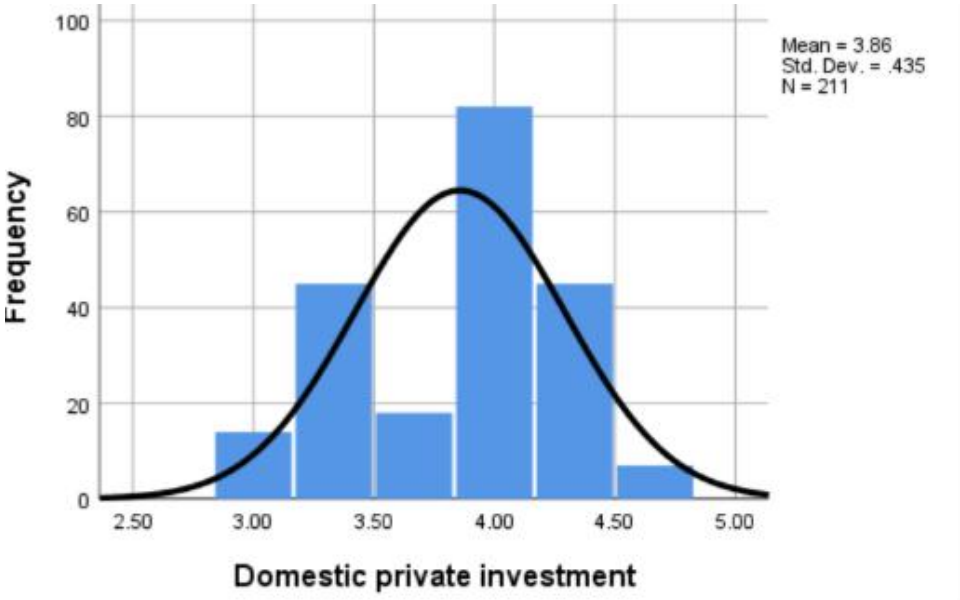


Figure 13: Normality Assumption Check Using a Histogram

Test of Heteroskedasticity assumptions

Heteroskedasticity was assessed using a scatterplot of regression standardized residuals against regression standardized predicted values. The residuals were randomly dispersed around zero without a clear funnel-shaped or systematic pattern, indicating that the variance of the error terms was relatively constant. Therefore, the assumption of Heteroskedasticity was satisfied.

