



ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
COLLEGE OF DEVELOPMENT STUDIES
CENTER FOR REGIONAL AND LOCAL DEVELOPMENT STUDIES

PERFORMANCE, CHALLENGES AND PROSPECTS OF PRIVATE
INVESTMENT IN SEBETA CITY ADMINISTRATION

BY: KUMA DABA

MAY, 2012

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Performance, Challenges and Prospects of Private Investment

In Sebeta City Administration

Kuma Daba

A Thesis Submitted to

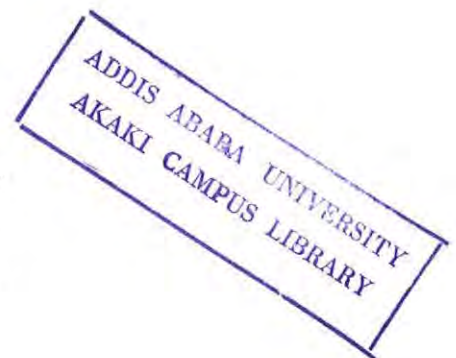
Center for Regional and Local Development Studies

Presented in Partial Fulfillment of the Requirements for the Degree
of Masters of Arts in Regional and Local Development Studies

Addis Ababa University

Addis Ababa, Ethiopia

June, 2012



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Acknowledgments

This thesis is the outcome of the support many institutions and individual that support me by providing relevant information and advices. To mention some, investment offices found at city, zonal and commission level and other institutions include like Sebta city administration and zonal investment offices. They have supported me by providing resources needed for the study for which I have also unreserved thanks for them. My special thanks go to my Advisor Dr. Issac Paul for his indispensable contribution for making this thesis a reality.

Special thanks also go to my friends Belete Gudeta, Amanuel Kussie and Mosisa Hurruma who have helped me in editing and providing valuable advices on my paper by devoting their time and efforts.

I am most grateful to my best word of gratitude goes to my wife W/o Aberash Dadi for having supported this Endeavour with love and patience and for taking all the burden of taking care of our children: Ermiyas and Eyarus Kuma.

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Performance, Challenges and Prospects of Private Investment

Kuma Daba

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Abstracts

In recent times private sector has become an important growth engine in developing economies as it plays roles in generating wide employment opportunities, reduce poverty, generating income and help economic growth and transfer of know-how. The Ethiopian government has also undertaken many policy measures to encourage the involvement of this sector in country's economic activities since the adaption of market based economic policy. In light of this, the research has been conducted to identify performance level, challenges and prospects of private investment in sebeta city administration.

To achieve this objective primary and secondary data were collected which is qualitative and quantitative in nature. To obtain this data questionnaire, FGD and KII was employed where as to collect secondary documented data from different institutions, different formats were used. Firm level data is the main source of data for the study which was selected through questionnaire from a sample of 115(20%) out of 572 approved private investments in the study area based on simple random and systematic random sampling techniques. Purposive sampling method was also employed to collect data from focus group discussants and interviewees which were mainly used triangulate data collected through questionnaire.

The result of the study showed that the performance of private investments approved at the study area is found to be poor like the status shown at national and regional level. For this low performance, lack of appropriate project screening and appraisal, poor service delivery and unresponsiveness, acute problem in supply of basic infrastructure, rent seeking of some investors and government employees, gap in skill of government employee and entrepreneurship skill of promoters and weak follow-up and after care services of investment projects have been identified. Ample investment potential that pertain to location advantage, stability, availability of work force, proximity to markets, etc have also been identified.

Based on the major finding of the thesis stated above, recommendations were forwarded that could solve the problem and capitalize the opportunities available. In this regard, improving project screening and appraising, improving service delivery and empowering both service providers and promoters, improving the supply of basic infrastructure, strengthening follow up and after care services and heavy promotion of area's investment opportunities by targeting at more beneficial projects are factor that needs emphasis by concerned regional and local bodies.

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Acronyms

ADB	Africa Development Bank Group
AERC	Africa Economic Research Consortium
CUTS	Consumer Unity and Trust Society
COMESA	Common Market for Eastern and Southern Africa.
CSA	Central Statistics Agency
DPI	Domestic Private Investment
EDRI	Ethiopian Development Research Institute
EEPCo	Ethiopian Electric Power Cooperation.
ECA	East Africa Community
EIA	Ethiopia Investment Agency
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EPDRF	Ethiopian People Democratic Republic Front
FDRE	Federal Democratic Republic of Ethiopia
FDI	Foreign Direct Investment
FEDOSC	finance and Economic Development Office of Sebeta City
GDP	Gross Domestic product
FGD	Focus Group Discussion
GoE.	Government of Ethiopia.
ICSID	International Center for Settlement of Investment Disputes
IFC	International Finance Corporation
KII	Key Informant Interview

LDCs	Low Developed Countries
M&As	Mergers and Acquisitions
MICs	Middle East, India and China
MoFED	Ministry of Finance and Economic Development
NEPAD	New Partner for African Development
OECD	Organization for Economic Cooperation and Development
OIC	Oromia Investment commission
OUPI	Oromia Urban Plan Institute
PPESA.	Privatization and Public Enterprises Supervising Agency.
Pro.	Proclamation
RGO	Regional Government of Oromia
SNNPR	South Nation, Nationality and people's Region
SIO	Sebeta Investment Office
SZAOSF	Special Zone Administration of Oromia Surrounding Finfinnee
SZAOSFIO	Special Zone Adiminstration of Oromia Surrounding Finfinne Investment Office
TNCs	Transnational corporations
UNCTAD	United Nations Center for Trade and Development
USD	United State of America Dollar
WDR	World Development Report
WIR	World Investment Report
WIPO	World Intellectual Property Organization
WB	World Bank

Chapter One

Introduction

1.1 Background of the study

Private sector as an alternative development strategy and engine of economic growth got recognition in developing countries in the late 1980s. When a number of factors combined to produce an enabling environment to its growth, it helps to boost economic growth and reduce poverty (Gutierrez, 2005).

Private investment as part of private sector is also considered as a crucial pre-requisite for economic growth as it allows entrepreneurs to set economic activity by bringing resources together to produce goods and services. Rapid and sustained growth is facilitated by a virtuous circle whereby entrepreneurship and investment lead to higher productivity, making it possible to invest larger sums in the future. Consequently, jobs are created and new technologies are introduced, especially through international trades and investment linkages. It also have an important role in making the growth process more socially and geographically inclusive, which expands the opportunities for poor people to participate in and benefit from growth¹.

Successful mobilization of private investment is thus increasingly important for creating employment, raising growth rates and reducing poverty. Not only the expansion of private production capacity matters for economic growth; the productivity gains that result from capital deepening and modernization are important as well (OECD, 2005). The miraculous growth of and development of Asian Tigers that were poor and underdeveloped in the recent past is the consequences of private boom in the country (Roderick, 1994 in Belete, 2011).

In light of this, Research studies have indicated that most African countries have tried to lay a foundation for the growth and expansion of private investments to gain the contribution of private investment in its total performance of the economy. The rationale behind their effort is that the gap between domestic investment and domestic saving is high and therefore raising additional financial resources to fill this gap through promoting private investment became essential (WB,2005b and OECD,2006). They have tried to attract private investment by making

¹ Gutierrez, 2005

their economies more open and formulating different incentive package. Given this effort, however the level of both domestic private investment and foreign direct investment as percentage of GDP remained still at lower level².

The main reasons attributed for Africa's low performance of private investment are low growth, domestic policy mismanagement and debt crisis and worsening of terms of trade and specifically the level of FDI flows to Africa has become low and declining(Kedia and Moss, 2004) .In this regard, during the year 1986-2003, the share of FDI flows to Africa per year remained at the level of 0.8 to 2.5% (UNCTAD 2002, 2004, cited in Dupasquier and Osakwe ,2005) while its share of FDI to global FDI declined from 5.1% in 2009 to 4.4% in 2010 although the volume of flow shows an increasing trend(UNCTAD, 2011).

The flow of FDI to Africa is mainly composed of primary sector where FDI flows in oil sector continued to dominate other FDI flows to the continent³. This indicates that to promote sustainable growth, boosting countries' competitiveness, generating employment opportunities, and to reduce social and income disparities, African countries need to take further efforts to abolish factors that hinder the growth and expansion of private investment in the continent.

Recognition of the role of private investment in Ethiopia has been changing with the change of the system of government. During the empire period there was an encouragement of private sector in economic development (Taye, 2005). Following the 1974 revolution, the centrally planned command economy came up with nationalization of most private industries which is clearly an indication of discouraging private investment role in the economy. Market economic policy which encourages the role of private sector as engine of economic growth was adopted by Ethiopian People's Revolutionary Democratic Front in 1992 following the fall of dergue regime⁴. Different private investment related proclamations were passed and amendments were made to enhance its growth. Consequently, as of July 2011, the number of licensed private investments has grown in the country from 190 in 1992 to 54,024 in 2011 (EIA, 2011).

² WB,2005b and OECD,2006

³ UNCTAD, 2011

⁴ *ibid*

However, the proportion of private investment growth in the economy as percentage of GDP remained at lower level as compared to sub Saharan and other countries in the world. In 2010, the level of PDI as percentages of GDP was found at about 6% while FDI was found at 3 % (MoFED, 2011). UNCTAD (2011) also pointed out that attraction of foreign direct investment in Ethiopia lags behind many African countries. During the stated years it attracted much less foreign direct investment (FDI) that ranges only \$0.1 and \$0.4 billion.

Generally, it can be argued that in spite of many African countries' government effort to enhance the growth of private investment in total economic activities; however the proportion of both Domestic private investments (DPI) and Foreign Direct Investment (FDI) are found to be low where Ethiopia is not an exception.

Sebeta city administration where this study has been undertaken also holds significant number of projects that have been licensed since 1991/2. In 2002 E.C the town is promoted to grade one city category. It is found in central Ethiopia situated at a distance of 25 km from Addis Ababa. Located in the Dehub Mirab Shewa Zone of the Oromia Region, this town has a latitude and longitude of 8°55'N 38°37'E and an elevation of 2,356 meters (7,730 feet) above sea level. Based on figures from the Central Statistical Agency, total population of the town is estimated to reach about 65, 000 taking the 2007 housing and population census of the country at the rate of 2.9 % (CSA,2010) .However, administration has estimated the total population of the city to be 114,674, of whom 58,216 are men and 56,458 are women with total area of 9635.3 hectares due high migration to the town(FEDOSC,2012) .

The major economic activities of the city administration are petty trade, Small and Micro Enterprises, medium and large scale industries and other commercial activities. Urban agriculture also shares significant proportion. There is also a number of government and private employees whose livelihood depends on salaried wages⁵ (see Map of Sebeta at Annex 8).

1.2 Statement of the problem

Private sector has a central role to play in fighting the war on poverty and hence mobilizing private investment is imperative for promoting the broad based and sustained growth that will

⁵ ibid

help in poverty reduction. In today's global economy private investment is both domestic private and foreign direct investment and takes many forms, from formation physical assets to intellectual capital (OECD, 2006).

Regardless of forms of establishment, it is generally concluded that the growth and expansion of private investment is helpful in terms of creating employment opportunities, growth and sustainable development, saving, investment, skill, technology transfer and human development. Moreover, the level of growth and expansion of private sector also correlates with the level of country's economic growth⁶.

In this regard, in countries where growth is high, total domestic and foreign private investment exceeds 25% of Gross Domestic Product (WB, 2005b and OECD, 2006). But, in Sub-Saharan African countries the amount is much less than the stated figure. For instance, WB, 2004, made comparison between China, Ethiopia, and Kenya where the proportion of private investment as percentage of GDP to these countries in 2001 was accounted for 17.3%, 8.3% and 8.1% respectively. Furthermore, FDI flows to Africa have been shown a declining trend. Its share to global FDI flows was 4.4% in 2010, down from 5.1% in 2009⁷. Ethiopia is among many those African countries which attracted much less FDI in between \$0.1 to \$0.4 billion in 2010⁸.

To encourage both DPI and FDI, Ethiopia has been trying to create an appropriate enabling environment where its economic policy relies along the development of private sector⁹.

In response to this new economic policy different measures which could enable the growth of private sectors were undertaken. These include investment policy, labor law, taxation rates, devaluation of currency, removal of import quotas, tariff reduction, and export promotion and dissolution of highly centralized bureaucratic corporations through restructuring public enterprises with high marginal autonomy as parts and parcels of effort to liberalize the economy

⁶ OECD, 2006

⁷ (<http://www.unctad-docs.org/>)

⁸ (<http://www.unctad-docs.org/>)

⁹ *These are economic activities undertaken by private institution and/or individuals to get profit over their invested resource.*

(Werotaw, 2005). To achieve the objectives of investment, the government has made an endeavor to create a stable economic environment, security of investment, significant tax incentives, suitable tax environment, investment opportunities, and strong access etc (EIA, 2009)

Following government effort, considerable growth in private investment has been recorded both at national and regional level. Until 2011, Ethiopia Investment Agency has given license for about 54,024 investment projects¹⁰ out of which only 10.5% have commenced operation while in Oromia regional national similarly out of 9,928 projects licensed until the stated period only 10% have commenced operation. Therefore, both at national level and in Oromia national regional state, major proportion of licensed private investment projects are at pre- implementation stage¹¹ (EIA, 2011)

The special zone administration of Oromia surrounding Finfinnee (SZAOSF) is one of the 18 zonal administrations found in Oromia regional state, where majority of private investments are highly concentrated. It hosts more than 2380 private projects among which the study area comprises more than 23%. But, both at study area and zonal level, not more than 30 % of the total approved projects are found at the actual operation level¹² (SZAOSFIO, 2011).

Research works have been undertaken from different angles to contribute for the development of private investment in the country in different locations. For instance Ayele Belete(2011), Feyera Sima(2009) and Asmelash Bezabeh(2007) have tried to analyze challenges and prospects of private investment in different areas of the country. Ambachew(2010)has undertaken study on determinants of private investment growth in Ethiopia while Getinet and Hirut(2006) on their part conducted research on determinants of FDI in the country. Furthermore, Seyoum Aklile (2007) worked on how macro economic factors affect private investment in Ethiopia. On the other hand, Mengistu Bessir (2008) has tried to examine whether private investment has contributed for economic growth in the country.

¹⁰ *Are those planned activities and implemented by investors in an intention to get profit.*

¹¹ *Approved private investment projects which have been allocated land but not yet started developing the land but the implementation stage of projects includes all projects which are either started construction, stopped or completed construction of approved projects.*

¹² *Are those projects which have already started commencement or provision of services and production of goods*

Majority of these works have been done at national level and their emphasis are not to assess performance status of those approved projects and to identify factors that could delay its actual operation. Moreover, those studies which have been undertaken to identify prospects and challenges of private investments have not adequately assessed the performance level of approved projects and major factors contributed for its poor performance. Furthermore studies have not yet been conducted both in Sebeta city administration and at zonal level where significant number of private investment have been approved as compared to others zone of Oromia national regional states to assess its performance level and to identify challenges that hamper its performance and prospects that would enhance its growth and expansion.

The area is also believed to have high potential for the growth of private investment due proximity to capital city, relatively availability of basic infrastructure and favorable landscape. However, there are high complaints against investors as majority of them did not develop land they have been allotted for investment purposes. In light of this, the study was initiated and aimed to answer the following basic questions.

1.3 Research Questions

In light of the above argument, this study would attempt to answer the following basic questions in order to guide data collection process and use appropriate data collection instruments that would enable to assess the implementation performance, challenges and prospects of private investment growth in the study area.

- ☒ What are the favorable conditions and prospects available for new investment growth and expansion of existing private investments in Sebeta city administration in particular and in the zonal administration in general?
- ☒ What role do government institutions play to enhance the growth of private investments?
- ☒ What are the major factors contributing to the poor performance of approved private investment projects in the study area in the course of achieving policy objectives?
- ☒ Is there disparity in the performance level of project implementation between domestic and foreign direct private investments?

1.4 Objectives of the Study

The general objective of the study is to assess the implementation performance and challenges of both approved domestic and foreign direct private investment in Sebeta city administration. Specifically, the study has tried to attain the following objectives.

- ☒ To examine enabling environment available in the area and efforts made to enhance the growth and expansion of private investments.
- ☒ To look in to main factors that hampers the timely implementation of approved private investments
- ☒ To examine implementation performance status, differences and trends of both domestic private and foreign direct private investment.
- ☒ To comment on possible recommendations for improving hindering factors on the performance private investment projects in the study area.

1.5 Significance of the Study

The growth of private investment demands all types of effort to be made by stakeholders as well as by policy makers in the course of maximizing its contributions in economic development and poverty reduction. Therefore, from the findings of this research the following institutions will be benefited.

Investment administrative institutions (found at study area, Zonal and at commission level) can be benefited from this study as it would enable them to take corrective action based on the identified constraints and problems that might hamper the operationalization, growth and expansion of private investments. The output of the study will also benefit existing and potential investors in the decision to invest in the area as the study also identified prospects and opportunities that makes sebeta city administration a unique comparative advantage over other locations. Government decision makers can also use the findings of research to make clear directives in managing private investment growth and expansion including the study area that are conceptualized as major constraints.

The study also recommended additional area for further studies, hence interested researchers in the area can be benefited to undertake further study. The study also enriches the existing body of knowledge by addressing all investment related issues.

1.6 Scope of the Study

The study area hosts significant number of approved private investment as compared to other cities and districts in the zonal administration where there are varies areas to address through conducting study to contribute to its growth and expansion. However, the study was focused on assessing the implementation status, constraints and prospects of private investment in the Zonal administration in general and in the study area in particular by considering all those private investment projects established since 1991/2. The projects included in the study comprise all those projects governed as per investment proclamation No.280/2002 of the Federal Democratic Republic of Ethiopia and investment proclamation No. 138/2008 of the Oromia Regional national state. Therefore to achieve the goal of identifying performance level, challenges and prospects of private investment in Sebeta city administration all projects licensed since 1992 to the end of 2003 fiscal year of Ethiopia (June 30,2011) have been included in the study based on selected sampling techniques.

1.7 Limitation of the Study

Major information about constraints in relation to private investments was gathered through questionnaire from respondents of selected firms. However, getting such data was not an easy task for researcher. Respondents were very reluctant to express their idea in relation to service provided by government. They were also reluctant to comment on government policy in connection to doing business in the country. Majority of them were not interested to make known about the operation of their firms in an assumption that the government will increase taxes. Their accessibility was also challenging as some investors specially those whose projects are under construction and at pre implementation stage are not available at investment sites. The very limited time and budget faced ,effort was made to go to each projects that included in the sample study on an average of 3-4 times for making brief about the aim of study so as to collect sufficient data for undertaking analysis. In spite of this, only 81% of the questionnaire was able to manage. Arranging FGD and conducting interview with selected individuals is also

the other problem faced by researcher during the study as this task was not facilitated on time at city level as most government officials were often busy on continuous meeting.

1.8 Organization of the Paper

The thesis has five chapters. The first chapter concerned with an introduction part. In this section background of the study, statement of the problem that initiated the study, basic research questions and objectives to be achieved, scope of the study, limitation of the paper and description of the study area have been included. The second chapter concerned with review of related literature where by basic concepts related to private investment, theories of private investment, empirical survey, and conceptual framework have been briefly discussed. The third chapter discusses about the methodology used in the study while the fourth chapter depicted presentation and analysis of data gathered through primary and secondary sources. The final chapter of this paper is dealt with the summary of major findings, conclusions and recommendations.

Chapter Two

Review of Related Literature

This chapter is concerned with discussions of literatures related to the topic under study. It contains major sections such as theories of private investment, conceptual framework of the determinants of private investment and empirical evidences that justify the applicability of theories of investment. Furthermore, concepts related to private investment, FDI and investment climate and the development of private sector in Ethiopia in the post 1991/92 have been discussed to identify measures undertaken by the government to encourage the growth of the sector.

2.1 Definition and Concepts of Investment

Different concepts are related to private investment that needs more clarifications. In this regard existing literatures classify investment into four major components. These are private domestic investment (DPI), public domestic investment, foreign direct investment (FDI) and portfolio investment. DPI is undertaken by the private individuals (sectors) and public investment is undertaken by the government to enhance the economic and social development of the country and as well to increase productivity of private investments.

FDI and the portfolio investment are undertaken by foreigners in the host country though the nature of investment differs. FDI is an investment undertaken by individuals or organization of one country in another country in intention to gain profit over their invested resources. Further more private domestic investment refers to gross fixed capital formation plus net changes in the level of inventories whereas public investment includes investments by government and public enterprises on social and economic infrastructures, real estate and tangible assets. The foreign investment when it is on tangible asset is referred to as direct foreign investment otherwise it is called portfolio investment when it is on shares, bonds, securities etc (AKoko, 2011).

Investment has been defined by researchers differently though the central theme is almost similar. In ordinary sense, investment refers to buy shares, stocks, bonds and securities which already exist in a stock market which is called financial investments. However, in Keynesian terminology, investment refers to real investment which adds to capital equipment, increase in the level of income and production and thus include new plant and equipment, construction of

public works like dams, roads, buildings etc, net foreign investment, inventories, and stocks and shares of new companies (Jhiggan M.L,1997).

Ethiopia Investment Agency defined investment (which refers to investment made by an individual) as the expenditure of capital by an investor to establish, a new enterprise or, to expand or upgrade one that already exist. On the other hand , Fisher (1992) defined investment as it is the present dedication of money for a period of time so as to obtain future payments that will compensate the investor, the time the funds are committed, the expected rate of inflation, and the uncertainty of the future expenses(Ayele , 2011).

Private investment can be distinguished between domestic private foreign private investments. Domestic private investment is such activities of an individual or institutions of the country that undertaken in their own origin where as Induced investment is a real investment which is profit motivated. Factors like prices, wages and interest changes that affect profits influences induced investment. An autonomous investment is that investment which independent of the level of income and thus income inelastic which is influenced with factors like innovation, inventions, growth of population and labor forces etc (Jhiggan, M.L,1997).