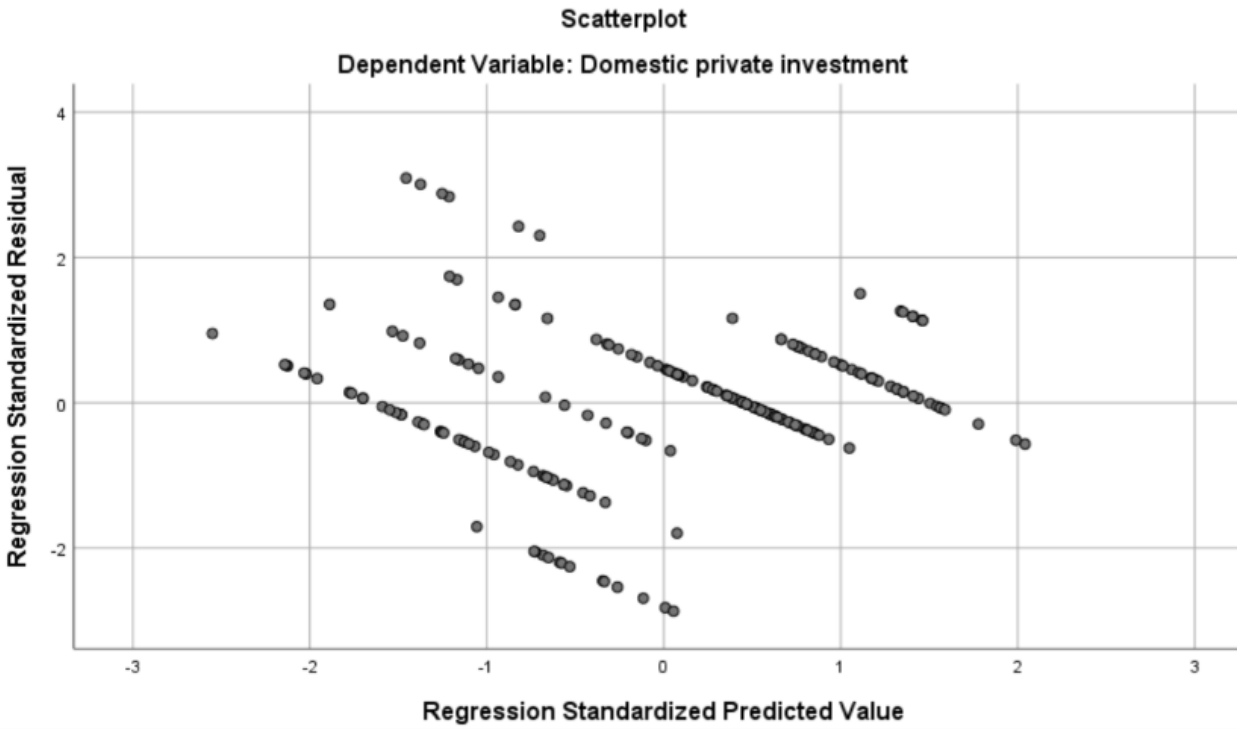


Figure 14: Scatterplot for Assessing the Homoscedasticity Assumption

Reliability and Validity of Instrument

Reliability

Reliability analysis had shown you to study the properties of measurement scales and the items that compose the scales. The Reliability Analysis procedure calculates a number of commonly used measures of scale reliability and also provides information about the relationships between individual items in the scale. For identifying consistency among multiple measurements of a variable, Cronbach‟s alpha coefficients were calculated. As indicated in Table 17, below the coefficients for all other variables are greater than or equal to 0.70, which is good for scale reliability.

Name of Variables	N of Items	Cronbach”s Alpha
Dependent variable(DPI)	3	.787
Acquiring bank loan problems	5	.754
Investment incentive	5	.756
Political instability risk	4	.823
Financial factors	5	.824
Technological factors	3	.786
Infrastructural factors	5	.854
Administrative challenges	4	.821
Locational factors	3	.786
Domestic market challenges	5	.867
Foreign market challenges	4	.798

Table 12: Reliability test (Cronbach"s alpha coefficients)

Validity

Different theories reveals that validity is an indicator of soundness or rationality; whether the findings are really about what they appear to be or the degree to which results collected from the analysis of the data actually represents the phenomena under study. The validity of data gathering instrument is confirmed by the ability & willingness of the respondents to provide the information requested. In order to make the questionnaire valid, relevant & objective to problem, it was properly commented by the advisor, and it also tested on available respondents, and based on the issues which were not properly clear by the respondents were corrected and refined.

Regression coefficients and Model summary

The model depicts that holding the independent variables constant (bank loan, land access, investment incentive, political instability, administrative factor, financial constraint, technological factor, domestic market factor, infrastructural factor, locational factor, and foreign market challenge), their combined effect was examined on domestic private investment.

As indicated in the model summary table, the regression analysis shows a strong relationship between domestic private investment and its determinant variables. The correlation coefficient **(**R = 0.732**)** indicates a strong linear relationship between domestic private investment and the explanatory variables included in the study. The coefficient of determination **(**R^2 = 0.536) indicates that 53.6% of the variation in domestic private investment is explained by bank loan, land access, investment incentive, political instability, financial constraint, technological factor, infrastructural factor, locational factor, and foreign market challenge, whereas the remaining 46.4% of the variation is explained by other factors not included in this study.

The standardized beta coefficient column reveals the contribution that each explanatory variable makes to the model.

H1: Bank loan has a positive and significant impact on domestic private investment.

the researcher concludes that the main problems acquiring bank loan has bank paper work/bureaucracy/ in loan delivery, high collateral requirement, high interest rate on bank loan, and financial institution require detailed feasibility study information on customer as the respondent's response in the study area. The study reveals that bank loan had a statistically significant and positive influence on domestic private investment (t-statistic = 2.596, p-value = 0.010 < 0.05). Therefore, at a 5% level of significance, H1 was not rejected, indicating that bank loan positively influences domestic private investment. Specifically, for every one-unit increase in bank loan, domestic private investment increases by 0.165 units, holding other factors constant. Multiple studies conducted in Ethiopia have repeatedly demonstrated that private investment is significantly enhanced by loan availability [84]. Research shows that bank lending and credit to the private sector both favorably influence private investment over the long and short terms[36, 95]. A study conducted in Nigeria stated that bank credit is the most important source of investment financing for private enterprises in developing countries [54]. And also on his study shows that access to bank credit available for

private sector borrowers have direct influence on private investment activity and high interest rate prevalence during market based monetary policy [54].

H2: Land access has a significant impact on domestic private investment.

The regression result shows that land access had a negative but statistically insignificant effect on domestic private investment **(**t-statistic = -1.011, p-value = 0.313 > 0.05**)**. Therefore, at a 5% significance level, H2 was rejected, implying that land access did not significantly (not affect private investment) affect domestic private investment in the study area. Regarding the significance of land in private investment, however, the Ethiopian data that is currently available shows conflicting results. While some research has revealed minimal or negligible benefits, others have identified a positive correlation between land access and investment decisions. These discrepancies could be the result of different research approaches, geographical areas, and investment environments [96]. Evidence from a wider range of African nations suggests that land access regulations and their effects on investment differ throughout the continent, as several have liberalized their markets and enacted reforms to create a more favorable business environment in recent decades [38].

H3: Investment incentive has a positive and significant impact on domestic private investment.

The study reveals that investment incentive had a positive but statistically insignificant influence on domestic private investment (t-statistic = 0.389, p-value = 0.698 > 0.05). Therefore, at a 5% significance level, H3 was rejected, indicating that investment incentives did not significantly influence domestic private investment in the study area. The insignificant result (p-value = 0.698) is consistent with several studies. Research done in Czech Republic indicates that although investment incentives might draw in new capital, their effects on macroeconomic conditions and overall economic performance may be minimal or statistically irrelevant [97]. In the same way, data from the manufacturing sector indicates that investment incentives may not necessarily result in increases in productivity, employment growth, or value-added growth, suggesting that their efficacy may differ based on the institutional and economic context [98]. Investment incentives can boost regional economic growth by promoting investment and economic activity, according to evidence from regional studies from Turkiye, though the extent of their effects may differ between regions and industries [99].

H4: Political instability has a significant impact on domestic private investment.

The regression result indicates that political instability had a statistically significant and positive effect on domestic private investment (t-statistic = 2.640, p-value = 0.009 < 0.05). Therefore, at a 5% level of significance, H4 was not rejected, indicating that political instability significantly affects domestic private investment. For every one-unit increase in political instability-related factors, domestic private investment changes by 0.118 units, holding other variables constant. Research from Pakistan and Nigeria has consistently shown a negative correlation between political instability and investment success, suggesting that uncertain political conditions might deter investment and impede the expansion of businesses [41, 100].

H5: Administrative challenges have a negative and significant influence on domestic private investment in the manufacturing sector.

The study reveals that administrative factor had a positive and statistically significant influence on domestic private investment (t-statistic = 2.767, p-value = 0.006 < 0.05). Therefore, at a 5% significance level, H5 was not rejected, indicating that administrative factors positively influence domestic private investment. For every one-unit increase in administrative factor, domestic private investment increases by 0.221 units. Specific administrative bottlenecks, such as policy distortions, corruption, judicial system dysfunction, licensing malpractices, tax collection favoritism, bureaucratic delays, and arbitrary enforcement of business regulations, were identified by research [101], Furthermore, it has been demonstrated that governance and institutional quality metrics have a major influence on domestic private investment in a variety of income economies [102]. The quantitative outcome indicates that significant improvements in private investment may arise from enhancing administrative effectiveness and lowering bureaucratic barriers.

H6: Financial factors have a negative and significant influence on domestic private investment in the manufacturing sector.