2.2 Investment versus capital

In Keynesian, investment refers to real investment which adds to capital equipment and also leads to increase in level of income and production by increasing the production and purchase of capital goods. Capital on the other hand, refers to assets like factories, plants, equipment, and inventories of finished and semi- finished goods (M.L. Jhiggan, 1997).In general, investment is a flow term while capital is a stock term. We can calculate investment flow in period as the difference between the capital stock at the end of the period and capital stock at the beginning of the period. Thus investment flow at the time period can be defined as: $I_t = k_t - k_{t-1}$ where k_t is the stock of capital at the end of period t and k_{t-1} is the stock of capital at the end of period $t-1$ or at the beginning of period t .¹³

¹³ (<http://cepa.Newschoo1.ea>)

2.3 Determinants of investment

The decision to invest in a new capital asset depends on whether the expected rate of return on the new investment is equal to or greater or less than the rate of interest to be paid on the funds needed to purchase this asset. Therefore, resource will be committed for acquiring new capital asset only if the expected rate of return is higher than the interest rate. According to Keynes three factors are taken in to consideration while making any investment decision. These include the cost of capital asset, the expected rate of return from it during its life time, and the market rate of return where Keynes call them together the marginal efficiency of capital. The marginal efficiency of capital is the highest rate of return expected from an additional unit of a capital asset over its cost (Jhiggan M.L, 1997). There are also factors other than the interest rate affecting inducement to invest. These factors can be divided into endogenous and exogenous.

With regard to endogenous factors uncertainty, existing stock of capital goods, level of income, consumer goods and liquid assets can be mentioned. According to Jhiggan M.L.(1997), business activities are uncertain where change in business activities can be resulted in rumours, news of technical developemt, political events etc. Existing stock of capital goods also determine the decision to invest in that higher stock of capital goods discourage potential investors from entering in to making goods. In an economy where the level of income is higher, the demand for goods will be rise and in turn leads to investment. If the current demand for consumer goods is increasing rapidly, more investment will be made. The same is true for liquid assets in that when an investors possess large liquid assets, the inducement to invest is high.

Similarly, exogenous factors which also determine the decision to invest include inventions and innovations, new products, growth of population, state policy and political climate. With regard inventions and innovations as raising inducement to invest it is argued that inventions and technological improvements lead to more efficient methods of production which reduce costs, the marginal efficiency of capital of new capital assets will rise. If the sales prospects of a *new product* are high and the expected revenues more than the costs, the marginal efficiency of capital will be high which will encourage investment in this and related industries. Furthermore, a rapidly growing population means a growing market for all types of goods in the economy. The economic policies of the government also have an important influence on the inducement to

invest in the country. For example, if the state levies heavy progressive taxes on corporations, the inducement to invest is low, and vice versa. Political conditions also affect the inducement to invest. In this regard, if there is a political instability in the country, the inducement to invest may be affected adversely.

2.4 Theoretical Framework of Private Investment

The formulation of investment theory dates back to 1936 when Keynes first introduced the existence of *investment function* in the economy. This theory states that the larger the gap between the existing capital stock and the desired capital stock, the greater the firm's rate of investment. Keynes, in his theory of investment (1936) pointed out that private investment has the intrinsic volatility due to the fact that any forecast of the return on investment occurring in the future will be necessary incomplete and uncertain (in Seyoum, 2007).

Accelerator Models: Accelerator models focus on output growth as the key determinant of investment decisions and are usually seen as “Keynesian” due to their focus on quantity adjustments and extrapolations of current levels to develop future expectations.

The main notion of this theory of investment is that, investment made by investors is the linear proportion of change in output. This implies that the level of output or change in aggregate demand determines investment or the change in capital stock. This refers to simple accelerator models which include only one output growth term within their specifications and imply that the capital stock reaches its desired level in each period of time, ignoring long-term expectations.

In response to some of the shortcomings of simple accelerator models Chenery (1952) introduced flexible accelerator models (cited in Seyoum, 2007). In flexible accelerator models, adjustment to the desired capital stock is assumed to take place over many periods. The application of a distributed lag structure into the accelerator models in this manner is consistent with models of investment that incorporate adaptive, extrapolative, or regressive expectations. The process of forming expectations creates relationships between current and lagged variables, if current expectations are based on past events¹⁴.

¹⁴ Seyoum, 2007

Accelerator models are criticized for neglecting the cost related variables in the investment equation. From a neoclassical perspective, critics of accelerator theory propose that investment is driven by profit maximization behavior of business; thus cost variables should have an impact on investment where in this case Jorgensen's model can be taken (Gezici, 2004).

Jorgenson's Model: In Jorgensen's (1963) early neoclassical model, investment is described as a process of optimal capital stock adjustment. The optimal capital stock is derived through maximization of discounted profit flows over an infinite time horizon. Jorgenson assumes that capital-labor ratios adapt to relative factor price changes, where the relative factor price of capital is measured as the user or rental cost of capital. At the end of the optimization problem, the main determinants of investment emerge as the user cost of capital and output (Gezici, 2004). Jorgenson assumes that capital stock adjustment is instantaneous, adjustment costs are zero, and investment decisions are completely reversible. This means that investors do not have to look to the future in Jorgensen's word because they can respond quickly and effectively when the time comes; their expectations are essentially static. Following widespread criticism, ad hoc lags are introduced into later specifications of Jorgensonian models to capture expectations. However, the introduction of these specifications converts the Jorgensonian model from a neoclassical investment model to a modified accelerator model¹⁵.

Uncertainty and Option Value Models: the model focuses on the role of uncertainty and expectation as one of the distinguishing themes across various investment theories. As cited in Gezici, 2004, this theory was explored by Dixit and Pindyck (1994) among others, laid the main theoretical foundation, known as option value theory. This approach treats not-yet-committed investment projects as having a perpetual-call-option value.

Post Keynesian investment theory: suggests that investment is always positively related to internal funds as internal funds are the safest means of financing. The reliance on internal funds cannot be understood as a result of information asymmetries; the other important determinant of investment is the state of confidence that can be crudely peroxide by the volatility that firm faces. The higher the volatility or unpredictability, the more cautious the firm becomes in its investment decisions.

¹⁵ Gezici, 2004

Neoclassical theory of Investment: According to Jorgenson (1967) and Hall and Jorgenson (1971) cited in Gezici (2004) in neoclassical theory of investment, net investment is proportional to the gap between actual and desired capital stock. The main idea of this theory is that lags in decision making and delivery, creates a gap between the current and desired capital stocks, giving rise to a net investment function.

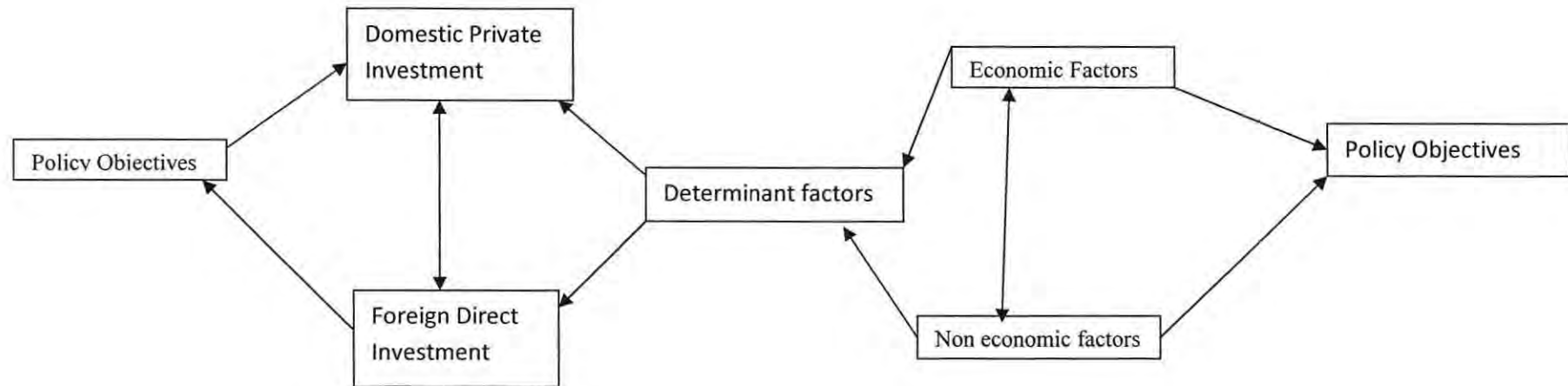
2.5 Conceptual Framework of Private Investments (Determinants and Constraints)

Understanding the pros and cons of investment process are of great importance to capitalize the benefits of such economic sector. However, investment is a complex process, as it depends on decisions taken in past, present environment, and future expectations (Lucas and Prescott, 1971 in Khan, 2007). Factors which affect the growth, expansion and performance of private investment divided into two broad categories; economic factors and non-economic factors.

According to Serven and Solimano (1992) in developing countries economic factors that determine private investment include level of domestic output, the real interest rate, public investment such as investment in basic infrastructure, credit available for investment, size of the external debt, the exchange rate, and macroeconomic stability (in Khan,2007).Issue of governance, existence of quality of institutions that serve the private sector, entrepreneurship skills needed, protection of property rights and the enforcement of contracts are other non economic that determine private investment performance, growth and expansion. Theory of investment is based on the work of Jorgenson (1963) treats the value of capital stock desired by a competitive enterprise as a positive function of its output level. Accelerator theory also suggests that as income increases in an economy, so does the investment made by firms demand¹⁶

¹⁶ Khan,2007

Figure 1: Conceptual framework of Private Investments (Diagrammatic presentation)



Source: Adapted from Feyera, 2009 with modifications

- 1) *Policy objectives* include employment opportunity, economic growth, poverty reduction technology transfer etc
- 2) *Economic factors* that determine private investment include level of domestic output, real interest rate, public investment, availability of credit for investment, size of external debt, exchange rate, macroeconomic stability etc
- 3) *Non economic factors* that determine the performance of private investment comprises factors such as issue of governance, existence of quality institutions, entrepreneurship skills needed, protection of property rights and enforcement of contracts.

As shown in the above figure, the real interest rate is also considered an important variable in determining the level of investment in neoclassical theory. A negative relationship is expected theoretically because of increases in the interest payable being disincentive to investment. However, McKinnon and Shaw(1973) suggest that there could be positive relationship between investment and real rate of interest rate, because higher real rate of interest would increase savings, volume of domestic credit will increase as a result, and equilibrium investment be higher in which this hypothesis known as “McKinnon’s and Shaw’s hypothesis” which is based on assumption that quantity of financial resources is the main constraints on investment rather than cost financial resources¹⁷.

The availability of credit to the private sector is thought to be another key variable determining private investment activities especially in developing countries (Blejer and Khan 1984; Ramirez 1994 cited in Erden and Holcombe, 2005). Credit constraints may be more binding in developing economies than the interest rate if credit is explicitly rationed or its availability is limited in other ways. However, investment may also be sensitive to the cost of capital after the structural adjustment reforms implemented in most developing nations in the late 1970s because such reforms led to increases in real interest rates. Thus, the cost of funding investment projects as well as the availability of credit can be expected to play inhibiting roles on private investment in developing countries¹⁸.

In the absence of long-term financing and the future market, bank loans and external borrowing may be the only sources of credit available for private sector investment financing. Another factor that exemplifies the influence of external credit constraints on the financing of production activities is the size of the external debt. High debt levels divert the resources previously used to finance local companies toward service payments and charges being transferred abroad. Exchange rate also plays a crucial role in investment decisions by private entrepreneur; especially in this globalised world it becomes more important.

¹⁷ McKinnon and Shaw(1973)

¹⁸ (<http://unpan1.un.org>).

In the developing countries, the public sector generally plays a large part in economic activity through public sector investment. The public sector investment may have “crowding out” or “crowding in” effects on private-sector investment. In this regard, Gutierriz, (2005) pointed out that public investment in basic infrastructure (transport, communication, power, health, education and others) accelerate or “crowding in “the development of private investment. It was also argued that public investment in consumable goods and services can affect private investment by “crowding out” its expansion through diverting scarce economic resources toward public sector¹⁹.

Non economic factors such as corruption, promotion activities, incentive package, issue of governance, regulation and rules, economic policy (e.g. privatization), political stability, existence of chambers of commerce, financial system of the country, and the skill of labor force in the market, entrepreneurial capacity of the investor or the firm and others can affect the growth and expansion of private investment. For example high corruption, absence of defined regulations and rules, low entrepreneurial capacity of the investor, absence of effective incentive package and promotions etc are the major constraints in expanding the activities of private investment (Everhart and Sumlinski, 2002).

Foreign Direct private investment affects the development of private investment in different ways. Foreign investment can promote the expansion of domestic private investment through technological transfer, enhancing entrepreneurial capacity of domestic firms and creating competition. It can also affect the expansion of private by crowding out infant domestic industries by strong multinational corporations (ECA .2005 in Feyera, 2009).

In general, economic and non economic determinants of private investment can enhance or constrained the growth and expansion of private investment in which their positive impact for example can lead to the achievement of investment policy objectives such as creating employment opportunity, reduction of poverty in the country, economic growth and technological transfer for further enhancement of the country’s economy.

¹⁹ Gutierriz, (2005)

2.6 Survey of Empirical Evidences of Private Investment

The performance of FDI inflows to Africa in terms of global share is poor but the volume of inflows shows increasing. The reason for such poor performance in Africa is because of lingering skepticism towards foreign investment owing to historical, ideological, and political reasons. Given its low performance with regard to flows of foreign capital to Africa, but its effects on economic and social development shows mixed results. According to Kedia, Manju and Moss, Tadj (2004) survey result, FDI flows to Kenya, Tanzania, and Uganda showed positive effects both on the host economies and workers. The result of Survey also showed that foreign firms are more productive, bring management skills, invest more heavily in infrastructure and in the training and health of their workers, and are also connected to global markets²⁰. It was also suggested that foreign firms do not appear to succeed by grabbing market share and crowding out local industry.

Study conducted to investigate the causal link between FDI, Domestic Investment and Economic growth in China for the period 1988-2003 indicated that FDI has not only assisted in overcoming shortage of capital, but stimulated economic growth through complementing domestic investment (Selvanathan et.al, 2008).

An analysis of data for the period 1970-2008 for ECOWAS region revealed that FDI inflow substitute domestic investment. Export openness and import openness were found to positively and negatively affect respectively domestic investment accumulation in the region (Eregha. 2011). Moreover, study by Greene and Villanueva (1991) cited in Ayele (2011) conducted on 23 countries have shown that public investment in infrastructure is complementary to private investment. Nonetheless, as there is a limit to domestic saving, public investment would in some cases pose a severe constraint for private investment and would crowd out private investment by competing for scarce resources.

Study regarding the impact of FDI on economic growth on five Asian countries also revealed a positive direct link between FDI and economic growth (Bende-Nabende, 1998). The survey has shown that FDI for Indonesia, Malaysia and the Philippines are positively correlated with

²⁰ (<http://www.cgdev.org>)

growth, while that for Singapore and Thailand are negatively related. Moreover, FDI stimulated economic growth in those Asian countries mostly through human capital and employment. The result of survey suggested that FDI generated positive impulses on capital formation in the Philippines and Thailand. However, capital formation in turn impacted negatively on the Philippines' output and affected neutrally on Thailand's output. What further concluded was that spillovers were not attained via capital formation and it could generate crowding out effects in the host countries²¹. Likewise, the investigation by UNCTAD (1999) found that FDI has both positive and negative impacts on economic growth depending on the variables that were entered in the equation²²

Major challenges of private sector performance in developing countries specifically in Africa are lack of basic infrastructure, limited access to supplies and equipments, loans at very high interest rates and others that can increase cost of doing business (WB, 2005). Though there are important differences across regions in the world particularly between developed and developing countries, the standing out constraints of private investment growth and expansion all over the world were identified to be taxes and regulations, financing, policy instability and uncertainty, and inflation (Batra, Kaufmann and Stone, 2003).

The growth of private investment in Ethiopia is influenced positively by domestic market, return on capital, trade openness and liberalization measures, infrastructure facilities and expansion of foreign direct investment but negatively influenced by government activities and political instability (Ambachew, 2010). The growth rate of real GDP, export orientation, and liberalization, among others, have positive impact on FDI growth while macroeconomic instability and poor infrastructure have negative impact on FDI flows (Getinet and Hirut, 2005).

The dominant feature of private investment in the country is the domestic private with rising of FDI. The better performance of private investment in post 1992 attributes to the policy stances of the regime such as political stability, increased openness, liberalization, improved investment climate and other macroeconomic and institutional factors²³.

²¹ Bende-Nabende, 1998

²² [Http://www.grips.ac](http://www.grips.ac).

²³ Getinet and Hirut, 2005

WB and EDRI (2002) cited in Ayele (2011) found out the factors that are most challenging for private investors to do business in Ethiopia. Accordingly, theft, tax rate and tax administration, access to land, reliability of infrastructure, credit procedures and the perceived corruptions of the banking sector, collateral requirement, low per capital incomes, lack of experience in industrial export production and limited size of domestic market. It also revealed that in Thailand in the short run output growth, private credit, and the existence of spare capacity are the key determinants of private investment to grow and expand. Over and above these three variables uncertainty in terms of both inflation and real exchange rate is apparent. In the long run, private investment is mostly determined by business opportunity and investment costs. Government investment could promote long-term private investment but its impact is relatively limited.

UNCTAD(2002) pointed out that the major economic constraints and challenges faced by private sectors in Ethiopia found to be poor infrastructure (Road, Telecommunication and Power), perceived over regulation of the economy, the perpetration of the state control over the important international business operations, shortage of modern management skills and culture in the local private and public sector and the absence of an experienced business development framework that can assist local small and Micro Enterprises to improve competitiveness.

Analysis of investment climate based on firm level data from the manufacturing of sector in the regions of Ethiopia by WB and EDRI (2004) revealed that several constraints facing private sector in doing business in the country. Firms in the sample selected from all regions of the country identified problems with the tax rates and tax administration as constituting the most serious impediments in all regions of the country, albeit with some regional variation. Access to land, access and reliability of basic infrastructures service, banks' cumbersome credit procedures, perceived corruption in the credit allocation, and stringent collateral requirements. The assessment also revealed a variations in investment climate among the state- owned Enterprise and private firms where the former argued to get a relatively favorable treatment²⁴.

²⁴ WB and EDRI(2004)

2.7 Foreign Direct investment

Foreign direct investment refers to investment made to acquire a lasting management interest (usually at least 10% of voting stock) and acquire at least 10% of equity share in an enterprise operating in a country other than the home country of the investor. It can take “a Greenfield investment” often called “mortar and brick” or Merger and acquisition (UNCTAD, 2000).

Greenfield refers to an investment in new asset while Merger and acquisition (M&A) refers to acquisition of existing assets of more than 10% equity share, involve in transfer of ownership from domestic to foreign hands, and do not create new productive facilities. This type of investment undertaken by companies to protect, consolidate and advance their positions by acquiring other companies that will enhance their competitiveness²⁵.

Possible motives for flows of FDI include *Market seeking* (in response to market size of the host country), *Resource/asset seeking FDI*(he purpose of acquiring resources which are not available in the home country) and *Efficiency seeking FDI* that flows in the presence of economics of scale and scope and diversification of risk(Dunning ,1993).

FDI is thought to stimulate national economies. It contributes to GDP, Gross Fixed Capital Formation (total investment in a host economy) and balance of payments. Although, the link does not hold for all, OECD (2000a) argued that empirical studies have shown a positive link between higher GDP and FDI inflows. Its impact largely depend on the conditions of the host economy as for example, the level of domestic investments/savings, the mode of entry (merger & acquisitions or Greenfield investments) and the sector involved, as well as a country’s ability to regulate foreign investment(UNCTAD,1999).

FDI is needed in developing countries in general and in African in particular for various reasons. In most economies domestic private investment has proven to be insufficient in giving the economy the required boost to enable meet its target because of the mismatch between their capital requirements and saving capacity. As Hayami(2001) and Todaro and Smith (2003) suggested ,FDI contributes to economic growth by filling the gap between desired level of

²⁵ UNCTAD,2000

investment and the resources that could be domestically mobilized through savings²⁶. This is true for Africa countries' where the saving rate is slower than the other regions of the world and lower than the required investment level needed for economic growth to alleviate poverty. Africa continent needs to fill annual resources gap variously estimated to the magnitude of 10-15% of its GDP or an estimate of US\$60-64 billion (Sachs and Warner, 1995 in Ayanwale, 2007). Therefore, foreign private investment augments domestic resources to enable the country carry out effectively her development programmes and raise the standard of living of her people.

Factors like political stability, market potential and accessibility, repatriation of profits, infrastructure, and ease of currency conversion, privatization and deregulation of markets are seen as central means to attract FDI. WSSD 1995 and Habitat II, 1996 suggested that national legislation can support better investment security for local markets, fair competition and corporate responsibility through defining equitable, secure, non-discriminatory, transparent investment practices (ECOSOC, 2000).

In this regard, African countries have tried to improve the regulatory and policy environments to attract foreign investment. In reports of UNCTAD 1998, during 1990s most African countries have significantly liberalized their economic environment to attract foreign direct investment. Given these substantial change in policy environment, however, Africa has not received the levels of FDI that had been expected by reformers (Kedia and Moss, 2004).

There are debates about the costs and benefits of FDI in countries' overall social and economic development. Many argue that, given appropriate policies and a basic level of development, FDI can play a key role in the process of creating a better economic environment. Others also argue that there is a drawback with FDI as it leads to the deterioration of the balance of payments as profits are repatriated and negative impacts on competition in national markets. However, there is also consensus views are observed in that there is a positive association between FDI inflows

²⁶ (<http://www.grips.ac.jp>).

and growth provided receiving countries have reached a minimum level of educational, technological and/or infrastructure development²⁷.

Studies have been conducted to identify costs and benefits related to the inflows of FDI. CUTS (2001), suggested that FDI will only lead to economic growth in the host country under certain conditions so that government are responsible to make sure that these conditions are in place before attracting it. Accordingly, the impact of FDI depends on factors like the mode of entry (Greenfield or M&A), whether the activities are already undertaken in the host country or not. Moreover, source of finance(reinvested earnings, intra-company loans or the equity capital from parent companies) and the impact on domestic companies are also other factor that determine whether cost associated with FDI overweigh its benefits or not²⁸.

The benefits of foreign private investment include transfer of technology; higher productivity; higher incomes; more revenue for government through taxes; enhancement of balance of payments ability; employment generation; diversification of the industrial base and expansion; modernization and development of related industries.

Potential problems associated with FDI were also documented. CUTS (2001), suggested that FDI and in particular M&As are likely to have a negative impact on the level of competition of in the domestic market which is believed to lead to restrictive business practices and abuse of dominance and ending up with worsening the trade situations of the country. It was argued that TNCs may damage host economies by suppressing domestic entrepreneurship and using their superior knowledge, worldwide contracts, advertising skills, and a range of essential support services to drive out local competitors and hinder the emergence of small scale local enterprises.

Developing countries in general and Africa in particular needs to maximize the benefits and minimize the costs associated with FDI. They have to develop strategies that help them attracting FDI in the most beneficial ways. Some countries often followed a targeted approach to FDI. Targeted approach to FDI involves the focusing of promotional resources to attract a defined set

²⁷ <http://www.usc.e>.

²⁸ *ibid.*

of FDI flows, rather than FDI in general to achieve objectives related to such aspects as employment, technology transfer, exports and cluster development strategies (WIR, 2002).

In an attempt to attract FDI, many African countries have improved their regulatory framework. They have opened their economies, also permitting profit repatriation and providing tax and other incentives to attract investment. Most of them have concluded bilateral investment treaties with countries whose main aim is the protection and promotion of FDI (UNCTAD, 1999). Many institutions like NEPAD have been established in the continents to increase the inflows of foreign capital which is important for economic growth as the gap between saving and investment need is high in the region .in spite of all these, FDI inflows to Africa is infringe.

A number of reasons were mentioned that hindered FDI into African countries. These include market size, lack of policies, lack of profit opportunities, inconsistent setup, negative perceptions, and shortage of skilled manpower, labour regulations, poor infrastructure and corruption (CUTS, 2002). Business indicated that extortion, bribery, lack of access to global markets and delay in getting approval to start a business is some of the factors that discourage investors from investing in Africa.

2.8 Private Sector and Investment Climate in Ethiopia(post-1991/92)

2.8.1 Introduction

The private sector is the main engine of growth when an environment is conducive for private sector growth and expansion; it brings sustainable growth as it allows investors to set economic activity by bringing resources together to produce goods and services. Benefits such as job opportunities and technologies are introduced, especially through international trade and investment linkages and raising growth rates and reduction of poverty become possible (OECD, 2005).To materialize these contributions establishing well functioning and competitive markets are very crucial. In section that flow the development of private sector, investment climate and measures undertaken to improve investment climate of the country have been discussed.

2.8.2 Overview of Economic Performance of Ethiopia (post-1991/2)

In order to bring socio- economic changes in the country the federal democratic republic of Ethiopia has undertaken many policy reforms since 1991.It moved to reverse the historical

legacy of the centrally planned economy by encouraging participation of the private sector in economic activities. The government has undertaken liberalization and deregulation measures to transform the economy from centrally command structure to a market – based economy and has created conducive environment to private sector growth (Taye, 2005). Changes have been accompanied by various attempts at institutional reform including the introduction of a new Constitution in 1993 which paved the way for the movement toward federalism where it is based upon nine regions and two chartered cities, each of which is endowed with legislative, executive and judicial powers pertaining to all matters except those related to defense, foreign affairs, macroeconomic policy and the printing of currency(Pro.1/1995).

Given the overall efforts of government undertaken to improve the economic performance, major improvements have been registered in the major macroeconomic performance indicators of the country. Since 2003/04, GDP of the country has been growing by almost more than 10%. Until 2009/2010 the highest growth rate which is 12.65 was achieved in 2004/5 while the lowest growth rate which is 10% was recorded in 2008/9(MoFED, 2012).

The growth of GDP is also associated with the growth of private sector as in economic theory this growth is the cumulative effect of factors such as gross private domestic investment and goods and services produced by government(Jhinggan,M.L,1983). A financial source for private investment comes mostly from domestic savings. In Ethiopia, however the rate of domestic saving as % of GDP was volatile and very small. During 2003/4- 2009/10 the highest growth rate of domestic saving which is 11.9% has been recorded in 2003/4 and the lowest one which is 4.6% was achieved in 2005/06 demanding attraction of more FDI inflows to fill the gap between domestic saving and investment demand. To improve the participation of private investment in the economy activity, the government has tried to raise domestic public investment to create a conducive environment. Although it shows inconsistent growth, generally domestic public investment has raised from 14% in 2003/4 to 17% in 2009/10. However, during the stated years the growth of both DPI and FDI is volatile. for example, DPI generally decreased from 8.8% of GDP in 2002/03 to 6.6% in 2009/10 while FDI has been grown from 1.4% GDP in 2003/4 to 3% in 2009/10 (MoFED, 2012).

2.8.3 Investment Climate and Measures undertaken to improve its Performance

Investment climate is the totality of macroeconomic, political, policy, and institutional conditions in a country that, together with structural forces, determine private investment, enterprise performance, growth and expansion²⁹. It consists of factors that act as an incentive/disincentive in starting and running a business such as, but not limited to, financial services, governance, regulation, labor relations, conflict resolution, and infrastructure services.

The structural factors that play an important role in the outcomes of investment climate include geography (determining flows of products and inputs and proximity to export markets), and level of development (determining purchasing power of the domestic economy). Under incentive investment climate, private sector expands employment and in tax collection that necessary for public investment in social and other service. In contrast, a poor business environment increases the obstacles to conducting business activities and decreases a country's prospect for reaching its potential in terms of employment, production, and welfare (WB and EDRI, 2004).

Since 1991/1992, government has undertaken many policy reforms that encourage the development of private investment as it believes that private sector is the engine of growth in country's economic activities. In this regard the investment climate of the country is improving. For, example, the doing business profile 2012 of the country identified by WB and IFC (2012) indicate that the rank in the ease of doing business in the country in comparators countries is improving (see for details Annex-7). Among macro-policy reforms that have been implemented include liberalization of trade policy; privatization of public sector enterprises; financial sector reforms; streamlining taxes, liberalizing the labor market, and deregulation of prices and exchange rate controls can be mentioned³⁰.

Non-tariff barriers have been eliminated and Import tariffs have been reduced. Controls over retail prices and interest rates, which were prevalent during the centralized planning system, have been eliminated. Furthermore, fundamental reforms have been implemented in the financial

²⁹ www.entrprisesurveys.org.

³⁰ WB, and EDRI (2004).

sector and in monetary policy. Private sector financial institutions are now permitted to operate, although the financial sector is still closed to foreign investors (Taye, 2005).

The investment code has been revised many times to ensure a wider coverage of the sectors and activities that foreign investors are allowed to participate in. The latest revision has broadened the sectoral coverage to include telecommunications and power sectors. The Ethiopian Investment Authority (EIA) serves as a one-stop-shop for the promotion of foreign investment. It facilitate, promote ,Coordinate foreign investment, renders information required by investors, approves and issues investment permits to foreign investors ,provide trade registration services to foreign investors and issues operating license to approved foreign investments(EIA, 2008).

Privatization and Public Enterprises Supervising Agency of Ethiopia, as of September 2011 has transferred 310 public enterprise and their branches to private enterprise with the total value of 8.736 billion Ethiopian currencies (birr). Out of the privatized projects Agriculture and Agro-processing take a share of 19.6% while manufacturing and service sector take 25.48% and 54.51% respectively. There are also other 50 public Enterprises planned to privatize through equity sale, 10 enterprises and their branches were planned to be transferred to private sector through joint venture modalities (PPESA, 2011). Deregulation measures were also undertaken. Currency of the country has been depreciated continuously to reflect the true value birr to that of USD. Accordingly, average exchange rate of birr/ USD was decreased from 8.58 in 2003/2004 to 16.2 in 2010/2011(MoFED, 2011).

Area of economic and social activities open to private investment both for private domestic and foreign investment and that would be undertaken by government have been recognized by constitution and other legislations. In this regard investment proclamations and implementations directives have been proclaimed. To improve the status of private investment necessary amendments have also been undertaken. At federal level investment Proclamation No.280/2002 which was reenacted to encourage and promote private investment and ensures efficient administration of investment system was passed in 2002. The proclamation specifies the minimum capital required for foreign investors and areas of investment activities reserved for domestic investments. Accordingly, Foreign investors are allowed to invest in the country provided that they have registered a minimum of 60,000- 100,000 USA dollar in areas of

activities they want to engage. They can also invest in the country as a sole proprietor, or jointly with domestic investors and with the government.

The proclamation also states the investment guarantees and protection. In this regard, no investment may be nationalized or expropriated except when required by the public interest. When land is expropriated for investment that required for public interest, adequate compensation shall be paid in advance. Foreign investors are also allowed to remit compensation paid out of Ethiopia in convertible foreign currency.

Ethiopia is a member of the Multilateral Investment Guarantee Agency which issues guarantee against non- commercial risks to enterprises that invest in the signatory countries. The country is also a member of International Center for Settlement of Investment Disputes between states and Nationals of other states (ICSID) and World Intellectual Property Organization (WIPO).It has concluded bilateral investment promotion with many Africa, Asian, and European countries like Algeria, Austria, Belgium, China, Denmark, Egypt, Finland, France, Germany, Iran, Israel, Italy, Kuwait, Libya, Luxemburg , Malaysia, Netherlands, Sudan, Sweden, Switzerland, Tunisia, Turkey, and Yemen(EIA,2008). In addition the country has signed double taxation avoidance treaty with various countries including Italy, Kuwait, Romania, Tunisia, and Yemen.

Regulation No. 84/2003 also stipulates area of investment reserved for private Domestic investment and Investment incentives permitted. As per the regulation there is 100% exemption from the payment of import customs duties and other taxes levied on imports is granted to an investor to import all investment capital goods, such as plant machinery and equipment, construction materials, as well as spare parts worth up to 15% of the value of the imported investment capital goods. There is also exemption from the sales and excise taxes for all export commodities. Investors engaged in new manufacturing agro- processing activities and the production of agricultural products are exempted from paying income tax from the periods ranging from 2 to 7 years depending on the type of the investment, volume of export, and the region in which the investment is undertaken. Three other Duty incentive schemes are also available to exporters which include Duty Draw- Back scheme³¹ and, Voucher Scheme³² and

³¹ *Duty draw-back scheme is a scheme by which duty paid on raw materials used in the production of commodities is refunded upon exportation of the commodity processed.*

Bonded Manufacturing Warehouse scheme³³ (EIA, 2008). Moreover, business enterprises that incur losses during the tax holiday period carry forward such losses for half of the income tax exemption period following the expiry of the exemption period.

The new constitution of the country in its article 40(3), stipulates that the right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the state and in the peoples of Ethiopia. Various proclamations and directives have been issued in the past to ensure on the way individuals and institutions be provided land through lease holding system. For example, In May 2002, proclamation for the reenactment of Holding urban land by lease (Proc No.272/2002/2003) was enacted that specified the land lease system. Land administration is the responsibility of regional government and city administration. However, some major constraints in implementation of the proclamation were observed. Some of the constraints for the implementation of the land lease system include institutional weakness observed at Federal, regional and City levels. In addition to this, shortage of indigenous supply of strategic skills in all aspects of urban land management is recognized.

As per the proclamation No. 721/2011 that determine urban lands lease Holding system, land for residential or other activities are allotted through tender process. However, land for the establishment of manufacturing activities can be allotted without the tender system with the decision of cabinets of the respective region or city administration. The lease period extends up to 15 years for urban agriculture and up to 70 years for industry and up to 60 years for commercial purposes in the capital city of the country (Addis Ababa).But, in other urban centers of the country, the lease period further extends up to 80 years for industrial activities and up to 70 years for commercial purposes. The lessee is expected to pay not less than 10% of the lease amount in advance payment while the remaining amount to be paid on the basis of equal annual installments during the payment terms.

³² *Voucher scheme is a document having monetary value, printed by the ministry of finance, to be used as a deposit for duties and taxes payable on the imported raw materials.*

³³ *These are benefits given for producers wholly engaged in exporting their products and who are not eligible to use the voucher system.*

With regard to the amount lease price per hectare is 10 USD per year which is low as compared to Sudan that is 20 and 12 US dollar respectively where the average for African in 2010 is 350-800 USD (Ethiopian Macroeconomic hand book, 2010).

Tax reform was undertaken that aimed to strengthening tax administrations by instituting necessary institutions. Some of the main policy reform includes a reduction of corporate income tax from 35% to 30%, the business income tax rate applicable to sole proprietors and partnerships from 40% to 35%, loss carry forward provisions and new business income tax expenditure deductions (Gebre, 2008).

Many other favorable environments also make Ethiopia an attractive destination for private investments. According to Tedesse (2001) cited in Feyera(2009), Ethiopia is a country with favorable investment opportunities relative with many African Countries because of its large market size, Liberalized market economy, unexploited potential natural resources, strategic location with Proximity to the lucrative markets of the Middle East, Europe and Asia and attractive incentive package available with different laws and directives. UNCTAD (2002) also identified positive strategic factors that make Ethiopia an attractive region for private investments in the Sub-Saharan countries. Among many factors, presence of a comparatively safe and less corrupt business and social environment can mentioned that are most challenging factors for many African countries.

EIA (2008) also suggested that the country is endowed with plentiful natural resources, diverse climate and several agro- ecological zones that are helpful for investment activities. The Agency identified investment opportunities area available for both foreign and domestic investors. Accordingly, areas most unexploited include agricultural activities such as cash and industrial crops (coffee, tea, cotton, oil seeds, flower, pulses, fruits and vegetables, sisal, tobacco, sugar cane, spices etc). Agro- processing (in meat, fruits, fish and fish products etc) and manufacturing activities in Food and Beverage, leather industry, Textile and Garment , etc are also potential area where both private domestic investors and foreign investors can engage in investment activities³⁴

³⁴ (EIA ,2008)

Chapter Three

Research method, Materials and Procedures

This chapter is concerned with the methodology employed in the study. Accordingly, method of data collection, sampling techniques, types of data, method of data analysis and other related factors were discussed in the section that follow.

3.1. Design of the Study

A cross sectional survey method was employed to collect important information from individual investors who have been doing business since the introduction of new economic policy in the country. The survey method was based on sample as it is difficult to cover all the whole study population. Therefore, the study involved the descriptive research that employs survey method where this type of research is used to collect data that describes the existing events and then organize, tabulates, depicts and describes the data collected.

3.2 Types and Sources of Data

In order to get dependable and reliable information, data were collected from both primary and secondary sources. Primary data that includes quantitative and qualitative information has been collected from investors, investment experts and administrators, stakeholders and local community. To achieve this goal questionnaire (both closed and open ended) had been prepared and distributed to investors of managers of the firm that enabled the researcher to collect information about the firm. Qualitative information has also been collected from investors or managers since the questionnaire was designed in a way to collect qualitative information too. In addition to this, qualitative data of significant volume have been collected from experts, local community, stakeholders and administrators of different sectors through interview and Focus group discussion. To coordinate focus group discussions and interview sessions, focus group guide and structured interview questions have been prepared and utilized. To understand the actual status of private investment in the city administration, the researcher has also visited investment sites and has observed challenges related to physical infrastructure in the area.

Secondary data has been collected from different books, statistical reports, research documents, Journals, government reports and other data related to the status of private investment in the

country, at regional level and at the study area and were mainly collected from EIA, OIC, SZAOSFIO, MoFED and others.

3.3 Samples and Sampling Procedures

In this study both probability and non probability sampling techniques have been employed. Probability sampling techniques has been used to select respondents from all investor who have invested in Sebeta city administration. From the total 572 project approved as of June 30 2011, a sample size of 20% has been taken as reliable and representative sample size. Different sources indicate that drawing appropriate sample size depends on the number factors other than predetermined fixed rules. According to Jos F.Calderon, Ed.D(1993), determining an appropriate sample size depends on factors such as availability of time, cost, human resources and the nature of homogeneity and heterogeneity of the population from which sample is drawn. However, in most cases 10% or more is taken as an appropriate simple size to draw reliable and representative sample. Therefore, 20 %(115 respondents) has been taken by the researcher is justifiable, adequate and representative sample as the population from which the sample was drawn are homogeneous within their category.

In order to draw this sample size, Systematic sampling and random sampling techniques were employed. The first one is a technique by which selecting one element at random in the sampling frame is performed at the starting point and selects the sample size systematically by applying a predetermined interval. In random sampling techniques each sample frame has equal opportunity to be included in the sample and in this study a lottery method was used. To employ systematic sampling technique first the private investors have been arranged in their areas of sectors by the method called Stratified sampling (grouping or arranging investment projects according to their category of sector and then drawing has been performed to draw a representative sample) .Accordingly, 115 projects from different sectors of activity have been selected by employing both methods and questionnaire was distributed as per the selected sample size. A simple random sampling technique was employed to select sample size from projects categorized under social services, real estate and Floriculture because the numbers of projects in this category were insignificant to apply systematic random sampling technique.

Table 3.1: Sample Size Selected from each Sector

S/ N	Types of Projects	Approved Projects	Sample size (20%)
1	Manufacturing	337	68
2	Agro- industry	64	12
3	Social service	33	7
4	Hotel and tourism	66	12
5	Commercial	56	12
6	Real estate	3	1
7	Flower production	13	3
	total	572	115
	Percentage	100	20

Source: SZAOSFIF, 2011 with own computation.

However, from the above selected sample size to which questionnaire was distributed, only 94 respondents which accounts for about 82% have filled questionnaire and returned to the researcher. The number of questionnaire filled and returned to the researcher was considered to be significant to make analysis and recommendations. Filling and returning the questionnaire to the researcher has been challenging tasks and cumbersome as most respondents hesitating to return the questionnaire as schedule and this process took over two months.

Purposive sampling techniques has been employed to select focus group discussants and key informant interview as these group of participants are believed to have relevant information in the area of study. FGD was planned to conduct among 12 individuals to be taken from investors, local community, office of environmental protection and land management and experts from revenue and investment office. However, discussion was held among 8 individuals came from revenue and investment office, investors and experts from environmental protection and land management.

Interview session was planned to be conducted with 11 individuals who include heads and experts of investment office found at city, zonal and regional level. Accordingly it was conducted with two investment heads found at city and zonal level and 6 experts selected from all investment offices, one from OIC, three from SZAOSFIO and two from Sebeta city investment office. it was also conducted with officials of potable water and sewerage services

of the city , branch office of EEPCO in sebeta, Telecommunication office of Sebeta and Branch of Commercial bank in sebeta City.

3.4 Data Collection Instruments

As indicated above questionnaire which is both closed and open ended was used to collect information from investors that was selected based on the method stated above. However, structured interview and focus group discussion guide questions have been prepared and used in gathering qualitative information from participants. For further triangulation and get additional reliable information, the researcher has also undertaken field visits for which the visit was supported by making photo to identify the realities on the ground.

3.5 Data Collection Procedures and Management

Employing eight data collectors has been planned who assist in distributing, collecting and providing necessary support while the respondents fill the questionnaire. However, only two individuals have been employed that assist the researcher in distributing the questionnaire as the researcher himself visited each and every project sites. Other information gathered through interview and FGD has been managed by the researcher himself.

3.6 Method of Data Analysis

Data collected through the above instrument have analyzed both quantitatively and qualitatively after proper organization has been made. The quantitative data mainly obtained through questionnaire and from secondary source have been analyzed and organized by using the statistical package for social science (SPSS) and Microsoft office Excel. Using this software tabulation and calculation of Frequency, Mean, Standard Deviation, Percentages, Charts, Graphs, etc have been utilized. Qualitative data collected through FGD and interview session and additional suggestion given by respondent have been used along with quantitative data after proper identification of thematic area is done mainly for triangulation purposes.

Chapter Four

Data Presentation and Analysis

This chapter includes presentation, analysis and discussion of data that were collected from primary and secondary sources. Questionnaire, interview and FGD were instruments employed to collect primary data. Data gathered from FGD and KII were used to triangulate data gathered from firm level through questionnaire. Secondary data were also utilized in the presentation and analysis part of this paper. These data were obtained from different government institutions such as Ministry of Finance and Economic Development (MoFED), Ethiopian Electric Power Corporations (EEPCo), Ethiopia Investment Agency (EIA), Oromia Investment Commission (OIC), Central Statistics Agency (CSA), etc and from Journal articles and different books.

Accordingly, in this chapter performance status of approved private investment at national and at the study area, factors contributing for poor performance of projects, prospects available in the study area and other related major factors were addressed in the discussions as indicated below.

4.1 Performance of Approved Private Investment

4.1.1 The Status of Private Investments at National level

Since 1991/92, the current government has been encouraging the growth and expansion of both private domestic investment and foreign direct investment. Ethiopia Investment Agency(EIA) which has given the power to support, organize and facilitate the growth of private investment, has tried to attract potential foreign investors since its establishment by applying different methods of promotion. It has used to promote the immense natural resources of the country by trying to attract foreign investments in collaboration with embassies of Ethiopia to different countries. Moreover, it tried to organize private domestic investments undertaken by the citizens in the nine regions and two administrative cities of the country (EIA, 2008). The status and responses of private investments in the country since the introduction of this new market based economic policy were indicated in Table 4.1.

Table 4.1: Performance of Private Investments by Sources (1991/92-2011/12)

S/N	Investment type	total projects	Projects in Operation & Implementation	% of total	% at pre implementation stage
1	Domestic Private	48,858	6,911	14.22	85.85
2	FDI	6,166	2,087	33.84	66.16
	Total	55,024	8,998	16.35	83.65

Source: EIA, 2012 with Own Computation.

As shown in Table 4.1 above, the volume domestic private investment registered in the country during the past two decades is very significant as compared to FDI inflows to the country. From the stock of 55,024 approved projects, the share of domestic private investment account for more than 88% while the remaining share was taken by FDI. With regard to their performance, of all projects approved since 1991/92, only 16.35% are either at operation or are being under implementation. However, the largest proportion of approved projects which accounts for almost 84% are found at pre- implementation stage. Although the status of projects for DPI and FDI are at lower level, the performance of foreign direct investment seems outperform the domestic private investments. Similar trends have been shown in the study area where all FDI has entered in to practical activities but significant proportion of DPI is also at pre implementation stage. In general, in Ethiopian the features of private investment show that domestic private investment dominate that of foreign direct investment in terms of the number of projects approved.

According to UNCTAD (2003) cited in AERC (2006) the share of inward FDI inflows to Africa was very minimal as compared to other developing and developed countries during 1991 to 2002. The average inflow of FDI for Africa in between 1991-1996 was 1.81 while the shares of developed and developing economies were 60.80 and 35.98 respectively. No significant improvement has also been recorded in between 1999 and 2002 while the share of developed economies increased to 70.69 and developing economies has decreased to 24.90. During the same year FDI inflow to Ethiopia in terms of Capital registered as compared to Sudan, Angola,

Uganda and Kenya was very significant³⁵. This implies that Africa in general and Ethiopia in particular need to assess investment climate that might discourage FDI inflows and also need to heavily promote those good investment climate that would enhance the growth of FDI.

In spite of its lower proportion as compared to inflows to many Africa countries, FDI flows to Ethiopia are significantly improved since 1992/93. Data from EIA indicates that FDI inflows to Ethiopia significantly recorded from East Asian Countries like China and Indian with significant flows also registered from Saudi Arabia. The Turkish investors are also participating in labour intensive manufacturing sector like the textile and Garment industry. Significant number of investors, specifically from Sudan and Egypt (Africa continent) were also having invested their resources in different economic and social sectors.