The result shows that financial constraint had a statistically significant and negative influence on domestic private investment (t-statistic = -4.362, p-value = 0.000 < 0.05). Therefore, at a 5% significance level, H6 was not rejected, indicating that financial constraints significantly affect domestic private investment negatively. Specifically, a one-unit increase in financial constraint decreases domestic private investment by 0.257 units, this results aligns with extensive international

evidence. Financial limitations have a negative impact on business development and investment decisions, according to data from manufacturing companies across various nations, underscoring the significance of financing availability for business expansion and investment success [103, 104]. Research done in Ghana found private investment declines when financing constraints tighten [105].

H7: Technological factor has a significant impact on domestic private investment.

The regression analysis reveals that technological factor had a statistically significant and negative effect on domestic private investment (t-statistic = -2.397, p-value = 0.017 < 0.05). Therefore, at a 5% significance level, H7 was not rejected, indicating that technological factors significantly influence domestic private investment. A one-unit increase in technological-related challenges decreases domestic private investment by 0.155 units. Research indicates that innovation and business performance may be impacted in different ways by technology advancement. Investments in technology may boost creativity and productivity, but issues with acceptance, absorption, and preparedness can restrict these advantages and, in certain situations, have a detrimental impact on performance results [106, 107].

H8: Domestic market factor has a positive and significant impact on domestic private investment.

The study reveals that domestic market factor had a statistically significant and positive influence on domestic private investment (t-statistic = 4.551, p-value = 0.000 < 0.05). Therefore, at a 5% significance level, H8 was not rejected, indicating that domestic market conditions positively affect domestic private investment. For every one-unit increase in domestic market factor, domestic private investment increases by 0.757 units. This result is in line with earlier studies that discovered market-related elements significantly boost private investment, indicating that efficient use of market opportunities may lead to higher levels of investment [108]. In addition, market conditions have been acknowledged as an important driver of investment decisions, and evidence shows that good markets provide good opportunities for new investments and business expansion [109]. The private investment in Ethiopia has been found to be positively influenced by domestic market size. Furthermore, the analysis of a few studies shows that the growth of real GDP has a positive and significant impact on private domestic investment, which also shows that the increase of market demand influences positively investment activity [59, 84].

H9: Infrastructural factor has a positive and significant impact on domestic private investment.

The result reveals that infrastructural factor had a statistically significant and positive influence on domestic private investment (t-statistic = 9.064, p-value = 0.000 < 0.05). Therefore, at a 5% significance level, H9 was not rejected, indicating that infrastructural factors positively affect domestic private investment. A one-unit increase in infrastructural factor increases domestic private investment by 1.222 units. It has been demonstrated that infrastructure development significantly boosts private investment in Ethiopia, with advancements in social and physical infrastructure encouraging more economic activity [110] . Similar data from Asia shows that having consistent access to energy is crucial for encouraging private investment and company expansion [111]. However, one of the biggest obstacles to private investment is still inadequate infrastructure. Evidence from Ethiopia demonstrates that weak transportation and communication infrastructure, insufficient water services, and unstable electricity supplies limit investment and company growth [101]. Your coefficient's size (1.222), which indicates that infrastructure development is a crucial policy lever for encouraging private investment throughout developing regions, shows significant practical value.

H10: Locational factor has a significant impact on domestic private investment.

The study reveals that locational factor had a statistically significant and negative influence on domestic private investment (t-statistic = -7.020, p-value = 0.000 < 0.05). Therefore, at a 5% significance level, H10 was not rejected, indicating that locational factors significantly influence domestic private investment. Specifically, a one-unit increase in locational challenges decreases domestic private investment by 0.655 units**.** Research on foreign investment in Ethiopia indicates that market access has a significant role in determining where investments are made. However, rather than analyzing locational difficulties as a distinct factor influencing investment performance, the majority of the research that is currently accessible has concentrated on location choice factors [112]. Studies from Ethiopia and East Africa that are now available mainly concentrate on macroeconomic issues, such as GDP growth, loan availability, inflation, and exchange rates, rather than geographic or local characteristics [113].

H11: Foreign market challenge has a positive and significant impact on domestic private investment.