In general, Since the stated period 6,166 private investors from different countries have taken investment license with registered capital of 360.73 billion birr .Upon full operation of the projects it is planned to create a job opportunities for 622,825 labor forces. Chinese and Indian investors alone when taken into consideration, they have total approved projects of 1755 with registered capital of 73.4 billion birr that have a potential to create job opportunities for 108,234 individuals.

Table 4.2: Stock of Chinese and Indian Foreign Private Investment Flows to Ethiopia

S/N	Country of Origin	total Projects	Capital(in'000 birr)	Total Permanent employment	Capital to employment(in '000 birr)	Capital to projects ratio(in '000 birr)
1	Indian	831	37,136,136	41,454	895.839	44,688.49
2	Chinese	924	36,274,000	66,780	541.186	39,257.58
3	Both	1755	73,410,136	108,234	678.253	41,829.137
4	Aggregate of Others	4411	287,317,588	514,591	555.341	65,136.61
	Total	6166	360,727,724	622,855	579.152	58,502.71

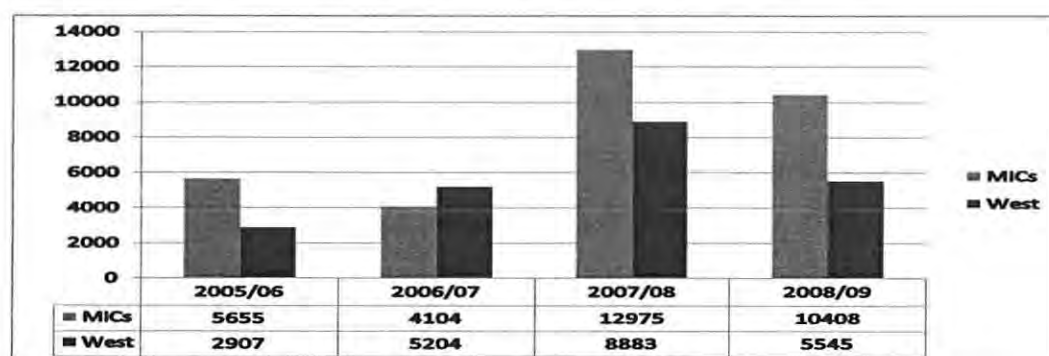
Source: EIA, 2012 with Own Computations.

³⁵ UNCTAD (2003) cited in AERC (2006)

From the Table 4.2 above one can understand that as compared to Chinese investors, Indians foreign investors to Ethiopia planned to employ their resources in more capital intensive projects. But, foreign private investment from the two countries seems to be capital intensive when compared to aggregate effects of investment from all other countries. On average, 555.3 thousands birr per employee has been employed from sources of other countries as compared to 678.3 thousands birr from Indian and Chinese sources. However, the total amounts of financial resources registered in these two countries per a project are smaller than the aggregates of all other countries which accounts for 41.83 billion birr and 65.14 billion birr respectively.

EIA cited in Ethiopian Macroeconomic Handbook (2010), has also confirmed that FDI flow to the country from MICs (Middle East, India, and China) was very significant as compared to inflows from the West during the year 2005 to 2009. It also suggested that Ethiopia’s business and economic fortunes are increasingly being tied with the “MICs” (Middle East, India, and China) showing the significance of FDI flows from these country. This is because the government has followed targeted approach to attract FDI and created strong relation with those countries in addition to favorable investment climate available in the country.

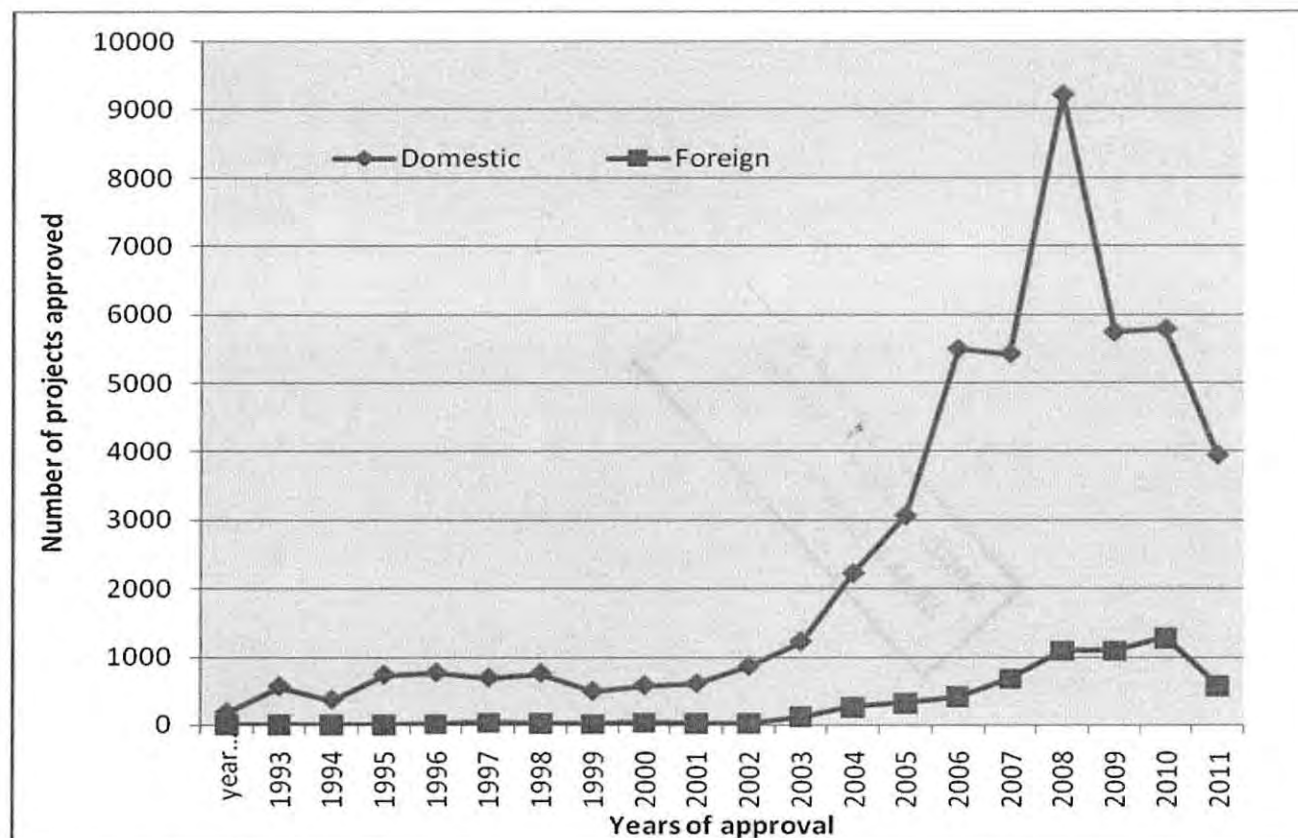
Figure 4.1: FDI flow to Ethiopia from MICs and West (in Million Birr)



Source: Ethiopian Macroeconomic Handbook, 2010.

In general, the participation of both domestic and foreign investors in different socio-economic activities has been increasing during the last two decades. In terms of volume of projects the participation of domestic investors overweighs those of the foreign investors. However, the performance of those approved projects is discouraging since significant number of approved projects is still at pre- implementation or at implementation phase. Figure 4.2 below show the trends of both domestic private and FDI in the country.

Figure 4.2: Trends of Approved Private Investments in Ethiopia (in number).



Source: EIA, 2012 with Own Computation

From the Figure 4.2 above, one can understand that the participation of investors in different sectors have been significantly improved since 2003. This is because the government has given more attention to increase the role of private sector and also this time is the period when the Ethiopian GDP growth has began enter in to the fastest growth among few Sub Saharan African countries that might enabled the country to attract significant number of both domestic and foreign investors in different economic sector.

4.1.2 Distribution and Status of Private Investments among Regional States

One of the objectives of the FDRE investment proclamation is to encourage balanced development and integrated economic activity among the regions and to strengthen the inter-sectoral linkages of the economy. To achieve these objectives, the government undertook measures such as introducing discriminatory incentive package system. Ministers' Council

Regulations No 84/2003 was passed that identifies investment areas reserved for domestic Investors and investment incentives given for encouraging the participation of private investors in country's economic activity. The regulation stipulated exclusively the incentive package to be given for private investors that have committed their resources in relatively underdeveloped regions such as Gambella, Benshangul and Gumze, South Omo (in SNNPR), Afar and Somali where abundant land resources endowed. Consequently, investors investing their resources in these areas are eligible for income tax exemption for an additional one year period. However, as can be seen from the Table 4.3 below, the responses of private investors in those areas are still found at very low level while the status of private investment in the four major regions and the two administrative Cities (Addis Ababa and Dire Dawa) are encouraging.

Table 4.3: Distribution of Projects by Regions and Cities (1992-2012)

S/N	Regions/Cities	Domestic Private Investment		Total Private Investment			
		Number of projects	Capital registered('000 birr)	No. Project	% from Total	Capital registered ('000 birr)	% from total
1	Addis Ababa city Admin.	21,194	187,252,266	24,361	44.27	285,301,920	35.77
2	Afar Region	212	8,944,745	248	0.45	11,536,294	1.45
3	Amhara Region	5,805	37,381,197	6025	10.95	76,800,301	9.63
4	B.Gumze Region	605	2,527,479	677	1.23	7,129,901	0.89
5	Dire Dawa City Admin.	1,514	9,090,970	1566	2.85	27,242,298	3.42
6	Gambella Region	210	1,122,115	246	0.44	14,159,650	1.78
7	Harari Region	540	1,482,448	547	0.99	1,743,948	0.22
8	Multi national	168	11,192,123	763	1.39	57,050,474	7.15
9	Oromia Region	10,801	122,681,789	12518	22.75	243,555,129	30.54
10	SNNPR Region	4,538	22,707,845	4708	8.56	36,068,862	4.52
11	Somali Region	328	3,458,799	349	0.63	4,643,263	0.58
12	Tigray Region	2,943	28,860,732	3016	5.48	32,198,195	4.04
	total	48,858	436,702,510	55,024	99.99	797,430,235	99.99

Source: EIA, 2012 With Own Computation.

Table 4.3 shows that during the last 20 years, the flow DPI and FDI both in terms of total number of projects approved and capital registered went to the major Regions and City administration. Out of the total projects approved in the country 44.27%, 22.75%, 10.95%, 8.56%, 5.48 and 2.85% went to Addis Ababa, Oromia, Amhara, SNNPR, Tigray and Dire Dawa respectively while the remaining regions took only a maximum of 5% share from all licensed projects. A similar trend has been observed in amount of capital registered for approved projects. Although the percentage share of capital registered is increased in Oromia as compared to Addis Ababa, all the four major regions and the two administrative cities shared 35.77%, 30.54%, 9.63%, 4.52%, 4.04% and 3.42% in that order. These uneven distribution of both DPI and FDI among regions and cities administration of the country show that the government need to take additional measures to encourage the establishment of more private investment in the relatively underdeveloped regions and locality so that balanced development will be ensured and migrations for search of jobs to investment concentrated areas will be mitigated.

In contrast to the number of projects approved and the volume of capital registered in all regions and cities administration, however, the performance level of projects in those mentioned regional states and cities administration are mixed. In Benishangul Gumze Regional state, about 56% of the approved DPI has been either at implementation or operational phase while Tigray Region also among the four Regions performed well, in that 38% of DPI is similarly either at implementation or operational stages. Of the total projects approved in SNNPR, Afar and Amhara, about 24.28%, 20.28% and 18.9% were in practical activities while in Addis Ababa and Oromia where significant number of DPI approved were performed less than 10%. In this regard, in Addis Ababa and Oromia specifically the SZAOSF where the number of unemployment is significant as compared to others due to migration to these area, unless further steps taken to operationalize the approved projects social and economic problems might become complex to address due to high unemployment.

With regard to the performance of FDI SNNPR, Addis Ababa, Tigray, Oromia and Afar outperforms other regions where 37.1, 35.52, 34.25, 32.21 and 30.56% of implementation and operational performance stage were reported from these regions respectively.

This implies that all regional governments and cities administrative organs including the Ethiopia investment agency which has given the responsibility of coordinating both FDI and DPI need to

take measures to screen out feasible projects with great care and strengthen follow-up of approved projects' implementation activities so as achieve investment objectives set in the country's policy.

4.1.3 Status of Private Investments in Sebeta City Administration

Sebetea city administration is one of grade one³⁶ level reformed cities in Oromia regional state that found in the Special Zone Administration of Oromia Surrounding Finfinne/Addis Ababa. In the zonal administration 8 major Cities and 6 Woredas are found that established in 2000 E.C by the decision of the regional Government (FEDSZAOSF, 2012). Since 1991/92, in Special Zone Administration of Oromia Surrounding Finfinne (SZAOSF) about 2,380 private projects were approved. As indicated in Table 4.4 below, manufacturing sector which accounts for about 43% has the largest proportion while commercial and agro- industry share 15.76% and 14.79% ,respectively among all projects approved in the zonal administration (SZAOSFIO, 2012).

Given these numbers of approved private investments in the zonal administration, however, the status of projects is discouraging. Only 32.93% have been in practical operation while the rest largest share is either at implementation and pre implementation phase. The rest 25.78% of projects have not entered into any practical activities other than holding arable land expropriated for investment purposes.

Table 4.4: Status of Private Investment in SZAOSF (1991/92-2011)

S/N	Types of Project	Status of the Projects					
		Total	%	operational	Completed construction	Under construction	Pre implementation
1	Manufacturing	1025	43.07	266	146	354	259
2	Agro- industry	352	14.79	192	28	70	62
3	Social service	174	7.31	63	9	49	53
4	Hotel services	381	16	95	21	154	111
5	Commercial	375	15.76	95	26	139	115
6	Real estate	25	1.05	5	1	9	10
7	Flora culture	48	2.02	44	-	-	4
	total	2380	100	760	231	775	614
		%	100	31.93	9.70	32.56	25.78

Source: SZAOSFIO, 2011 with Own Computation.

³⁶ Grade one cities are those cities having autonomous power to plan and execute development plan and are directly responsible to the regional government.

Although the share of manufacturing types of projects are significant form approved projects their performances are less and majority of them are found at pre operational level (Table 4.4).

The question to be raised here is that what if the allocated land for these projects is utilized for agricultural purposes? The researcher tried to identify plot of land laid vacant in the zonal administration and the gross revenue that could be generated per year had different major crops been harvested. According to data obtained from Special Zone Administration of Oromia Surrounding Finfinnee Investment Office (SZAOSFIO) land allocated for projects found at pre implementation stage are 4,152,043m² (415.2 hectares). The productivity of major crops per hectare varies according Districts and fertility of the land. As Annual reports of the Agricultural office of the Zonal administration shows, Last year the average productivity of six major crops such as Teff, Wheat, Barely, chick pea and others was 25.37 quintals per hectare. In a current market an average price of 1066.66 birr for these major crops was roughly estimated that could be produced from the vacant land per year in one production time and shows that an average gross income of 11.235 million birr could be lost per year(own calculation).

In Sebeta City administration, where the study was conducted, some 572 projects including both DPI and FDI were approved since 1991/92 as indicated in Table below.

Table 4.5: Types and Status of Private Investment Projects in Sebeta City since 1991/2

S/ N	Types of Project	Total approved	Share in percentage	Operational Projects	Under construction	At pre-implementation stage
1	Manufacturing	337	58.92	106	111	120
2	Agro- industry	64	11.18	8	21	35
3	Social service	33	5.77	6	7	20
4	Hotel services	66	11.54	8	29	29
5	Commercial	56	9.79	14	7	35
6	Real estate	3	0.52	3	0	0
7	Flora culture	13	2.27	11	0	2
8	Total	572	-	156	175	241
9	%	100	100	27.27	30.59	42

Source: SZAOSFIO, 2011

In Table 4.5 above the proportion of manufacturing projects approved in Sebeta city administration is significant as compared to the zonal level. It accounts for 58.91% of the total projects that comprises of Textile, Plastic factory; Metals etc overweigh others in terms of number of projects approved, capital registered and its performance.

Box 1: Sample projects with their status

AYKA Addis Textile and Investment Group is the largest Textile factory located in Sebeta City administration around Alemgana on the total land area of 200,000m² producing different garment for foreign market. It was established in 2005/06 by Turkish Investors with an initial capital of 2.6 billion Ethiopian birr. Upon full operation of the project, it is planned to create job opportunities for 10,000 Ethiopians. To operate at full capacity, currently huge construction activities have been undergoing in the back side of the factory. Partial view of the factory is seen in the following photo that was taken by the researcher during field observation.



The factory has already commenced operation exporting its products to American and Europe markets. As of February 2012, it employed over 6,000 labor forces. It also uses raw materials such as cotton from domestic market creating linkage for local economy. Furthermore it benefited the country by generating foreign currency.

Oxford Amalgamated PLC is the other Manufacturing factory established in 2005/06 with an initial capital of 210 million Ethiopian birr by Indian Investors and it is also found in Sebeta City administration near AYKA Addis, producing PP Bag Plastic product, sacks and Blanket both for Domestic as well as for Foreign market which mainly exports its products to South Africa. As of the same month, it created job opportunities for over 2000 Ethiopians. Similarly, it is the factory which has also generating foreign currency for the country. It has also created inter- sectoral linkage as the factory uses significant proportion of raw materials from local sources. Now the factory has started expanding its products both in kind and volume so that the country and the nearby society will be further benefited.

Similar to the status shown at the zonal level, the performance of approved private investment in the study area is also poor. As indicated in the above Table 4.5, only 27.27% of the total projects have started operation while the rest of projects are under construction and/or at pre implementation stage. Over 42% domestic private investments have not yet started any activities, and the remaining have started construction and interrupted it while others held larger plot of land and fenced it. Surprisingly, all FDI projects which are only 20 approved projects in number have started practical activities where most of them are now in operation.

The following photo was taken during field observation by the researcher to identify the status and problems of approved projects in the city administration. It shows that although some investors have implemented their projects and the local communities are started to benefit from those investments in a direct or indirect ways, but significant numbers of projects like shown in Figure below have laid vacant the allotted land in spite of the fact that the developers are obliged to start construction of the project with six months upon concluding lease contracts.

Figure 4.3: shows Sample Projects' land laid Vacant.



Source: Field Survey, 2012

The question to be answered here is why while significant numbers of projects were approved in the country as well as in the study area, have not yet started operation or found at pre implementation stage? The following section discusses the general profile of firms and of respondents selected for the study under consideration and factors contributing for the lower performance of private investment in the study area.

4.2 General profile of Respondents and Firms

4.2.1 Sex, Age and Types of Investors

In an attempt to evaluate the performance s, challenges and prospects of private investment in the study area, firm level data were collected from investors or representatives of the firms. To collect primary data, questionnaire was distributed among 115 sampled firms. Among 115 samples size selected by researcher for filling questionnaire, 94 (82%) have filled and returned it back. Table 4.6 below shows that of the respondents replied to the questionnaire 82 (87.2%) are males and 12(12.8%) is female. Majority of managers assigned in the firm are Male who found in the age level of more than 40 years while the participation of Female is very minimal which account for only 13%. This shows that the participation of women in investment activities like any other economic activities lag behind the men counterpart. It can be generally concluded that those private firms are managed by aged individuals as the proportion of respondents greater than 30 years account for more than 70%. Their compositions with age levels are shown in Table 4.6 below.

Table 4.6: Sex, Age level and Types of Investors

S/N	sex	Age level							
		25-29 years		30-40 years		>40 years		total	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%
1	Male	3	3.2	20	21.3	59	62.8	82	87.2
2	Female	0	0	7	7.4	5	5.3	12	13
3	Total	3	3.2	27	28.7	54	68.1	94	100

Source: Own Survey, 2012

The compositions of those Firms replied to the questionnaire were also 80(85.1%) domestic investors, 1(1.1%) joint venture³⁷ and the remaining 13(13.8%) of foreign investors (Table 4.7).

Table 4.7: Types of Investments

Proportions	Types of Investment			
	Domestic	Foreign	Joint venture	Total
Frequency	80	13	1	94
%	85.1	13.8	1.1	100

Source: Own Survey, 2012

Educational level and work experience of the managers or owner managers have implications on the effectiveness and efficiency of the organization for which they are responsible. In this regard it is generally argued that, other things remain constant; managers who are well educated and have related work experience with his/her position will have the capacity to improve the overall productivity of the firm.

When we look at their educational status of respondents, 42(44.7%) respondents were either completed secondary school or below secondary school. Only 31.9 %(33) were in level of graduate and/or in post graduate studies. This clearly shows that the education level of managers is minimal suggesting skill training either by government or business association. However, as argued by many respondents, no significant on job or off job related training have been given by the institutions themselves and/or by the government to upgrade their managerial capacity that would enable them improve efficiency and effectiveness of the firm since the establishment of their firms.

³⁷ According to investment proclamation No.280/2002, it includes investment activities undertaken jointly with government or Ethiopian nationals or any domestic investors.

Table 4.8: Educational and Work Experience of Respondents

Educational level	Total	Work experience(in years)			
		< 3 years	3-10 years	> 10 years	%
Did not complete secondary school	12	4	6	2	12.8
Secondary School	30	11	14	5	31.9
Vocational training	9	2	6	1	9.6
University training	10	4	4	2	10.6
Graduate Studies (BA, BSC)	30	11	14	5	31.9
Post graduate studies (MA, PHD)	3	0	2	1	3.2
total	94	32	46	16	100

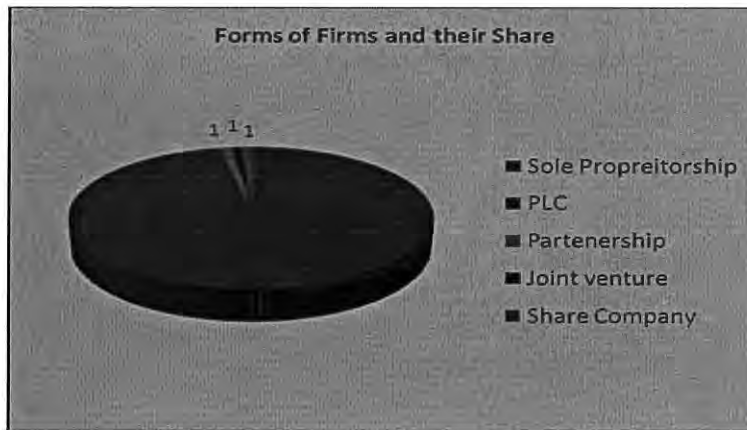
Source: Own Survey, 2012

Table 4.8 shows the work experience that respondents possess in their current position that could help them in managing their firms effectively and efficiently. In light of this 40% of respondents served the organization or similar firms for less than 3 years in current and similar positions. However, the remaining 60% served similar positions for 3 years and above. Their age structure as indicated in table 4.6 above also shows similar trends in that more than 96.8% were found above 30 years of which 68.1 % (64) were in the age level of more than 40 years. This shows that in spite of less educational achievement, majority of them have work experience that could enable them perform assigned duties and responsibilities.

4.2.2 Ownership Structure, Sectors and Status of the Firm

As per relevant proclamations and regulation of FDRE, in Ethiopia both domestic private investment (DPI) and foreign direct investment (FDI) can engage in any economic activities opened to private sectors although there are also areas of investment reserved only for DPI. Similarly, in the study area both domestic and private investors organized under different forms of organization have been involved in different sectors and have committed their resources. Figure 4.4 below describes legal ownership structure of firms that were participated in responding the questionnaire.

Figure 4.4: Legal Ownership Structure of the Firm in Number



Source: Own Survey, 2012

As indicated in Figure 4.4 above, of the total firms responded for the questionnaire, the largest proportion were taken by sole proprietorship and PLC which account for 43 and 48 respectively, and altogether these two forms of organization covered over 96%, while other forms of organization such as partnership, joint venture and share company takes the remaining proportions. In principle, those forms of organization which are formed based on share company and joint venture will have the capacity to expand their businesses as financial drawbacks in most cases solved by raising funds from share holders through members contribution. This implies that most firms approved in the study area are sole proprietorship and PLC which is categorized as small scale industries with less opportunities to raise additional funds for firms operation through members contributions. With regard to the types of sectors included and responded for the questionnaire, the following table depicted the overall components.

Table 4.9: Sectoral Distribution and Proportion of Sampled firms

S/N	Types of Sector	Frequency	Percentage	Cummulative percentage
1	Manufacturing	51	54.3	54.3
2	Agricuture	1	1.1	55.3
3	Agro- Processing	7	7.4	62.8
4	Hotel Service	11	11.7	74.5
5	Flowers production	3	3.2	77.7
6	Real estate	1	1.1	78.7
7	Commercial	12	12.8	91.5
8	Others	8	8.5	100
	Total	94	100	

Source: Own Survey. 2012.

Table 4.9 shows that among firms responded for questionnaire, the largest proportion is the manufacturing sector which accoounts for 51(54.3%) and are engaging in activities like plastic factory, metals manufacturing, textile industry, water bottling, etc. The next larger shares went to commercial and hotel services which accoount for 12.8% and 11.7% respectively. Social services such health and education by private investors in private health and school account for 8.5% while agro-processing account for 7.4% out of the total firms responded for questionnaire. Their status by types of projects were discussed in the following table.

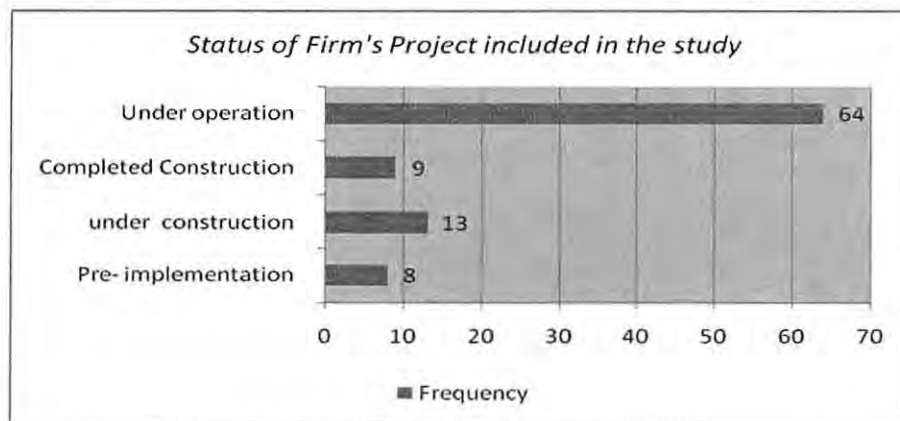
Table 4.10 : Types and Status of Projects selected for the study

S/N	Types of Projects	Status of the Project				
		Total	Pre implementation	Under construction	Completed construction	Operational
1	Manufacturing	51	2	3	4	42
2	Agro- industry	8	3	1	0	4
3	Hotel services	11	2	3	1	5
4	Flora culture	3	0	0	0	3
5	Real estate	1	0	0	0	1
6	Commercial	12	0	3	2	7
7	Others	8	1	3	2	2
8		94	8	13	9	64

Source: SZAOSFIO,2012

The implementation status of projects included in the survey as shown in Table 4.10 revealed that 64(68%) of them are found under operation of which the significant proportion that is 65.63% (42) went to manufacturing projects that are providing either service or produce goods for sale. Among services that those project engaged in incorporates activities such health, hotel, education, recreation, etc while goods produced with factories started operation comprises metal sheet, blanket, packed food and water, Plastic products, Sacks manufacturing, furniture, textile etc. Projects under construction also represents significant number that account for 13(13.82%) and those projects whose construction completed but not entered into operation due different reasons corresponds to 9(9.5%). However, those project included in the survey and which are not yet started any practical activities but were allotted land for investment activities takes 8(8.5%) and these also shown in Figure 4.5 below.

Figure 4.5: Status of Investment project included in the Survey.



Source: Own Survey, 2012

This implies that the inclusion of those investment project found at different level of implementation(stutas) in the survey, have advantage on the collection of relevent data used for analysis. Because, from those project started operation and found at pre implementation stage would provide necessary information to find out the reasons why significant number of projects are still at pre implementation stage in the study area.

4.2.3 Source of Market , Capacity Utilization and Job Opportunities

As indicated in ivestment proclamation and various documents of the government objectives to be achieved through promoting private investment in Ethiopia include developing domestic

market through the growth of production, productivity and services, exploit and develop the immense natural resources, increase foreign exchange earnings by encouraging expansion in volume and variety of the country's export of products and services, save foreign exchange through production of import substituting products, strengthening the inter- sectoral linkages of the economy, etc(Investment Pro.No 280/2002).

Those industries which consume or utilize raw materials for production from local sources is better for the country as it saves foreign currency that would be used for importation of raw materials and also strengthening inter- sectoral linkage of the economy when raw materials are used from local sources. In this regard, out of the total respondents replied for the questionnaire,78(82.98%) respondents replied as to what volume of raw materials being consumed from domestic markets in their industries. Although, the proportion of raw materials imported or utilized from local firms by each firm differ from one another, among firms filled the questionnaire 11.5% used raw material only from foreign sources.On the other hand ,73.1% of firms used raw materials for their industries from 50-100% of the demand from local sources of which those who use the largest proportion of raw materials (86-100%) of the demand from domestic market account for only 51.3%. This implies that majority of firms are neither importers nor exporters as goods and services produced locally also consumed locally.Although, goods and services produced by investment projects are used to fill local demands, concentrating on projects which can generate foreign currency in addition to filling domestic demand is essential.

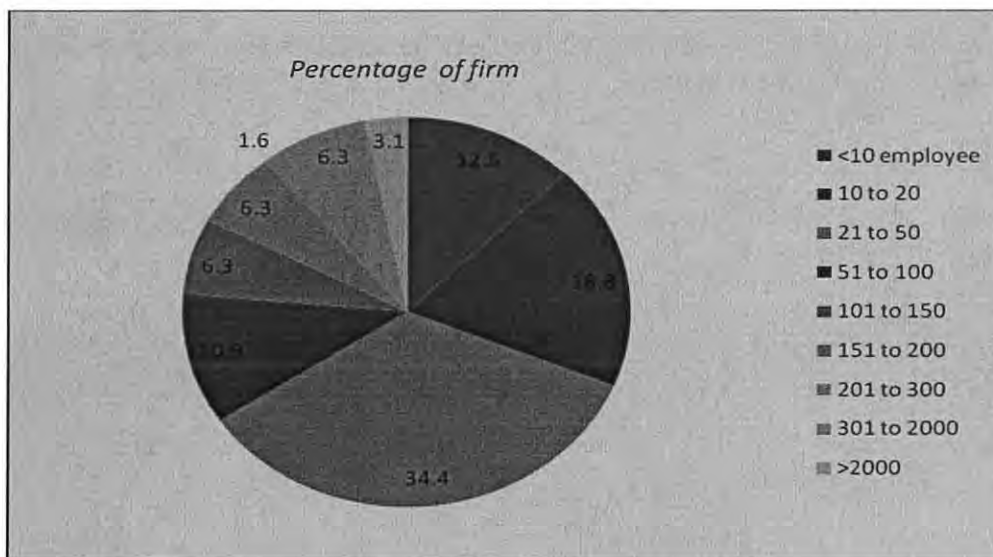
The volume of goods and services produced and supplied to either domestic market or foreign market have also its own implications on the country's economic performance. In a country where balance of trade is negative, goods and services exported for foreign market has great benefits as it generates and saves foreign currency.In this regard, a larger proportions of firms supplied their goods and services to the local market account for 88.5% while the remaining smaller proportion is exported to foreign market. In general, we can conclude that projects approved in the study area are significantly domestic private investment that mostly consumes raw materials from local sources and also mainly uses domestic market as a source destination.

Capacity utilization is the other element to judge the performance level of instituted private projects in the study area. Out of the firms responded to the specific question regarding capacity

utilization, only 41% of the established firms perform at 80% or more to the level of their planned capacity while the remaining 59% of firms perform below the stated capacity. The other 16.4% of firms even perform below 50% of their instituted capacity. Therefore, it can be argued that, let alone those projects which do not yet started operation, even those projects found at operational level were performing below their planned capacity and thus it has its own limitations in achieving investment objectives.

One of the benefits of encouraging the growth of private sector is to create job opportunities to reduce unemployment in the economy. At the study area the number of jobs actually created per project is also found at very low level,. Above 64(65%) of the projects that commenced operation created job oppertunities on average for 50 or less individuals. Figure 4.8 indicated below shows that out of 64 projects started operation, only 24% or less firms on average created job oppertunities for greater than 150 or above per firm.

Figure 4.6: Level of Employment created by Firms



Source: own Survey,2012

Figure 4.6 depicted that majority of firms created job opportunities in between 20 and 50 employees per firm. However, above 50 employees ,as the level of employment increased, the proportion of firms created that level of employment is decreased. In general, when the level of

employment created by firms taken into account, those approved projects in the study area can be categorized under small and medium sized projects.

4.3 Factors Contributing for Poor Performance of Approved Private Investments.

As discussed at various section of this paper, the performance of approved private investments at national level and at the study area are found to be poor .In the following sections economic and non economic factors contributing for poor performance of approved private investment and other major factors such as service delivery, project screening criteria and procedures used and others have been analyzed in detail as in the following ways.

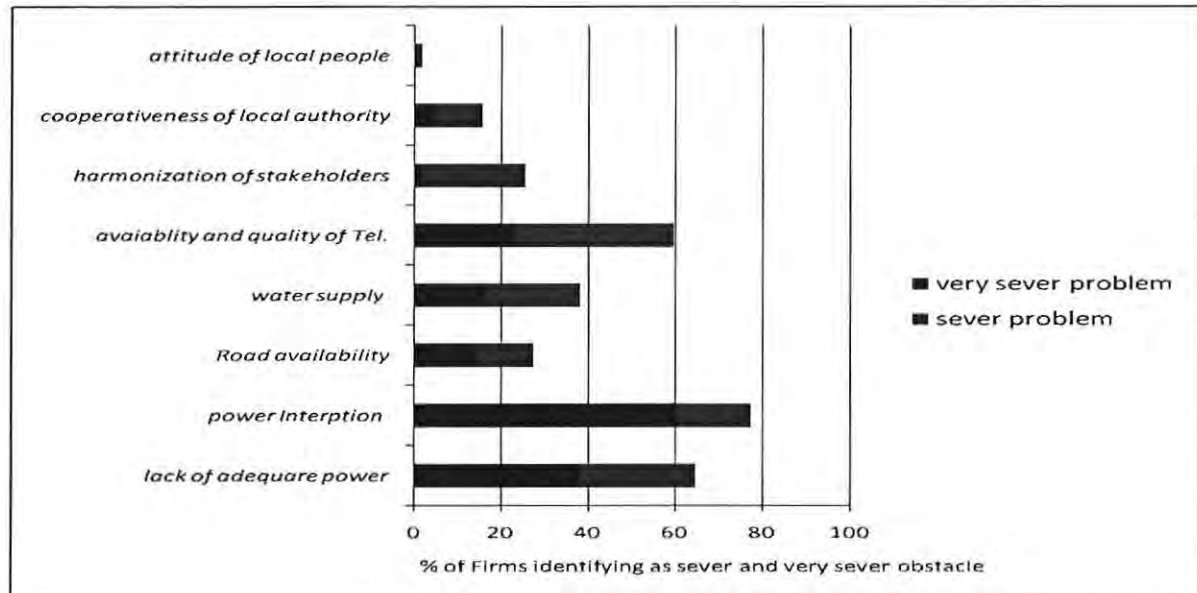
4.3.1 Economic and Non-economic related Constraints

As indicated in the review literature , Serven and Solimano (1992) pointed out that in developing countries economic factors that determine the performance of private investment include level of domestic output, the real interest rate, public investment such as investment in basic infrastructure, credit available for investment, size of the external debt, the exchange rate, and macroeconomic stability (in Khan,2007).Non economic factor that determine private investment performance as suggested by Serven and Solmano also comprises the issue of good governance, existence of quality of institutions that serve the private sector, entrepreneurship skills needed, protection of property rights and the enforcement of contracts are also the other most important factor that determine private investment performance, growth and expansion. In this regard, respondents were asked to rate some of the economic and non economic determinants of investment in relation to their activities with a five scales such as no problem, minor obstacle, moderate obstacle, sever obstacle and very sever obstacle. The proportions of firms who identified challenges related to the factors as sever and very sever obstacle were discussed as follow (see for details in Annex 5).

As indicated in Figure 4.7, percent of firms identifying inadequacy and quality of telecommunication, water supply, power interruption and inadequate power supply as sever and very sever is very significant as compared to other factors. The cumulative percentage of those factor accounts for 59.6, 38.3, 77.6 and 64.9%, respectively. Lack of all weather roads in the investment site, inadequate co-ordination or harmonization of all stake holders in encouraging

and facilitating investment and co-cooperativeness of local authorities to follow and provide necessary support is also worth mentioning.

Figure 4.7: % of Firms identifying Factors as Sever and Very Sever Obstacle in doing Business



Source: Survey Questionnaire, 2012.

However, attitude of local people to wards approved firms in their locality can be said very positive as very less number of respondents rated threats coming from local community as a sever obstacle.

In the figure 4.7 above, basic infrastructures like water supply, power connection, availabilty of telecommunication and others were rated by respondents as the most sever challenge or obstacle in doing business in the area. Short supply of these infrastructure will discourage existing investors to expand the existing firms or to run it effectively and effeciently as it increases the cost of doing businesses. Potential investors are also discouraged when such basic infrastructures are not adequatly available or when services provided by respected organization related to these infrastructures have problems. In this regard further analysis were made based on the gathered data as the following way.

4.3.2 Infrastructure and important Components of Service Delivery Related Challenges

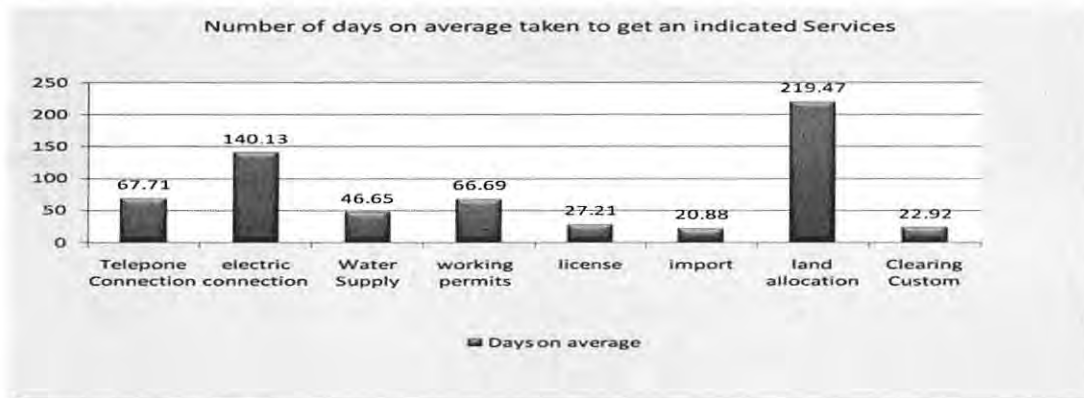
A strong infrastructure facility enhances the competitiveness of an economy and generates a business environment conducive to firm growth and development. Good infrastructure efficiently connects firms to their customers and suppliers, and enables the use of modern production technologies. Conversely, deficiencies in infrastructure create barriers to productive opportunities and increase costs for all firms, from micro-enterprises to large multinational corporations (WB and IFC, 2006).

Though the Country has undergone massive infrastructural improvements in the country, still the availability and quality of basic infrastructure is found at low level. Power and road infrastructure is still the major bottleneck to undertake investment activities. To fulfill the ever increasing demand of power in the country, EEPCO has undertaken considerable efforts. As one of government organ, it has given a responsibility for electric power generation, transmission and distribution. All power generated are centrally controlled. In this regard, major cities are connected to a national grid called the ICS (interconnected system) through which electric power is centrally distributed to various regions in the country. As of July, 2011 electric energy access of the country reached 46% where per capita electric energy generation is reached at 61.46 in KWH per population. The country has 60,000MW electric generation potential from its Hydro electric, Wind and Geothermal. Currently the Grand Ethiopian Renaissance Dam (which has the capacity of generating 6000 MW), Chamo Gayika, Helalie Werabessa, Genale Dawa, Sor and Gebe III are under constructions which are expected to fill the overgrowing energy demand gap in the country (EEPCO, 2011).

In an attempt to identify the status of basic infrastructure, WB in collaboration with EDRI had undertaken investment climate assessment in 2004. The report pointed out that availability and quality of infrastructure such as roads, power, telecommunication and water supply is poor everywhere in the country showing that a long way to go in improving the quality of services delivery and public administration. As per an assessment on average the number of days to get connection for telephone is 204 days, for power service is 114 days (the same report shows 156 days and 217 days respectively for Oromia) making industrial land un usable. The number of waiting days to clear custom is 14 days, and to get a plot of land for investment on average is 305 days.

In this study, the respondents were also asked to identify how long it takes to get those basic infrastructural services from government sector. Basic services included in the survey were telephone and power connection, supply of water, getting import, investment and working license, land allocation and clearance of imported from custom. Only 55 respondents were reacted towards these questions. Accordingly, they suggested that the following services were provided on average with time limit indicated in Figure 4.8.

Figure 4.8: Number of Average days taken to get basic Services

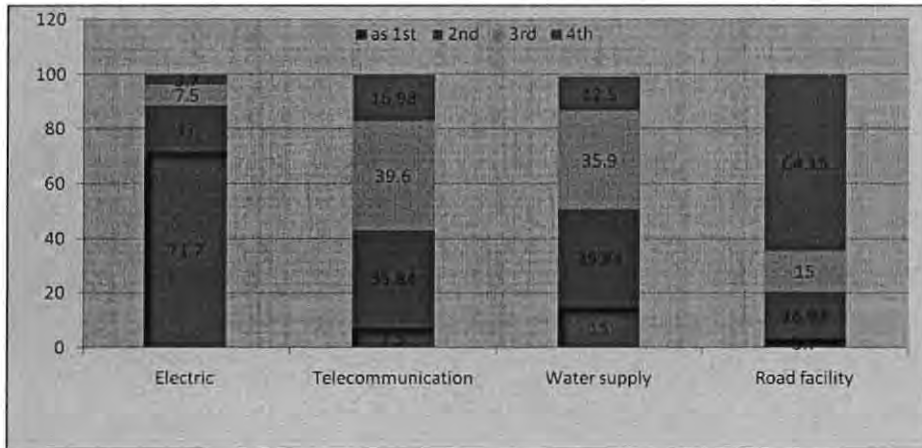


Source: Compiled from Survey Questionnaire, 2012.

As indicated in figure 4.8 above, an approved investment project in the study area takes long time to get a plot of land where according to respondents such services on average extended to 219.47 days. Power connection also takes as long as 140.13 days on average while telephone connection and water supply take 67.71 and 46.65 days respectively. Unless land, power, water and roads are provided by government on time how investors implement their projects on time? what are the factors contributing for such delay in provisions of basic infrastructures ?

The problems are associated with service delivery and inadequate supply which have discussed in detail under service delivery in the following section. However, to identify the most challenging physical infrastructure, respondents were asked to put in order of severance of these basic infrastructure which include electric power supply ,road, water and telecommunication connection . In this regard about 56(60%) of respondents replied for the questionnaire where by some of them put electric power as the most challenging one while others put the remaining infrastructure from their own point of view and practical experience as the most challenging and this has been shown in Figure 4.9 below

Figure 4.9: % of Firms ranked Lack of Basic Infrastructure in order of Severity.

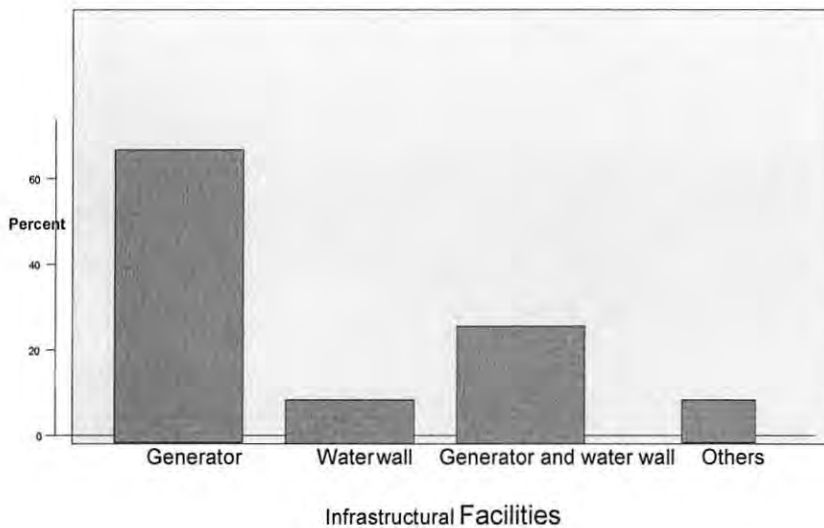


Source: Survey Questionnaire ,2012.