The regression result reveals that foreign market challenge had a statistically significant and positive influence on domestic private investment (t-statistic = 2.187, p-value = 0.030 < 0.05). Therefore, at a 5% significance level, H11 was not rejected, indicating that foreign market challenges significantly influence domestic private investment. A one-unit increase in foreign market-related factors increases domestic private investment by 0.344 units. The result conforms other wide area information about investment attitude and market trend. A comprehensive panel analysis of 49 developing economies in Asia (17 Asian countries) and Africa (32 African countries) from 1990 to 2017 revealed that another market-related factor trade openness positively and significantly affected the level of private investment in Africa, although with regional variations [111]. Exchange rate fluctuations were found to have a major positive impact on private investment, according to numerous research conducted specifically in Ethiopia that demonstrate how external market conditions greatly influence investment decisions [84], While real exchange rate fluctuations have been shown to have a long-term detrimental impact on investment [95]

Regression Equation

The established regression equation based on the unstandardized coefficients (B) is:

$$DPI = -1.895 + 0.165BL - 0.016LA + 0.017II + 0.118PI + 0.221AF - 0.257FC - 0.155TF + 0.757DMF + 1.222INF - 0.655LF + 0.344FMC + \varepsilon$$

The standardized beta coefficient (β) indicates the relative contribution of each independent variable to the model. The findings show that infrastructural factor (β = 0.591) had the strongest positive contribution to domestic private investment, followed by locational factor (β = -0.404)**,** domestic market factor (β = 0.279)**,** financial constraint (β = -0.231)**,** and administrative factor (β = 0.164). In contrast**,** investment incentive (β = 0.020) and land access (β = -0.051) were the weakest predictors and statistically insignificant in explaining domestic private investment.

Regression coefficients and Model summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.732[a]	.536	.511	.30429	.536	20.938	11	199	.000	1.515

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-1.895	1.438		-1.318	.189	-4.731	.941
	bank_loan	.165	.063	.140	2.596	.010	.040	.290
	land_access	-.016	.016	-.051	-1.011	.313	-.047	.015
	investment_incentive	.017	.045	.020	.389	.698	-.071	.106
	political_instability	.118	.045	.131	2.640	.009	.030	.207
	Administration_factor	.221	.080	.164	2.767	.006	.064	.379
	financial_constraint	-.257	.059	-.231	-4.362	.000	-.374	-.141
	technological_factor	-.155	.065	-.138	-2.397	.017	-.282	-.028
	Domesticmarketl_factor	.757	.166	.279	4.551	.000	.429	1.085
	infrastructural_factor	1.222	.135	.591	9.064	.000	.956	1.488
	location_factor	-.655	.093	-.404	-7.020	.000	-.839	-.471
	foreignmarket_challenge	.344	.157	.137	2.187	.030	.034	.654

a. Dependent Variable: Domestic private investment

CHAPTER FIVE

CONCLUSION AND RECOMMUNDATION

5.1 INTRODUCTION

This is the final chapter that includes the findings of the study, a summary of the study conclusion of the study results, and recommendations based on the study results. The researcher provides in the conclusion section of the study; the researcher was tried to show the findings of the study and recommendation according to the study result.

5. 2 CONCLUSION

The objective of this study was to examine the factors of domestic private investment in the manufacturing sector in West Arsi Zone, Oromia Region, Ethiopia. The overall objective of the study was to isolate the key factors influencing private domestic investment, to identify the difficulties encountered by investors and make recommendations based on the evidence generated from the study to enhance the performance of investment in the manufacturing industry.

The results found that domestic private investment in the manufacturing industry is expanding both in the number of investors who increase income and investors who increase equity and total assets. The overall performance of the investments increased over time, as indicated by the majority of the respondents, which indicates potential growth in the manufacturing sector in the study area. But there are potential financial, institutional, infrastructural, technological and political issues that limit the growth of domestic private investment.