In Figure 4.9 above, electric power supply was ranked by over 71% of respondents as the most challenging physical infrastructure for doing business in the area. Its severness is associated with frequent intrusion and lack of connection while lack in quality of telecommunication service was ranked by respondents as the second most constraints in doing business in the area. However, telecommunication service and water supply for industrial uses were ranked as the third most constraint factors where the problem is reflected in terms of poor quality service and inadequate supply for undertaking investment activities while road availability and reliability put in fourth order. Lack of basic infrastructure mentioned above is very severe in investment sites that was newly allocated where majority of the projects are at pre implementation stage or started and stopped construction activities. In this regard, interviewees, focus group discussants and some investors suggested that though the government or the city administration couldn't fulfill all infrastructure due lack of financial and material resources, efforts to solve the problem by co-ordinating investors themselves are also very minimal.

Respondents were asked to describe the measures undertaken by their firms as strategy to minimize problems related to intrusion in electric power and water supply. Out of 54 firms filled this specific questionnaire many of them have provided this infrastructure by themselves by instituting generator and water well as shown in the Figure 4.10 below.

Figure 4.10(a): Infrastructural Facilities provided by Firms



Source : Survey Questionnaire ,2012

From Figure 4.10(a) shown above, one can understand that of the firms responded to this specific question over 66% of firms installed generator by themselves in order to minimize problem of electric intrusion so as to minimize costs and possible losses. There are also some firms which constructed water well by them selves while the other 25% of respondents provided both generator and water well by themselves to solve problems related to power and water supply.

As indicated in the related literature of this paper, government has undertaken to improve the participation of private sector in country's economic activity by providing different incentive packages as private sectors have significant contributions. Undereconomic activities where the participation of private sector is still negligible and even needs different incentive to growth, provision of basic infrastrures by themselves that should be provided by government will increase the cost of doing business and limit their growth and expansion .

Inadequate provision of basic infrastructure were attributed for multiple factors. As argued by KII, FGD and respondents ;investment sites have not been identified on time and basic infrastructures such as roads,water for industry supply, power and telephone are not fulfilled in

advance before allocating land for investment projects. Moreover, on time maintenance have not been undertaken when service interruption occurred in water, power and telephone indicating that service provision and basic supply in these services need improvement.

Allocation of land for investment activities is the other determinant factor for the performance of private sector. According to Investment Proclamation No 280/2002, each regional government of Ethiopia is supposed to deliver, based on Federal laws and its own, the required land for an approved investment within 60 days of receiving an application for allocation of land .

With regard to allocation of plot of land for investment projects about 84% of firms included in the study area have got land through lease from government. The rest 8.5% and 7.4% accessed for a plot of land through contracts with time limits from land owners and through purchase of use right from land owners (Table 4.11). Respondents were also asked to identify the level of lease price per m², and have suggested the level of lease price as indicated in the Table 4.11

Table 4.11: Land allocation and Lease Price

Means of Land acquisition			Level of lease price of land for investment		
Scale	frequency	Valid percent	Scale	Frequency	Valid percent
Lease from Government	79	84	Very costly	2	2.6
Contract from Owners	8	8.5	costly	11	14.1
Purchase of use right	7	7.4	Competitive	57	73.1
Other	0	0	low	8	10.3
Total	94	100	Total	78	100

Source: Compiled from Survey Questionnaire, 2012.

As depicted in the Table 4.11 above, majority of respondent which account for 73% evaluated the lease price level of land allotted for investment to be competitive while close to 10% of the respondents also perceived as minimum or low. It was only insignificant proportion that perceived the level of lease price of land to be costly or very costly which altogether account for almost 17%. What generally concluded is that regardless of the long procedure it takes to get a plot of land for investment, lease price for land in the study area as well as in the region is very competitive. This competitive price granted by government in an attempt to encourage investors and on the other hand gave a chance for rent seekers as they get land from government for less price and sale or transfer to others at much higher prices. But, to what extent those basic services

provided by government are provided in a manner that decreases the cost of doing business or decrease the transaction costs of investors for developmental once?

One Factor that contributes for the delay of allocation of a plot of land for investment activities related to compensation paid for land owners. Compensation for land owners has not been given on time before allocating such plot of land for investment activities. It is further suggested by KII and focus group discussants that delay in allocation of land is also arises from delay in decision as application brought to investment office by investors has to get final decision by board of investment at investment Commission level where members of the board are mainly higher officials of the government that are expected to perform different competing tasks.

4.3.3 Other Economic and Non-economic related Constraints

As Serven and Solimano(1992) pointed out in developing countries, economic and non economic factors that determine the performance of private investment include bank credit, cost of financing, tax level and administration, availability of work force, access to land, issue of governance, macroeconomic instability, informality, effeciency of court system, demand for goods and services, cost of registration and others related to provision of permits and availability of foreign currency.

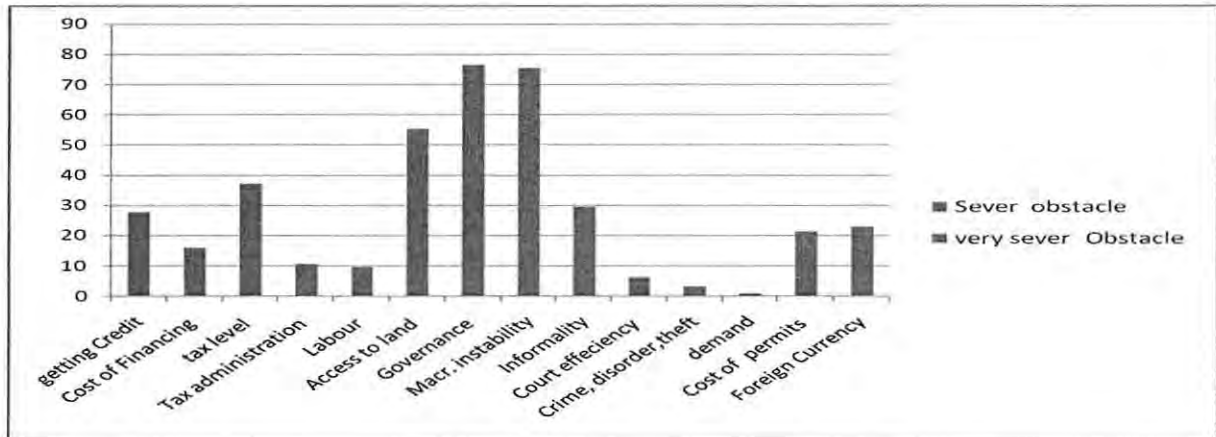
Access to finance needed for payment of labor and other supplies and purchase of raw materials can be a major obstacle in starting and doing a business. Inadequate financing opportunities create difficulties in meeting short term payments for labor and supplies as well as longer –term investments. Cumbersome bank credit procedure, higher interest rate, short due date and high collateral requirements are all problems associated with getting credits from banks.

Perception of tax rate and tax administration may also reflect the pernious effect of overbearing tax structures which limit the operation and growth of the private sector. On the other hand, Labor regulation and skill level of available work force and presence of informal sector (informal sector has serious consequences on formal by imposing unfair competition) can be a constraint for private sector.

Both foreign and domestic investors percieve crime, disorder and theft as a social instability where these factors can drive up the cost of doing business. Commercial disputes between firms and their clients occur regularly in the course of doing business where resolving disputes can be

challenging when legal institutions such as court system is weak. Other factors such as the issue of good governance (rule of law, responsiveness, accountability, transparency etc), access to investment land on time with competitive price, getting foreign currency for importation of capital goods and raw materials and demand to words firm’s goods and services are all factors that can determine the performance of approved private investment³⁸.The following figure was dealt with these factors as determinents of private investment in the study area.

Figure 4.11: % of Firms identifying Determinants of Investment as Sever and Very Sever Obstacle



Source: Survey Questionnaire, 2012.

Credit constraint due underdeveloped capital market and financial intermediation in developing economies is the other important factor which affect private investment. Because of the absence of long- term financing and the future market, bank loans and external borrowing may be the only sources of credit available for private sector investment (Mckinnon,1973).

With regard to financial institutions providing financial services such as saving, credit, exchange and transfer system in the study area include three barnches of commercial banks and one construction bank of Ethiopia, and other five private Banks including three micro financing institutions. Availability of these financial institutions are expected to create oportunities for business enterprise in getting loan and other services.

³⁸ <http://www.doingbusiness.org>.

But, the opportunity can be constrained and become an obstacle to effectively deal business if there is an associated cumbersome in procedure and corruption in getting loans. Out of the 94 firms covered with survey 34(36.2%) firms used only their own equity to start and run the business, 6 firms(6.4%) used financial sources from owners' equity and loan from friends while significant proportions which account for 57.4% used financial sources for operation both from owners' equity and bank loan. Those firms which used financial supply from their own or other sources other than financial institutions might be cumbersome present associated with credit supply in these institutions. This will limit the capacity of investors as they are forced to run his/her or their businesses with limited financial supply.

in this regard,as indicated in the figure 4.11, challenges associated with getting loan from banks (short due date, less amount of loan, high collateral requirements etc) perceived as sever and very severe obstacle by 23.4% and 4.3% respondents respectively ,while cost of financing rated as sever and very severe when bank loan accepted account for 11.7% and 4.3 % in that order. However, commercial bank of Ethiopia Sebeta branch suggested that commercial business firms when applied for loan will be provided easily if the applicants come with all requirements. But , other firms participated in production and construction sector will be granted loan from developmental and housing and construction bank of Ethiopia.

The level of tax imposed by government and efficiency of tax administration is also an important factor in starting and operating business.In this regard,24.5% and 12.8% of firms identified tax level imposed by government as sever and very sever respectively in doing business while insignificant proportions which account for 4.3 and 6.4% of firms perceived tax administration system of the government as sever and very sever in that order.

Other significant challenges identified by respondents in doing business as sever and very sever obstacle in doing business in the study area include challenges related to getting a plot land for investment, the issue of good governance such as rules of law, responsiveness, accountability and perceived corruption.Accordingly, over 55% of firms suggested that getting land for private investment in sebeta city administration is sever or very severe obstacle in doing and starting business as from application to handing over land takes a long period of time. Problems related to getting and handover of investment land has been also confirmed by interviewees and focus group discussants. Lack of responsiveness or inadequate reaction to customers' application on

time, perceived corruption by some employees and authorities were the other factors that respondents identified as an obstacle for doing their business as delay in service provision increase the cost of operation and also delay the start up of business. In this regard close to 65% suggested as sever obstacle while 11.7% of respondents also argued as a very sever obstacle while they have been dealing with investment activities.

Macroeconomic instability as explained by inflation rate and exchange level in causing risks and uncertainties in doing business were the other factors that respondents perceived as an obstacle for doing business. As discussed by Mckinnon(1973) a change in currency value affects the real costs of purchasing imported capital goods, the profitability of of the private sector and possibly causing investment to change.

4.4 Beruocratic Procedures and Problems related to Investors

4.4.1 Project Screening Procedure and related Problems.

Other factor that was argued to attribute for the lower performance approved private investment in the study area is factors related to appraising of investment project proposal prepared by the investor him/her self. From the investors point of view projects are evaluated on the basis of profitability and associated risks thereof. However, government documents show that private projects promoted by investors are evaluated from government point of view on the basis of factors such as the benefits obtained through creating job opportunities, its ability in transferring technological knowhow, creation and saving of foreign currency, production of goods and services for domestic consumption, relatedness of the project objectives with government priority areas and projects' impact on social, economic and environmental conditions of the locality.

In this regard, in Addis Ababa city administration there are cases where land is allocated for projects by negotiation that falls within the government priority which are expected to export-oriented, substitute imports, adda value, labor intensive and also involve in technology know how transfer (Ethiopian Macroeconomic Hand Book, 2010).

Before assessing whether the project is actually evaluated and get decision as pre the stated criteria, identifying investment application and approval procedure of project proposal is worth mentioning. In particular investment office found at different level of administration of the

regional government of Oromia (RGO), an investor is required to apply project proposal showing major elements such as job creation potential of the project, projected financial status, total land area requested and its use plan, the types of project an investor wants to engage in and include other related factors. An investor is also required to provide his/her financial status report from financial institution and other beneficial information to the investment office. In principle, in detail analysis of these components of project proposal help to screen out the most beneficial projects that can benefits all stakeholders including the promoter him/herself. Therefore, to provide application of investment before the decisions of the concerned body, responsible expert or department is required to appraise the proposal by considering the above mentioned factors.

Experts of the investment office found at city, zonal and commission level were interviewed to what extent the project proposal appraisal and screening procedure is effective to select competent project that is feasible as per the government policy and objectives before getting decision by members of investment board or investment committee that found at city/district and zonal level.

Accordingly, majority of the interviewee argued that project proposal appraisal process and screening procedure is not as such competent to differentiate developmental investors from those who run after rent seeking activities. They further suggested that project proposal is used to be prepared by inexperienced and uncertified individuals that employed by the investor him/her self just for the sake of fulfilling the required criteria. Moreover, to screen out those feasible projects from not, experts found at different level of administration assigned to evaluate the contents of project proposal were not well trained as related training opportunities have not yet given by concerned institutions that would enable evaluators to appraise projects as per government policy and objectives. To guide the appraising processes, clear directive helpful for appraising and selecting a feasible project is also not formulated by concerned body. Due to these mentioned factors as argued by focus group discussants and interviewees many individuals who were allocated land for investment activities have sold it. It was also suggested that the frequency of transferring project owner ship through selling from one to another is high indicating that many investors specifically the domestic one take a plot of land with lower prices from government in an intention to sale and transfer at much higher price. The rent seeking behavior

of individuals is also reflected by enclosing vacant land illegally from the adjacent and fencing towards their site.

The other factor which determines the performance level of project is the work experience and financial status of the investor. As argued by majority of interviewee, to select competent project which is applicable, in most cases the work experience and the long term financial status of the investor or developer is not evaluated in detail. In this regard, it was suggested that in some cases some individuals borrow and deposit money in their account today and will bring bank balance statement tomorrow. After bank statement is brought after the investment office and got acceptance, he/she will immediately withdraw and pay back the money to the lender. In this regard, one of the interviewee stressed that he came across an individual who borrow one million birr for two days with an interest of fifty thousand that would enable him to deposit in his name and provide a bank statement showing his financial status to the concerned investment office which shows that in some cases investors have been allotted land for investment purposes by providing false information to the investment office. As also argued by discussants and interviewees some investors borrowed money from the bank by the name of approved projects and perform other factors with money. The ultimate consequence of this that some investors deliberately making the government for additional costs as in some case that project can not cover its costs.

4.4.2 Service Delivery and the issue of Governances.

To enhance the capacity of public institutions and to create an enabling environment for investment and economic growth, the public sector has gone through a series of reform processes including the Civil Service Reform. The reform was undertaken in response to a growing awareness that pervasive deficits in capacity that have hampered the ability of the state to secure the fundamentals of poverty reduction and democratic development including responsive service delivery, citizen empowerment, and good governance³⁹.

In light of this, the government of Ethiopia has embarked a comprehensive civil service reform program in 1996 which include five key areas i.e. expenditure control and management, human

³⁹ <http://www2.hull.ac.uk/>).

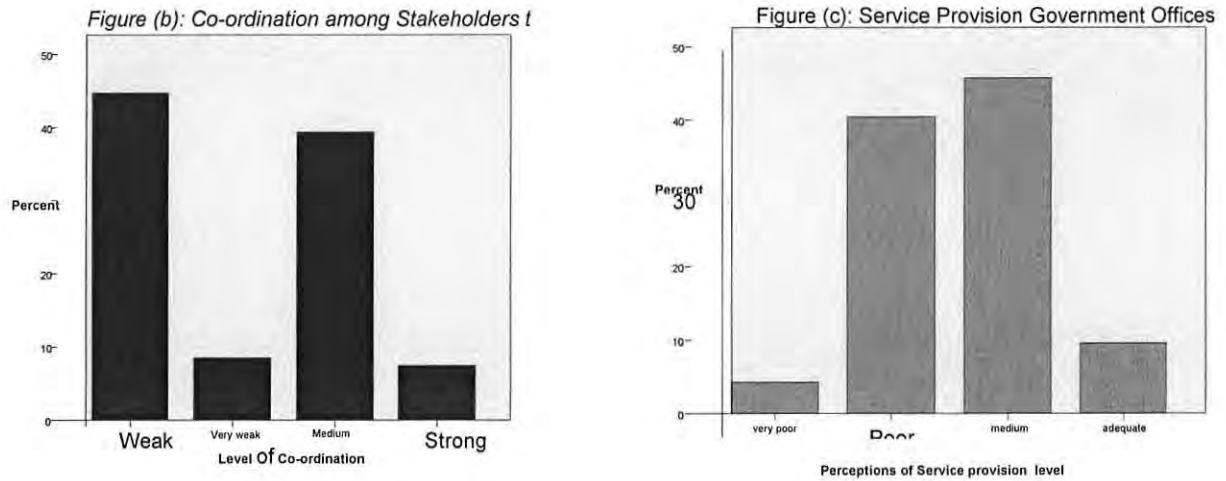
resource management, service delivery, top management system and civil service ethics. Following this reform outdated law was changed, working system has been formulated. As part of the reform, Business Process Reengineering (BPR)⁴⁰ was also introduced. In an attempt to meet society's needs by providing better, faster and more services from government currently another management approach called Business Score Card (BSC) has been introduced (SZAOSFIO, 2012). Likewise investment office found at city/district and zonal level, OIC and EIA has introduced the so called BPR and BSC to provide faster, quality and one stop service delivery to encourage the participation of investors in economic growth of the country. In this regard, EIA as one of the government organ that is responsible for promoting, coordinating and facilitating foreign investment in the country provide one-stop-shop services to investors (EIA, 2008).

However, the service delivery process of investment office of Sebeta city administration and others has been constrained due to various reasons and results of the survey indicated that service delivery process in those offices is inefficient as shown in figure that that follow. Figure 4.12(b) shows the percentage of respondents rated the level of harmonization of government offices in provision of services while the Figure 4.12 (c) indicates the service provision level of Sebeta city administration investment office. Co-ordination among government office is very important as Service provided at one office will also connected with others. As an example, when investment board or investment committee give decision on the amount of land to be allocated to one project that plot of land will be prepared and handover by Environmental Protection and Land Administration office. A delay in action in one organization will directly affect the others resulting in increasing the cost of doing business for investors.

As shown in Table 4.12(b), over 50% the respondents rated the co-ordination level of government offices found at different level of administration to be weak or very weak while 39.4% of them perceived the level of co-ordination to be in medium level.

⁴⁰ BPR is a concept of improving organizational effectiveness to achieve dramatic improvements in performance.

Figure 4.12 (b) and (c): Coordination and Service Provision Level of Government Offices



Source: Own Survey, 2012

With regard level of service delivery indicated in Figure 4.12 (c) above, over 44% of respondents were not satisfied with service provision of government office as they rated the service provision of investment office and other related offices as poor or very poor while some significant numbers also rated as medium. Moreover, majority of respondents as well as focus group discussants also confirmed that the service delivery process of government office is less responsive, transparent, etc in spite of government efforts that has been undertaken to improve it. Given such level of coordination and service provision of government office, majority of the respondents which account for over 56% perceived the overall service provision of government office to be inefficient or very inefficient. Only 42% rated the works of government office in this regard as efficient or as somewhat efficient. Table 4.12 indicated below shows efficiency and competency level of service providers.

Table 4.12: Efficiency and Service Provision Level of Investment office

Efficiency of government Office rated by Respondents				Service Level Rated by respondents		
S / N	Scale/Variable	Frequency	Valid percent	Scale/Variable	Frequency	Valid Percent
1	Very inefficient	2	2.1	competent	12	12.8
2	inefficient	51	54.3	Less competent	59	62,8
3	Somewhat efficient	34	36	uncertain	15	16
4	Efficient	7	7.4	Uncompetitive	8	8.5
	total	94	100	total	94	100

Source: Computed from Survey Questionnaire, 2012.

Competency level of service providers is an important factor in determining whether approved private investment start actual operation as per contract of agreement or not . Less competent employ will delay service⁴¹ delivery for existing and potential customers thereby increasing the cost of doing businesses. As indicated in table 4.12, about 62% of respondents suggested that employees who provide services in investment offices are less competent and most of them argued that though they demanded faster and quality services ,they couldn't able to get as some of the service providers are less competent.

In general, as suggested by many respondents, service provision of government office is less responsive, less accountable and some service providers are less committed towards their job and responsibility. For example, getting land for investment takes long time in some cases up to three years due to lack paying compensation on time, bureaucratic procedure existed in environmental protection and land management office, and lacks clarity as some employees are unethical while dealing with customers.

4.4.3 Follow-up and Aftercares Services related Challenges.

After a plot of land for investment purposes get decision continuous follow up, support and after cares services are very important for growth and expansion of approved private investments.

⁴¹ Services provisions include provision of different support such as writing letters to get bank loan, raw materials for construction, getting incentive package etc.

However, as suggested by focus group discussants and interviewees, follow up and aftercare service functions of investment office have been constrained due to many factors.

Data or documented information about the location of investment project, investment type, volume of land allocated, capital planned to be employed and actually employed, when the projects have got approval including bodies given such decision, contracts of agreement among concerned bodies, total planned job opportunities and actually created, and the like needs to be documented well in order to know the status and problem of project. Unless this information are available or present in partial, follow up, providing necessary support and aftercare services is very difficult. In this regard, all experts interviewed who found at city administration to OIC suggested that there has been a serious problem in properly documenting data related to projects approved by Investment Committee or by the Board of Oromia Investment Commission. Due to lack of necessary data such as the Site of the project, Current status of the project and ownership structure, it has become a difficult task for investment offices to follow up and take necessary legal action on those individuals/firms who do not run their projects as per contract of agreement.

The consequence of all these have been argued that some projects construct their projects contrary to the permitted design and some of them rent their plot of land instead of developing. Furthermore, some investors also perform other activities which are not permitted by the government in which all these problems need to instantly be addressed to achieve objectives formulated by the government.