One of the significant impediments to domestic private investment was financial related issues. The study revealed that investors faced significant challenges in securing loans, as it required them to provide high collateral, cumbersome loan application processes, delays in loan approval, high interest rates, and limited availability of credit facilities. While there was some success in securing finance from financial institutions, the majority of investors reported that finance was still difficult. This shows that the financial accessibility is still an obstacle to business expansion and growth in manufacturing. Authors also found infrastructure-related factors to be important determinants affecting the private domestic investment. The electricity, water supply and transportation services were seen as essential supports for manufacturing. However, there were also difficulties in logistics and limited access to external transport infrastructure, particularly port infrastructure, which limited investment activities. Good infrastructure is still key to increased productivity, cost reduction and

competitiveness.

Another factor identified as having a significant effect on investment performance was technological factors. The general opinion was that availability of modern technology, information and communication technology and research and development activities have a positive impact on manufacturing investment. But insufficient technological diffusion, poor innovation systems and insufficient technological capability continue to be barriers to productivity and competitiveness.

Political and administrative issues also impacted investment performance. Weak security systems and the presence of non-essential public offices were determined to be issues that weaken investors' confidence and uncertainty in business operations. Likewise, the cumbersome process for acquiring land and obtaining government services caused delays for investors. Regarding locational advantages, the study found that the availability of raw materials strongly supports manufacturing investment in the West Arsi Zone. Since most firms operate in food and beverage manufacturing, proximity to agricultural resources provides an important comparative advantage for industrial growth.

5. 3 RECOMMUNDATION

The government should enhance its investment policies through streamlining the process of decision making, transparency and uniformity of implementation of regulations, to improve the investment climate. Political stability and security should also be strengthened, at the regional and local levels, to boost investor confidence. The relevant institutions such as the WAIO (West Arsi Zone Investment Office) should streamline the acquisition of land, licensing, investment approval etc. processes and enhance coordination among stakeholders for service delivery. In order to increase accessibility to credit, financial institutions should lower the value of the collateral; they should make the loan procedure less complicated; and they should offer financing schemes that are affordable for manufacturing investors.

The government needs to invest more in infrastructure services including electricity, water supply, and transport services and encourage technology transfer, innovation and adoption of modern production systems to boost productivity. Domestic private investors need to build managerial and technical capability, enhance business planning, access various financial resources and take full advantage of the opportunities of raw material sources locally by strengthening their linkage with the suppliers. Longitudinal and extensive geographical analysis of future research is desirable to gain

deeper insight into the long-term drivers of domestic private investment, as is deeper research on the institutional challenges.

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Informed Consent Statement

You are invited to participate in a research study titled *"Determinants of Domestic Private Investment in the Manufacturing Sector in West Arsi Zone, Ethiopia."* The purpose of this study is to assess the major factors that influence domestic private investment in the manufacturing sector within the region.

Participation in this study involves completing a structured questionnaire, which will take approximately 20 to 30 minutes. Your responses will help provide insights that may support policy recommendations to enhance private sector development. Your participation is entirely voluntary. You have the right to decline to answer any question or to withdraw from the study at any time without facing any penalty or negative consequence. All information you provide will be treated with strict confidentiality and used only for academic purposes. Your name or any personally identifying information will not be included in any publications or reports resulting from this research.

There are no known physical or psychological risks associated with your participation. Although there is no direct financial benefit to you, the findings of this study may contribute to improving the investment environment for domestic investors in the manufacturing sector. If you have any questions about this study, you may contact the principal investigator using the information provided below. By proceeding with the questionnaire, you are indicating that you have read and understood this consent statement and that you voluntarily agree to participate in the study.

If you have any questions or concerns about the study, please contact the principal investigator at:

Principal investigator: **Genamo Irensa Nabi**

Phone Number: **0926364743**

Email: Genamo.irensa@aau.edu.et

I have read and understood the information above. I voluntarily agree to participate in this study.

☐**Yes** ☐**No**

Signature(if written consent is required): _____

Date: _____

Background Information

1. Name of the enumerator/interviewer: _____

Sign: _____ Date: _____

1.1. Name and address of the firm: Name: _____ Address: kebele _____

1.2. Position of the interviewee (Please circle one): 1) Owner only 2) Manager only

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

1.4. Age of the respondent: _____ years

1.5. Educational level of the respondent (Please circle one): 1) PHD 2) Master's Degree 3) First Degree 4) Diploma and Under

1. 6 How many years have you been engaged in manufacturing investment?
☐ Less than 2 years ☐ 2–5 years ☐ 6–10 years ☐ More than 10 years

1. 8 Does your educational level affect to delay your status?