The other problem argued by interviewees in connection to follow up and providing aftercare services are the constraints existed in area of resources. Investment projects in Sebeta city administration are almost distributed in all areas of kebele administration (an administration that structured below city administration). This distribution pattern of investment projects have many disadvantage in that provision of physical infrastructure became costly as the projects of similar nature were not clustered in specific area. If projects of dissimilar nature are approved and located in the same area one may bring impact on the other. Follow up and provision of aftercare services towards these project also become the other most challenging tasks in case human, financial and logistics are in short supply. The other most important factor is the capacity of government employees found at all level to undertake follow up and aftercare services towards approved projects. In this regard majority FGD and KII suggested that necessary training

services have not yet been given to experts to capacitate his/her skill to competitively run his/her duties. In addition to this, there are also no clear directives that guide employees to undertake follow up, provide aftercare services etc.

Box 2 .Main duties and Responsibilities of Investment Office

In Oromia Regional Government, investment office found at different level of administration has given four major duties and responsibilities. The first duty and responsibility that is given to this office is to identify investment potentials and opportunities available in their respective locality. Potentials available are studied based on the comparative advantage of the area.

The second major duty and responsibility of investment office is to promote those identified potentials through different means such using electronic media, internet, conferences, brochures etc, so as to attract competent potential and existing one to develop the resources of the locality.

The other duty and responsibility that has been practiced by the office is to approve investment license and decide on land allocation through investment board and investment committee and lastly, follow up and taking after care services to encourage startup, growth and expansion of private investments i.e. both DPI and FDI.

So far, some of those duties and responsibilities such as identification of investment potential and promoting such potentials are limited due to factors such as lack of well trained manpower to undertake such activities, lack of adequate resources and logistics, etc.

4.4.4 Organizational Structure, Responsibility and Staffing

In a free market economic policy where the promotion of private sector is the main policy emphasis, the way government offices organized, empowered and staffed has much implication in facilitating the growth and expansion of the works of private sector. Since the private sector is driven by the profit motive, it requires enabling policy conducive to opportunity attractive return for investment. With regard to private investment, both Federal government and the Oromia regional state have organized public sector that supposed to carry out supporting function,

providing enabling environment, and disseminating information of the country and streamline administrative procedure for efficient service delivery. However, to effectively and efficiently manage investment projects and provide necessary decisions, investment offices found at different level of RGO suggested to be hindered by lack of adequate power and staff. For example, all new investment application from small scale Commercial and Social service projects to a large scale manufacturing industries has got approval decision by investment board organized at the regional level. Investment sector found at lower level are only participated in provision of related evidences and their own comment when new projects are applied to respective offices. Contractual agreement of investment projects are mostly carried out at regional level though currently there has been an attempt to delegate such power for some project to lower level. The reason attributed for such centralization of power is argued by interview participants that such decision was taken by regional government to protect rent seeking action and attitude persisted at lower level in the past. The question to be answered here is that: what is the purpose of organizing investment offices at lower level if the offices are not well empowered to provide efficient service to investors? And is it possible to protect rent seeking by centralizing power or is better to protect it by formulating clear directives and instituting responsible organ?

Other challenge related to duties and responsibilities that made the service provision of this institution problematic is the lack of one-stop-shopping services. Vertically an investor has to go up to investment commission to get services and horizontally he/she has to also visit different government sector as for example to get construction permits, design and certificate of allocated land from environment protection and land management office.

In general investment office found at lower level is not structured in such a way to provide one-stop-shopping services as it is not empowered and staffed properly implying that the investment offices need to be restructured so as to provide competitive services to customers.

4.4.5 Investor's Entrepreneurship skill and related Challenges

Providing physical infrastructure and making an environment conducive is not the only factor that determines the performance of private investment. Business men also need to have skill or knowledge of leadership, management and other related disciplines that can help them to plan,

organize, implement and manage their projects properly. Investors can acquire skill through different means such as doing business in specific area for longer period of time and also acquire skill through formal education, etc. Possessing such skill will enable them to develop new business idea, properly implement and expand the existed one. In addition to this, investors who possess necessary skill could undertake feasibility study to identify the profitable business from not as the properly identified projects would enable business man to minimize risks and associated uncertainties. However, as indicated under the profile of respondents', their level of education achieved so far is very low and also did not take related training to upgrade their capacity. To enable business men perform their business efficiently and effectively skill training is very important. In this regard many respondents suggested that the government has to provide them essential training in their respective sectors of activities to upgrade their performance. Business information and skill training provided by business association has also indispensable contributions in capacitating and enabling firms to perform their business more efficiently. However, discussants and KII suggested that due to limited access to training provided to investors and also the rent seeking behaviors and actions of investors, the implementation performance of private investment is very low as compared to approved projects.

4.5 Opportunities and Prospects of Private Investment in Sebeta City Administration

Identification of opportunities and prospects of private investment in the study area are concerned with a comparative advantage available for potential private investors seeking investment in the area or an opportunity area or sector that would enable an existing investor to diversify, expand and that can also to help to engage in new investment in the locality. In order to identify opportunities and prospects for private investment in the area, data gathered through primary sources and secondary sources have been utilized. Prospect for private investment can be evaluated in terms of location, availability of resources, existence of developed infrastructure, potential market available, etc.

In this regard respondents were asked to rate factors related to prospects and opportunities on five scales, where 5 represents "strongly disagree", 4 "disagree", 3 "uncertain", 2 "agree" and 1 "strongly agree" as shown in the following sections.

4.5.1 Ongoing Infrastructural Improvement and Location Advantage

WB (2004) pointed out that private investor needs location specific factors that shape opportunities and incentives for firms to invest productively, create and expand jobs (Ayele, 2011). In this regard, Morisset (2000) suggested that other things being equal countries with good infrastructures are expected to attract more domestic and foreign investors as production costs are typically lower in countries with a well- developed networks of roads, airports, water supply, uninterrupted power supply, telephone and internet services(ibid).

Sebeta city administration is one of prime cities in Oromia Regional state found in the SZAOSF close 25 km far in south-west Addis Ababa (finifinne). Due to nearness to the capital city it is relatively access to basic infrastructure such as roads, water supply, telephone, internet services, power and other services (FEDOSC, 2012). For private investment growth and expansion interviewees, FGD and respondents all have argued that relatively better basic infrastructure supply in the locality can be considered as a source of opportunities and prospects for existing as well as potential investors. In this regard among firms responded for the questionnaire over 60%(with standard deviation of 1.035) suggested infrastructure supply in SZAOSF in general and in study area in particular is an opportunity and prospects for investors seeking investment in the area or those who needs to expand the existing one(see table 4.13 below).

According to FGD, KII and socio-economic profile of the sebeta city administration, the city is located in an area where it is very suitable for investment growth and expansion as majority of the landscape is flat specifically suitable for production of vegetables and fruit and also production of flowers. Fruits and vegetables including cut flowers are cash crops that could be harvested with a smaller plot of land where this specific area is suitable as large commercial farms are not feasible due the fact that vacant land for such purposes are not available. Furthermore, data obtained from OIC pointed out that the SZAOSF has clustered in to five Zones where sebeta and its surrounding area was decided by the regional government as a development corridor for the expansion of industries such as textile and garment including the production of horticultures. FGD and KII also supported this idea and they argued that demand for manufacturing good is high as there is large consumers of factory goods in sebeta and in Addis Ababa and therefore, establishment of industries providing these goods are still an opportunity for existing and potential investors.

As argued by ADBG (2010) flower industry is the new economic activity that started to yield results in generating foreign currency for the country. Its exports have expanded from less than 10 million in 2004/05 to close USD 170 million in 2009/10 and majority of cut flowers are found in this area. This implies that the study area as well as the zonal administration is areas favorable for flowers production in the country.

The city also located in an area where major railway is now under construction. The under construction of rail way that extends to wellega and to the route of Djibouti where port is available is an important infrastructure that would enable exporters to export large volume of goods using this mode of transport. Bole international air port is the alternative means of transportation for exporters which also found near to sebeta city administration. The city administration is also located nearer to capital city of the country which is favorable for suppliers who intend to provide their products to domestic market where larger consumers are available.

4.5.2 Population and Economic Growth as an Opportunity for Private Investment

Population and economic growth are factors that determine the decision of private sector to invest as level of population and economic growth affect the level of private business profit through the size of market and purchasing power of consumers (M.L. Jhigga, 1997).

Ethiopia is a country with a total population estimated to be over 82 million with annual growth rate of 2.6 with fastest and sustainable economic growth among sub-Saharan African countries that registered a GDP growth rate above 10% during the last eight years (MoFED, 2012). Majority of the firms included in the study which account for 87.2% and 87.3% agree and/or strongly agree about population and economic growth respectively as opportunity and/or prospect for existing and potential investor to invest in the country where Sebeta City is not an exception. This implies that the larger the population is the better for producers or suppliers as they could get large volume of market for their products.

Table 4.13: Percentage of firm identified Factors as Opportunities or Prospects.

S/N	Variable	5	4	3	2	1	Mean	St.D	Variance
1	Accessibility of basic infrastructure	6.4	17	16	55.3	5.3	2.64	1.035	1.072
2	Population growth	2.1	5.3	5.3	69.1	18.1	2.04	.802	.643
3	Economic growth	2.1	5.3	5.3	66	21.3	2.01	.823	.677
4	Tax rate and administration	2.1	42.6	21.3	28.7	5.3	3.07	1.008	1.016
5	Incentive package available	1.1	5.3	22.3	61.7	9.6	2.27	.750	.563
6	Political stability	0	4.3	9.6	52.1	34	1.87	0.766	.567
7	Availability of Raw Materials	1.1	5.4	10.6	63.8	18.1	2.09	.779	.638
8	Labour (skilled and Unskilled)	4.3	35.1	22.3	29.8	8.5	2.96	1.106	1.224
9	Access to markets (domestic and foreign)	1.1	4.3	5.3	85.1	4.3	2.13	.591	.349
10	Access to Modern Technology	1.1	2.1	3.2	87.2	6.4	2.04	.527	.278
11	Better purchasing power of Consumer	1.1	4.3	6.4	83	5.3	2.13	.609	.371
12	Proximity to Markets	2.9	5.9	44.1	44.1	2.9	2.62	.779	.607

Source: Survey Questionnaire, 2012

4.5.3 Other Favorable Investment Climate

Investment climate is the totality of macroeconomic, political, policy, and institutional conditions in a country that, together with structural forces, determine private investment, enterprise performance, growth and expansion⁴² consisting of factors that act as an incentive/disincentive in starting and running a business.

With regard to investment climate, Tedesse (2001) cited in Feyera(2009) has identified Favorable investment opportunities available for both PDI and FDI in that the country as having

⁴² www.entprisesurveys.org.

large market size, liberalized market economy, unexploited potential natural resources and suited with strategic location with proximity to the lucrative markets of the Middle East, Europe and Asia. The country has also formulated attractive incentive package available with different laws and directives. ADBG (2010) has argued that business registration and licensing procedures and requirements have been streamlined leading to a reduction in transaction costs for business firms.

In this regard, some investment climate such as the issue of political stability, proximity to market, availability of natural resources etc were provided to respondents to identify to what extent they agree or disagree with the presence of such factor in the study area.

Accordingly, over 87.1% of respondents agree and/or strongly agree (with less St.D which accounts for 0.77) that political stability of the country in general and the study area in particular as the favorable condition for the growth and expansion of private investments. Incentive package is the other factor that the respondents asked to rate in the likert scale of strongly disagree to strongly agree.

Similarly, 70.3% of respondents have agreed and/or strongly agreed with incentive package available at federal and regional state as an opportunities or prospects for the growth of private investment with standard deviation of 0.75. On the other hand, over 89% of respondents (with 0.59 standard deviation) further suggested that an area is favorable for investment growth as it is located in area accessible to domestic and international market. With regard to demand for products and services provided by investors about 88.3% of respondents agree and/or strongly agree with the presence of large number of consumers with relatively better purchasing power as the city is located to Addis Ababa where major economic activities of the country is undertaking. Proximity to export route is also the other factor that significant number of respondents suggested as a favorable condition for the growth of private investment in the area as over 47% of them agreed and/or strongly agreed with this factor.

4.5.4 Availability of Abundant Labour Forces

Availability of both skilled and unskilled of labor force with reasonable wage rate is one of the factors that determine firm's productivity and profitability. Very committed unskilled and skilled labor force will increase firm's productivity and profitability. Labor regulation of the country is the other factor that affect the effectiveness of the firm that run for profit. Higher wage rate

increase the cost of the firm and hence decrease its profit margin. However, in the country where labour force is abundant like Ethiopia it is an opportunity for business firms as it decreases cost of the firm as major costs for most industries is the cost associated with wages and salaries.

In this regard, respondents were asked whether availability of both skilled and unskilled labor force at study area is an opportunity for potential investors. Over 38% agree and/or strongly agree with the idea. As many KII and FGD suggested sebeta city is found nearer to Addis Ababa where migration from rural to urban is common in which sebeta is not an exception. They also suggested that as large scale industries like AYKA Addis and Sagin Dima Textile factory is expanding, many people are migrating to the city from day to day in search of job and this would enable the firms to get abundant labor force at lower wage rate. However, as suggested by many respondents there are still some problem with skilled labor forces as college and universities in most cases do not train students specifically in plastic industry.

Chapter Five

Summary, Conclusions and Recommendations

5.1 Summary

In an attempt to identify major factors contributed for the low implementation performance of approved private investment in Sebeta city administration, firm level data were collected by employing both qualitative and quantitative data collection techniques. Out of 572 private projects approved in the city administration since 1993, 115 firms were selected based on simple random sampling techniques and systematic random sampling techniques for which questionnaire were administered. Non probability sampling technique was also employed to select FGD and KII participants. Data gathered from these sources were used to triangulate data collected from questionnaire. The method of research used is descriptive research as the main aim is to explore the perception of respondents in relation to the study under investigation and the major findings are summarized in sections that follow.

Government of Ethiopia has undertaken massive measures to encourage the growth and expansion of private sector in general and private investment in particular since 1992 following the declaration of free market based economic policy in the country. In light of this, private sector is recognized as an engine of growth particularly in reducing poverty via employment , generating income for the government, and the transfer of know how provided that conducive climates are put in place to help the sector to flourish and grow. In response to this new economic policy, private investments that constitute both DPI and FDI have been grown significantly, albeit from low level. The numbers of projects have been increased from 190 in 1992 to 54,024 projects in 2012 of which over 88% have been undertaken by domestic investors.

However, the implementation performance of those approved investment projects both at national level and the in study area is found very low although differences in performance are shown among regional states and the two city administrations.

Out of the total approved private projects only 16.35% commenced operation at national level while close to 84% are still found at pre implementation stage. But, the performance of FDI as compared to DPI was found better in that from total approved projects at national level close to 34% have started operation while that of DPI was found only at 14%.

The distribution of both DPI and FDI in the regional states and the two cities of the country both in terms of number of projects approved and capital registered are found uneven. They are concentrated in the four major regions namely, Tigray, Amhara, Oromia and SNNPR and the two administrative Cities (Addis Ababa and Dire Dawa). As of January, 2012, out of total approved projects 44.27%, 22.75%, 10.95%, 8.56%, 5.48% and 2.85% went to Addis Ababa, Oromia, Amhara, SNNPR, Tigray and Dire Dawa ,respectively.

In contrast to the number of projects and the volume of capital registered in regions and in the two administrative cities, their performance levels are also mixed. For example, close to 56% of DPI in Benishangul Gumze, 38% in Tigray, 24.28 in SNNPR, 20.28% in Afar and 18.9% in Amhara have commenced operation. Nevertheless, the performance level of domestic private projects in Addis Ababa and Oromia region were reported to be less than 10% regardless of the significant number of projects in terms number of projects and volume of capital registered.

With regard to FDI performance level SNNPR, Addis Ababa, Tigray, Oromia and Afar outperforms others where their performance level constitute 37.1%, 35.52%, 34.25%, 32.21% and 30.56%, respectively.

In SZAOSF and in the study area similar trends have been observed. For example, out of 2380 projects approved as of July, 2011, only 31.93% have started operation in that they are either producing goods or providing services while close to 26% have not yet started any practical activities. In Sebeta city administration (study area) as of the same year, of 572 approved projects, only 27.27% have started operation while 42% of DPI projects similarly have not yet started any practical activities. Surprisingly, all FDI projects (20 in number) have entered in to practical activities although the status of projects also differs among themselves, too.

Multiple factors are suggested to contribute for the low performance of approved projects in the study area. Project proposals which are presented for appraisal in investment office have not been evaluated in the way that can screen feasible and beneficial ones so as to achieve objectives set in government documents. As argued by many focus group discussants and interviewees proposal submitted to investment office is used to be prepared by inexperienced and uncertified individuals. In addition to this, for those experts responsible for the assessment of the project proposal, relevant skill training is not given and simply conducted in a traditional way. In the

assessment process, promoters' financial and work experience background is not evaluated in detail. Clear guide line that would enable assessors of the project proposal is not formulated. As a result of these, many investors who have been allotted land for investment purposes either have sold it or put down it vacant. The frequency of project ownership through sale became common.

Service provisions of government offices are not competitive enough to facilitate the growth and expansion of private investment in the area. It is only the EIA which provide the one-stop-shopping services. In this regard, over 44% of respondents were not satisfied with service provisions of government offices. Over 50% of respondents also rated the coordination level among government offices in the provision of services to investors to be weak or very weak. Moreover, close to 56% of respondents perceived the overall service provisions of government to be inefficient and/ or very inefficient as it increases transaction costs. Inefficiency in service provisions are reflected in that land for investment is not prepared before the decision given on projects, delay in provisions of construction permits, lack of commitment and competency from some employees, etc.

Poor service deliveries related to basic infrastructure are also perceived by significant proportions of respondents. Accordingly, to get a plot of land it takes on average 214.47 days, power connection 140.13 days, telephone connection 67.71 days and water connection takes on average 46.65 days. Frequent interruptions and provision in poor qualities are also the common problems perceived by respondents. Over 71% of respondents' firm instituted generator or water well or both so as to minimize costs or possible losses occurred by lack or interruptions of the mentioned infrastructures.

After a plot of land has been allotted for investment projects provision of follow- up and after care services have been constrained due to various reasons. These include lack of documenting investment projects related data, lack financial and material resources, uneven distribution of approved projects, lack of competent manpower associated with lack of relevant skill training and lack of clear guideline that would help to undertake follow up and after care services.

The other important factor contributed for low performance of approved private investments is lack of clear organization structure and distribution of power. Although investment offices organized at lower level are supposed to provide support function, coordination, expansion and

promotion of opportunities, these functions are constrained as most activities are undertaken at commission level. As suggested by majority of focus group discussants and interviewees lack of delegation of activities and power to lower level and inappropriate staffing has caused many customers to visit different sectors that could increase costs and delay actions. Different services are delivered by different sectors to customers as this institution is not legally empowered to act on those services provided by other sectors which are against the principles of BPR.

Lack of appropriate business skill by investors to generate new business idea and expand the existing one and the prevailing rent seeking attitudes on significant number of investors are also the other important factors suggested by majority of FGD and KII to contribute for the low performance of approved of projects in the study area. Efforts have not yet taken by government to improve managerial capacity of business men that would enable them to deal with business more effectively and efficiently.

Access to fund needed for the operation of investment projects is the other challenge in the study area that faced business men. Close to 58% of firms covered by survey use both owners' equity and bank loan as sources of finance for their operation. However, over 27% of respondents have suggested factors such as short due date, less amount of loan, high collateral requirements, etc as sever or very sever challenge when loan is permitted by bank.

There are ample investment opportunities in the study area that pertains to access to market, infrastructure, demand for products, favorable location, proximity, availability of abundant labor forces etc to the existing and potential investors seeking investment in the area.

Favorable landscape of the area is suitable for cultivation of fruits, vegetables and production of flowers and other manufacturing industries. Proximity of the area to capital city of the country where relatively larger customers with better purchasing power are available makes the study area a comparative advantage over other places elsewhere outside Addis Ababa and its surrounding. It is also located in area where major railway is now under construction that connects to the port of Djibouti.

Political stability of the country in general and study area in particular (reported by over 87%), incentive package available for both foreign and domestic investors (reported by over 70%), availability of adequate demand for manufactured goods (reported by over 88%), and availability

of abundant labor force at lower wage rate (reported by 38%) are all prospects available for existing and new investors seeking investment in Sebeta city administration.

5.2 Conclusions

In line with the major findings of the study identified under section 5.1 above the following conclusions have been drawn

- In response to new economic policy, the number of private investment projects approved since 1992 both at national and study area is significant. However, the performances of those projects in achieving the policy objectives set in investment proclamations have shortcomings. Majority of projects are found at pre implementation stage although they are expected to enter into practical activities within 6 months of signing contractual agreements. But the performances of FDI projects are better as compared to DPI projects. In addition, projects are unevenly distributed among regional states and the two administrative cities in which they are concentrated in four major regions (Tigray, Amhara, Oromia and SNNPR) and in two administrative cities (Addis Ababa and Dire Dawa). Similar trends have also been observed in SZAOSF and in Sebeta city administration in that performance of private investment are found at low level.
- The study identifies several factors that have contributed a lot for the poor performance of projects. Project proposal submitted by investors are appraised by personnel often lacks skill training. No clear guideline is set that screen out beneficial projects from not and historical background of promoters in terms of financial status and experience is not sufficiently addressed and the project proposal are also used to be prepared by inexperienced and often uncertified individual.
- Service provisions provided by investment offices and other government offices are not competitive so as to minimize costs of doing businesses. They are less transparent, responsive and accountable. Harmonization and commitment level of government offices is weak in that it doesn't facilitate investment related services provisions. A plot of land for investment and investment sites are not prepared and fulfilled in advance. Furthermore, basic infrastructures are not connected on time and fulfilled in advance in investment sites and interruptions are common.

- Follow up and after care services undertaken by investment offices after the project is approved and a plot of land is allotted is constrained due to various reasons. There is no proper documentation of project related data, uneven distribution of approved project, lack of skill training for employees responsible to follow up and take after care services and lack of clear guideline that would help to follow up and provide after care services.
- Lack of appropriate business skill by investors to generate new business idea and expand the existing one is also an important factor that affects the performance of approved investment projects. To solve entrepreneurial and managerial skill problems of business men adequate skill training in their respective activities has not been given by government, business association and other stakeholders. Therefore, instead of generating new business idea and expand the existing one majority of investors are run for rent seeking activities by contracting land with much less lease price and transfer to others at much higher prices without adding any value.
- Access to fund needed for the operation of investment projects is the other challenge in the study area that faced business men. Problems are reflected when bank loan is permitted in terms short due date, less amount of loan, high collateral requirements, etc.
- The way investment offices structured and empowered is not competitive enough to enable them provide one-stop-shopping and facilitate the growth and performance of private investments. Major functions are performed at commission level causing delay in decision that could be performed at lower level had sufficient power is delegated. This has caused an investor to visit OIC for all investment related decision. It also lacks proper organization structure where power assigned and staffing permitted is not sufficient that would enable investment offices perform assigned roles and responsibilities effectively and efficiently.
- The Sebeta city has many favorable investment climate for investment to grow and expand where the opportunities for private investment in the area are pertain to access to market, infrastructure, demand for products, favorable location, proximity, availability of abundant labor forces, political stability, etc to the existing and potential investors seeking investment in the area. But, these favorable investment climates are not adequately promoted by the city administration to attract more investors in the area.