1. Strongly disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly agree

1.9 Type of manufacturing activity:

☐ Food and beverage ☐ Textile and garment ☐ Wood and furniture

☐ Metal and engineering ☐ Non-metallic products ☐ Other (specify) _____

1.8 Sole proprietorship 2. Partnership 3. Private limited company (PLC) 3. Share company 4. Cooperative 5. Other (please specify): _____

2. Basic business information

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

1. Own contributions 2. Share contributions

3. Formal financial institutions (banks and Micro finance)

4. Informal financial sources (e.g. money lenders, family/friends)

5. Others (specify) _____

2.2 **After obtaining your investment permit, have you ever approached financial institutions (such as banks) for a loan as a source of finance? (***Please indicate your level of agreement)*

1. Strongly disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly agree

2.3 **How would you rate the level of difficulty in accessing sources of finance for your investment?***(Please select one option)*

1. Very easy 2. Easy 3. Medium 4. Difficult 5. Very difficult

Basic Information Related to Study Variables

Likert Scale:

Please indicate your level of agreement with the following statements by circling the appropriate number:

1 — Strongly Disagree 2 — Disagree 3 — Neutral 4 — Agree 5 — Strongly Agree

Q1 Acquiring banks loan loan-related problems						
1	Do you agree with any difficulty in collateral requirements of banks/financial institutions?	**1**	**2**	**3**	**4**	**5**
2	Do you agree with any difficulty in bank paper work/bureaucracy/delay in loan delivery?	**1**	**2**	**3**	**4**	**5**
3	Do you agree with high interest rate?	**1**	**2**	**3**	**4**	**5**
4	Do you agree with corruption of bank officials?	**1**	**2**	**3**	**4**	**5**
5	Do you agree with inadequate credit/finance?	**1**	**2**	**3**	**4**	**5**
6	Do you agree with banks require detailed feasibility study information on customers?	**1**	**2**	**3**	**4**	**5**
Q2	**Land access** To get land for your investment, what were the problems?					
1	Do you agree with existing land tenure system?	**1**	**2**	**3**	**4**	**5**
2	Do you agree with difficult bureaucratic procedure getting land?	**1**	**2**	**3**	**4**	**5**
3	Do you agree with high lease price?	**1**	**2**	**3**	**4**	**5**
Q3	**Investment incentive structure** Which one of the following investment incentives promotes you much to invest?					
1	Do you agree with investment incentives income tax holidays?	**1**	**2**	**3**	**4**	**5**
2	Do you agree with investment incentives custom duty?	**1**	**2**	**3**	**4**	**5**

3	Do you agree with investment incentives access to bank loan?	**1**	**2**	**3**	**4**	**5**
4	Do you agree with investment incentives access to low lease price of land?	**1**	**2**	**3**	**4**	**5**
5	Do you agree with investment incentives market incentives?	**1**	**2**	**3**	**4**	**5**
Q4	**Political stability** From the risks listed below, which of the following political instability risk exist in the zone?					
1	Do you agree with border conflict?	**1**	**2**	**3**	**4**	**5**
2	Do you agree with weak security system?	**1**	**2**	**3**	**4**	**5**
3	Do you agree with high trade restriction?	**1**	**2**	**3**	**4**	**5**
4	Do you agree with Public offices unnecessary interference?	**1**	**2**	**3**	**4**	**5**
Q5	**Administrative challenges** From the listed below, which of the following administrative challenges exist in your investment?					
1	Do you agree with poor enforcement of laws, rules and regulations?	**1**	**2**	**3**	**4**	**5**
2	Do you agree with tax rates and administration?	**1**	**2**	**3**	**4**	**5**
3	Do you agree with complex legal and institutional framework?	**1**	**2**	**3**	**4**	**5**
4	Do you agree with negative attitude against consumption of locally produced goods?	**1**	**2**	**3**	**4**	**5**

1. No limit 2. Little limit 3. Moderate limit 4. High limit 5. Very high limit

Q6	**Financial Factors**					
1	Does your investment area is Limited by the number of financial institutions?	**1**	**2**	**3**	**4**	**5**
2	Does your investment Limited by the high cost of raw material and other inputs?	**1**	**2**	**3**	**4**	**5**
3	Do you Limited by high interest rate on bank loan?	**1**	**2**	**3**	**4**	**5**
4	Do you Limited low credit facility to get bank loan?	**1**	**2**	**3**	**4**	**5**
5	Do you Limit macroeconomic uncertainty (inflation, exchange rate) with your investment?	**1**	**2**	**3**	**4**	**5**
6	Do you Limit the high cost of working capital in your business operation?	**1**	**2**	**3**	**4**	**5**
7	Does your investment limited by high energy cost?	**1**	**2**	**3**	**4**	**5**
Q7	**Technological factors**					
1.	Does your investment limited by research and development works?	**1**	**2**	**3**	**4**	**5**
2.	Does your investment limited by appropriate technology supply Appropriate technology supply?	**1**	**2**	**3**	**4**	**5**

3.	Does your investment limited by information and communication technology?	**1**	**2**	**3**	**4**	**5**
Q8	**Infrastructural factors**					
1	Does your investment limited by road construction/transport?	**1**	**2**	**3**	**4**	**5**
2	Does your investment limited by electric power?	**1**	**2**	**3**	**4**	**5**
3	Does your investment limited by water supply?	**1**	**2**	**3**	**4**	**5**
4	Does your investment limited by air transport?	**1**	**2**	**3**	**4**	**5**
5	Does your investment limited by port facilities?	**1**	**2**	**3**	**4**	**5**
Q9	**Domestic market challenges**					
1	Does your investment limited by lack of access to market?	**1**	**2**	**3**	**4**	**5**
2	Does your investment limited by high cost of imported goods (raw materials)?	**1**	**2**	**3**	**4**	**5**
3	Does your investment limited by shortage of raw inputs?	**1**	**2**	**3**	**4**	**5**
4	Does your investment limited by imperfect market?	**1**	**2**	**3**	**4**	**5**
5	Does your investment limited by quality problem?	**1**	**2**	**3**	**4**	**5**
6	Does your investment limited by demand for your product?	**1**	**2**	**3**	**4**	**5**
7	Does your investment limited by promotion medias for your product?	**1**	**2**	**3**	**4**	**5**
8	Does your investment limited by pricing for your product?	**1**	**2**	**3**	**4**	**5**
Q10	**Location factors**					
1	Does your investment limited by skilled and customer attractive labor Force?	**1**	**2**	**3**	**4**	**5**
2	Does your investment limited by raw materials needed?	**1**	**2**	**3**	**4**	**5**
3	Does your investment limited by location to sell your product?	**1**	**2**	**3**	**4**	**5**
Q11	**Foreign market challenges**					
1	Does your investment limited by uncompetitive global market?	**1**	**2**	**3**	**4**	**5**
2	Does your investment limited by lack of knowledge about foreign market?	**1**	**2**	**3**	**4**	**5**
3	Does your investment limited by inefficient production?	**1**	**2**	**3**	**4**	**5**
4	Does your investment limited by logistic challenge?	**1**	**2**	**3**	**4**	**5**
5	Does your investment limited by finance?	**1**	**2**	**3**	**4**	**5**
6	Does your investment limited by high transportation cost?	**1**	**2**	**3**	**4**	**5**
7	Does your investment limited by uncompetitive global market?	**1**	**2**	**3**	**4**	**5**

Domestic Private Investment

1. Is your business/investment experiencing an increase in income or equity from year to year?

   1. Strongly Disagree 2 — Disagree 3 — Neutral 4 — Agree 5 — Strongly Agree

2. Is there an increase in loans or liabilities in your investment activities over time?

   1— Strongly Disagree 2 — Disagree 3 — Neutral 4 — Agree 5 — Strongly Agree

3. Are the total assets of your investment increasing over time?

   1 — Strongly Disagree 2 — Disagree 3 — Neutral 4 — Agree 5 — Strongly Agree