5.3 Recommendation

Ethiopia has undertaken a number of measures to improve the participation of private sector in the economy since new market based economic policy are introduced. Investment related proclamations and directives have been enacted, amended, and an institution that coordinates and facilitates the growth of this sector is organized. In spite of all of these efforts, challenges that could impede its performance have been observed like in the study area as discussed above. Challenges for the performance of private investment in the study area are constraining factors that should be addressed by either the regional government or local government of the study area to improve its performance and capitalize the benefits emphasized in investment objectives. To address those major challenges identified and improve both growth and performance of approved projects, the following possible solutions are suggested.

- **Project Appraisal and Screening process needs to be conducted based on clear criteria/guideline set and by well trained personnel.** To achieve government policy objectives set in investment proclamation, screening out beneficial projects are crucial. Project proposal (feasibility study) that prepared with care by well experienced and certified individual also determines the profitability of the project. While conducting evaluation of project proposal submitted by promoters factors such as financial status background and experience of the promoters, consistency of the proposed project with government policy priorities needs to be seen in detail in reference to clear guideline or criteria set and by well trained employees responsible for appraising the projects. Therefore, OIC is responsible to formulate guideline that would help to appraise and screen investment projects submitted by investors while assigning competitive personnel responsible for appraising is the responsibilities of both OIC and Sebata city investment office.
- **Service provisions needs to be improved.** Delay in service provisions will increase transactions costs that affect the profit margin of investors and discourage potential investors from investing in the area, Sebata city administration in general and investment office in particular needs to provide attention for the improvement of service provision in the town. Mechanism has to be designed to make service providers responsible for their actions and overall follow up and evaluation has to be conducted. Regular meeting has to designed that brings investors together with service providers to discuss on service related problems and

progress made. Mechanism has to be also designed to improve the coordination of government sector in service provisions as provisions of services for investors are interconnected with each other.

- **Factors that determine the efficient performance of follow up and after care service tasks needs to be strengthen and instituted in place.** Follow up and aftercare service that has been undertaken by investment office is the most important instrument to take action, encourage and facilitate the activities of approved projects. Factors helpful for conducting follow up and provide after care services such as proper documentation of information related to approved projects and financial resources and logistics supply has to be improved by city administration. Clear directives which guide personnel responsible for follow up and provide after care services has to be formulated by the investment commission and skill training has to be facilitated. To undertake proper follow up functions adequate resources need to be allocated by government and necessary logistic need to be provided sufficiently so as to perform related activities.
- **Adequate power and functions given to investment offices needs to redefine and delegated sufficiently that would enable the investment offices to provide its functions more efficiently and effectively.** In order to provide competitive services to existing as well as potential investors, roles and responsibilities assumed by investment offices organized at city/district, Zonal and commission level should be clearly defined so that investors need not go to OIC for every matter that could get solution at lower level. Therefore, Oromia investment commission need to take measures to amend the roles and responsibilities given to lower level investment organs so as to provide services to customers more effectively and efficiently. Mechanism should be put in to place to follow up and evaluate the proper implementation of the assigned roles and responsibilities so that any activities performed in contrary to the principles of good governance could be solved on time
- **Severe infrastructural problems need to be improved both in terms of supply and management.** Electric connection, road construction, water supply and telephone connection are the major infrastructures that investors in the study area identified as the most challenging one although the degree of relentlessness differs from site to site. The problem crop up from two major reasons. The first one is a supply problem and the second one is management

problem. In the supply side although demand for basic infrastructure for example demand for electricity supply is increasing due increase in investment activities in the area, connection of electricity is delayed on the fact that materials such as transformer and related equipments are not imported on time, and even when they are available dalliance happened due unethical acts by some employees. The second problem is associated with management of available infrastructures. When there are interruptions in power and water supply is occurred due to many reasons, they are not maintained on time. Therefore, to improve supply in infrastructure and management, the local government (the city administration) and infrastructure offices have to work in collaboration to minimize the problem. To facilitate the operation of investment projects in advance supply or connection of those basic infrastructures are essential. For this, they have to form a forum that would enable them meet on regular basis to evaluate the status of infrastructure and put possible solutions. The city administration, specifically the investment office, has to coordinate the investors to mobilize resources (material, financial and human resources) so that infrastructure problem can be also solved with joint efforts of government and investors themselves.

- **Entrepreneurial capacity of investors needs to be improved.** Foreign investors often come with new technology and know-how. However, majority of domestic investors lack such capacity. Therefore, the regional government through investment commission and in collaboration with all stakeholders has to work to develop the entrepreneurial capacity of private investors (specifically that of domestic investors') by identifying skill training needs in their respective sectors of activities. This also contributes to identify developmental investors from rent seekers which can help investors to develop new business idea.
- **Access to financial resources needs to be improved.** Business men in the study area faced problems in relation access to financial resources. Short due date, small amount of loan from banks and high collateral requirements are all problems related to this. Developmental bank of Ethiopia often provide loan to large scale manufacturing industries. To encourage the involvement of newly emerging small business community in investment activities the government has to improve access to finance and control mechanisms need to be strengthen to protect misuse of an allowed funds.

- **Adequate promotion has to be made to attract potential investors in the area so as to utilize ample investment prospects available in the area.** The sebeta city administration has big investment opportunities that serve as a comparative advantage over other places. However, sufficient promotion has not yet undertaken to attract investors. Therefore, the city administration along with all stakeholders needs to work to promote the potential of the city administration. In the course of doing this targeted approach need to applied so as attract the most beneficial projects from domestic as well as from foreign sources.

Future further study recommended on the topic

- *Contribution, Growth and Efficiency of Private Investment in Sebeta City Administration*

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Annex-1

ADDIS ABABA UNIVERSITY
SCHOOL OF POST GRADUATE STUDIES
COLLEGE OF DEVELOPMENT STUDIES

INSTITUTE OF REGIONAL AND LOCAL DEVELOPEMNT STUDIES

Survey Questionnaire to be filled by private investors

Dear Respondents,

First and foremost I would like to extend my sincere gratitude for your cooperation, accuracy and timely response in filling out the questionnaire. The objective of this questionnaire is to collect first hand data to study about “Implementation performance, Challenges and prospects of private investment in Sebeta city where you project is located. Besides, the study is intended to achieve the partial fulfillment of Masters of Art in Regional and Local Development studies.

The researcher also assures you that your individual response to the question will be kept confidential. Neither your name nor the name of your organization will be used in any document based on this survey. Therefore, you are kindly requested to reply the question with much sincerely and honestly.

Some of the questions might require writing or ticking. Therefore, you are kindly requested to answer all of the questions honestly and please, return the questionnaire to the researcher or data collector/assistor as per agreed schedule.

Thanks in advance for your time and cooperation.

Part One -General Profile of owners and Background of the Firms

- 1) Sex of owner or manager of the firm-----Age ----- experience in current position-----
- 2) Educational status of the owner or manger
 - a) Did not complete secondary school----- b) complete secondary school-----
 - c) Vocational training ----- d) Some University training----- e) graduate degree(BA,BSC)----- f) post graduate degree(PhD, masters)-----

Please specify field and area of specialization if your educational level is above some University study -----and specify if you have taken any training in the past in relation to your current position/responsibility-----

- 3) Legal Ownership structure of your project or firm

- a) Sole proprietorship----- b) private limited company----- c) partnership----- d) Share company----- e) Joint venture ----- others, specify-----

4) Types of investor (Country of origin)

- a) Private Domestic -----b) private Foreign ----- c) Joint venture -----please, specify your Origin if you are foreign investors -----

5) Sector of activities your firm engaged in -----types of products-----

6) Status of your firm's project,

- a) Pre implementation -----b) under construction ----- C) completed construction -----d) Operational -----,Please, also state when you established the firm-----When entered in to practical activities----- if you did not yet start any activity why not? -----

7) How did you start your business (investment) that you recently engaged in?

- a) through undertaking feasibility study by the promoter him/her self -----
b) Simply started business based on prior own experience in the sector -----
c) By undertaking feasibility study through knowledgeable experts -----
d) By depending on government source of information -----
Others, please specify -----

8) How did you come to the area and decided to invest?

- a) I got information through electronic and mass media such as TV, Internet, or others ---
b) Existing investors invited me to the area.-----
c) I got information from business Catalogs and from international organization report.---
d) Ethiopians friends invited me to invest in the area,-----

9) What are the sources of financial resources to your business?

- a) Owner's equity.----- b) Bank loan----- c) loan from friends----- d) Bank loan and owner's equity----- e) others specify----- Please also specify their proportion (in percentage) if the your financial sources are more than one -----

10) What problems did you come across if your sources of finance for your project are from Banks?

- a) No problem ----- b) high interest rate----- c) high collateral requirements-----d) low amount of loan----- e) short due date----- f) lack of transparency----- g) others specify -----

11) What are the sources of raw materials (inputs) for your firm's product?

- a) Only domestic source -----b) only foreign sources----- c) both domestic as well as foreign sources-----

12) If your sources of raw materials are both foreign as well as domestic sources indicate their proportions.

- a) Domestic -----% b) foreign -----%

13) Where is/are the sources of market for your products?(where consumers of the product located)

- a) Domestic market ----- b) foreign market----- c) both foreign market and domestic market-----

14) If the sources of markets for your product are both foreign and domestic, please, specify

Their proportion in percentage a) domestic-----% b) foreign-----%

15) Have you ever changed your project type to another type before implementation?

- a) Yes ----- b) No -----

16) If your answer for question no "13" is "yes ", please specify the reason(s) and how times you changed it-----

17) Please rate in terms of percentage by comparing your plan against achievements.

	Plan	Achievements
➤ Land utilization(m ²)	-----	-----

- Financial resource(birr) -----
- Employment generation(number) -----
- Production or service (potential) (%) -----

18) Did you make any new investment or expand the existing activities?

- a) Yes ,----- b)-----

19) If your answer for question no “17” is “No” please, specify the reasons that inhabited you

20) Is there any cooperation among investors engaged in similar activities in the area?

- a) Yes ----- b) No -----

21) If there is any co-operation (if ' yes' in question no 18) ,please specify the types of cooperation.-----

Part two – Investment climate, Policy, service delivery and governance issue related questions

1) Have you taken any incentive packages that have been permitted by country’s laws?

- a) Yes, ----- b) No,-----

2) If you were benefited from permitted incentive packages, which incentives have you taken?

- a) Free from custom duty---- b) tax exemption----- c) land free from lease payments-----d) Reduced lease price----- e) land without bid (by negotiation)-----f) Grace period---
----- g) Loss carried forward, ----- others -----

3) Is your business/ firm a member of a business association or chamber of commerce?

- a) Yes----- b) No,----- If your answer is “yes” please the benefits you got from such institution.-----

4) How did you get land for your investment projects?

- a) Lease from government----- b) contract from government-----c) contract from land users ----- d) purchase of use right from others----- others , specify(if any) -----

- 5) Is allocation of land by government institution for you project took a longer period of time?
- a) Yes ---- b) No -----
- 6) If allocation of land takes a long time, what did you think the main reasons for such problems?
- a) Investment committee did not give decision on time ----
- b) Compensation to land owners is not paid on time -----
- c) Long procedure and dalliance from government institution due ethical problems -----
- d) Others ,specify (if any)-----
- 7) How did you get the cost of land lease price or contract price from other regions or country you are experiencing?
- a) Very costly ----- b) costly ----- c) competitive ----- d) low -----
- 8) How did you compare Ethiopian's investment policy and climate with other countries that you are familiar with?
- a) Attractive and offers better incentive ----- b) similar----- c) less attractive ----- d) I do not know ----- please, specify others if any-----
- 9) Have got any training or consultation from government organization to competitively run your activities? a) Yes ----- b) No ----
- 10) How did you rate the joint efforts/harmonization/ among government institution or stakeholders in supporting and facilitating the work/activities/ of private investment in the locality?
- a) Weak ----- b) very weak----- c) medium ----- d) strong -----e) very strong ---
- 11) If your answer for question No 1 above is "Yes", please specify the kinds of services you got and the benefits you achieved as a result-----
- 12) How did you get the service provisions of the investment offices and others that are found at different levels of administration?

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

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

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

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

15) Please, identify how long it take and cost you and also and please state as indicated below if you pay additional informal payments for individuals to get the following services from government institutions. Make tick mark in “yes” column if there is any informal payments are asked from you , otherwise you make tick mark in “No” column.

No	Services	Waiting days(on average)
a	Main line connection of telephone	
b	Electric connection	
c	Water connection	
d	Construction permits	
e	Operating licenses	
f	Import license	
g	A time it takes to get a plot of land	
h	Waiting days to clear customs	

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

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

17) Please, rank the following basic infrastructure in order of their importance of seriousness if they are constraint factor in doing business in sebeta city administration (1, for the most serious problem, 2 for the second serious, etc.)

a) Electric power ---- b) telecommunication service ----- c) water supply -----d) road---

18) If you cover or provide some infrastructural facilities (such as water wall , generator power ,road etc) at all or partial by yourself please, list them and the additional cost you incur as a result-----

Part III - Infrastructure and determinant factors of private investment related questions

The following are variables that can determine the growth and expansion of private investment. Please tell or rate if any of the following issues are problem for the operation, startup of business and growth and expansion of your business. Judge its severity as an obstacle on a four- point scale *where 0-4 represents, 0= no problem, 1= minor obstacle, 2=moderate obstacle, 3=sever obstacle, 4= very sever obstacle*

S/N	Variables	0	1	2	3	4
1	Lack of adequate electric power supply					
2	Frequent disruption of electric power					
3	unavailability of all weather roads in approved projects sites					
4	Water supply in investment location is in short supply					
5	Bank cumbersome credit procedure and perceived corruption accompanied with stringent collateral requirements.					
6	Cost of financing or interest rate when bank loan is permitted.					
7	Lack of adequate currency exchange for the importation of machinery and raw materials to running the operations of projects.					
8	Quality and availability of Telecommunication services provisions are inadequate and provided in less quality.					
9	The level of tax of levies in the country (region) is high for the competitive growth and expansion of private business.					
10	Inefficiency and complexity of tax collect procedures increased cost doing business in the area.					

11	Problems of Skilled and unskilled work force in the area for efficient functioning of private businesses are high.					
12	Time and cost of registering a business or private investment license and operating permits and other services are high to start and run business in the area.					
13	The status of linkage or joint efforts of government institution is low in providing services to private investors to provide services within reasonable and predetermined standard.					
14	Commitment of local authorities to encourage, support and solve problems of private investments to ensure effective and efficient operation.					
15	Cooperativeness and attitude of local people towards your business					
16	Procedures and difficulties in gaining access to land through lease and contracts from government in the study area					
17	Transparency , responsiveness, respecting rules of law and accountability of local bureaucracies in applying the government rules and regulations					
18	Predictability and certainty of the Macroeconomic instability (inflation, exchange rate) for business men to start business & expand and involve in new investment opportunities of the country, region as well as the study area.					
19	Cheap import goods and informal practice as a threat to your domestically produced goods					
20	Efficiency of the judicial system to enforce contractual agreement and property right.					
21	Problem of Crime , theft and disorder to smoothly run business ,					
22	Sufficiency of demand for your products					

Part IV opportunity and favorable condition related questions

The followings are opportunities and favorable conditions related questions in boosting investment activities in the area (sebeta). Please, rate them according to your perceptions Where, 5=*strongly disagree*, 4= *disagree*, 3=*uncertain*, 2= *agree* and 1= *strongly agree*.

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

☒ Please state any problem that you think as constraints in running business or investment activities in sebeta city administration-----

☒ Any favorable conditions or opportunities in investing in the area both for potential and existing investors----

Annex-2

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INSTITUTE OF REGIONAL AND LOCAL DEVELOPEMNT STUDIES

Dear Interviewee,

First and foremost, I would like to extend my sincere gratefulness for your cooperation and willingness to an interview on this study.

The main objective of this interview is to collect first hand information which is going to be used as an important input for my study. The interview response will enable me to identify the reason for low implementation performance of some private investments and also to identify associated challenges and prospects of private investment in the study area which is used to provide way-out to the problem under discussion.

Yours genuine, truthful and unreserved response will thus be of much help for my study. I would like to assure you that, there are no associated risks as a result of your participation in this interview.

Thanks in advance for your time and cooperation

- 1 What are the major duties and responsibilities of your office to achieve the objectives of private investment in the region/study/? To what extent these duties and responsibilities are achieved? And what are the major problems?
- 2 Why some significant numbers of private investments at zonal level as well as in the study area have not been implemented on time? With how many weeks/ months/ are these investors agreed to enter into practical activities? And what measures yet undertaken to correct the problems?
- 3 What are the benefits that government as well as the communities got from the expansion of private investments in region in general and in the study area in particular?
- 4 Are there any effort to identify investment opportunities of the locality/zonal administration/ and challenges? If such measures are undertaken what are those

- opportunities and challenges that you have identified? How did you used to promote and solve the problems? Discuss the challenges that you came across from government institutions, from policy related issues and from the investors themselves.
- 5 How proposed projects are selected and approved? What are the criteria used? And who are responsible in selecting projects proposed by promoters?
 - 6 What services, support and incentives are given by government of the region and administrators of the study area to expand and help the growth of private investments in the region?
 - 7 What problems are seen in service provision, what are standards of service provision for each activities and how these standards are kept or achieved? And what measure is undertaken from government to improve service provisions and promote the principles of good governance?
 - 8 What do you think the benefits of clustering investment projects? And what measures are undertaken in the study area as well as in the zonal administration?
 - 9 What policies gaps have came across in the course of developing and expanding the activities of private investments?
 - 10 What do you think the cooperation of different sectors of government institution in achieving their duties and responsibility in facilitating the service provision of private investment so as to enhance their effectiveness and efficiency in operation? And what problems are seen in this area and what measures have undertaken yet?
 - 11 Please, add any information you like with regard to the performance, challenges and opportunities of private investments in the area?

Annex-3

Focus Group Discussion guide questions

As a guide to lead focus group discussants, the following major questions will be addressed. To clearly understand the idea of discussants probing questions will also be used during the discussion session.

- 1) Why significant number of registered or approved projects is not entered into practical activities while some significant numbers are also in operations?
- 2) What is the contribution the government and local communities got from the expansion of private investment and are there any problems in their expansion?
- 3) To what extent government institutions and stakeholders work cooperatively towards enhancing the activities of private investments? What are the problems and efforts undertaken to the problems?
- 4) What complains have been heard from private investors and in what way such compliments are addressed?
- 5) What the most challenges did you perceive in supporting the growth, operations and expansions of private investment in the region?
- 6) What favorable conditions or opportunities did you understand in the study area and at zonal level for growth and expansions of private investments?
- 7) How did you see the efforts and attitude government in encouraging and expands of private investments? How we explain it?

Annex-4

Interview for infrastructural and financial service provision sectors

In this special interview session infrastructural department of the municipality, water supply sector, bank, electric power supply office, and telecommunication and etc sectors will be visited to identify the issues related to their services. Secondary information or data also will be taken to evaluate their services.

Area of concentration for interview

- 1) About coverage of their services
- 2) Quality of their services
- 3) Sufficiency of their services
- 4) Priority area of their services
- 5) Future plan of their services
- 6) Problems related to their services
- 7) Efforts yet undertaken to solve problems

Annex-5: % of firms rated constraints of investment on five scale.

Variables	0	1	2	3	4	Cumulative %
Electric Power supply	5.3	11.7	18.1	26.6	38.3	100
Interruption of Power	2.1	8.5	11.7	17	60.6	100
Availability of Roads	44.7	21.3	6.4	12.8	14.9	100
Supply of Water	18.1	13.8	29.8	21.3	17	100
Bank Credit	35.1	19.1	18.1	23.4	4.3	100
Cost of Financing	29.8	23.4	30.9	11.7	4.3	100
Availability of Tele.	7.4	11.7	21.3	36.2	23.4	100
Tax level	12.8	9.6	40.4	24.5	12.8	100
Tax administration	64.9	12.8	11.7	4.3	6.4	100
Availability of Labour	51.1	9.6	29.8	5.3	4.3	100
Co-ordination among Stake Holders	4.3	21.3	48.3	23.4	2.1	100
Local People Co-cooperativeness	27.7	34	22.3	10.6	5.3	100
Local Authority co-cooperativeness	86.2	7.4	4.3	2.1	0	100
Access to land	9.6	6.4	28.7	47.9	7.4	100
Good Governance Issue	5.3	4.3	13.8	64.9	11.7	100
Macroeconomic Instability	4.3	4.3	16	58.5	17	100
Informality	71.3	11.7	6.4	8.5	2.1	100
Efficiency of Court	51.1	34	8.5	6.4	0	100
Crime, disorder and theft	67	19.1	10.6	2.1	1.1	100
Demand	83	10.5	5.3	1.1	0	100
Cost of Registering	10.6	23.4	44.7	21.3	0	100
Availability of Foreign Currency	50.6	10.84	15.66	16.86	6	100

Source: Own Survey, 2012.

Note: 0= no problem, 1=minor, 2 moderate , 3 sever problem and 4 very severe problem.

Annex-6: Macroeconomic Performance indicators of Ethiopia (2002/03-2010/11)

Years	Real GDP growth rate (%)	Inflation rate (%)	Agriculture (%of GDP)	Manufacturing (% of GDP)	Services(%of GDP)	Average Foreign Exchange rate(Birr/USD)	Gross Domestic Saving as % of GDP
2002/03	-2.1	9.8	40	12	49	8.58	4.0
2003/04	11.7	7.3	42	11.4	46.6	8.63	11.9
2004/05	12.6	6.1	46.2	13.8	40.6	8.65	5.9
2005/06	11.5	10.1	47	13	40	8.68	4.6
2006/07	11.8	15.8	46	13.2	41.7	8.79	8.7
2007/08	11.2	25.3	44.6	13	43.5	9.24	5.2
2008/09	10	36.4	43.1	13	45	10.42	5.7
2009/10	10.6	2.8	42.1	13	46.1	12.89	5.2
2010/11	11.4	18.1	41.1	13.4	46.6	16.12	8.8

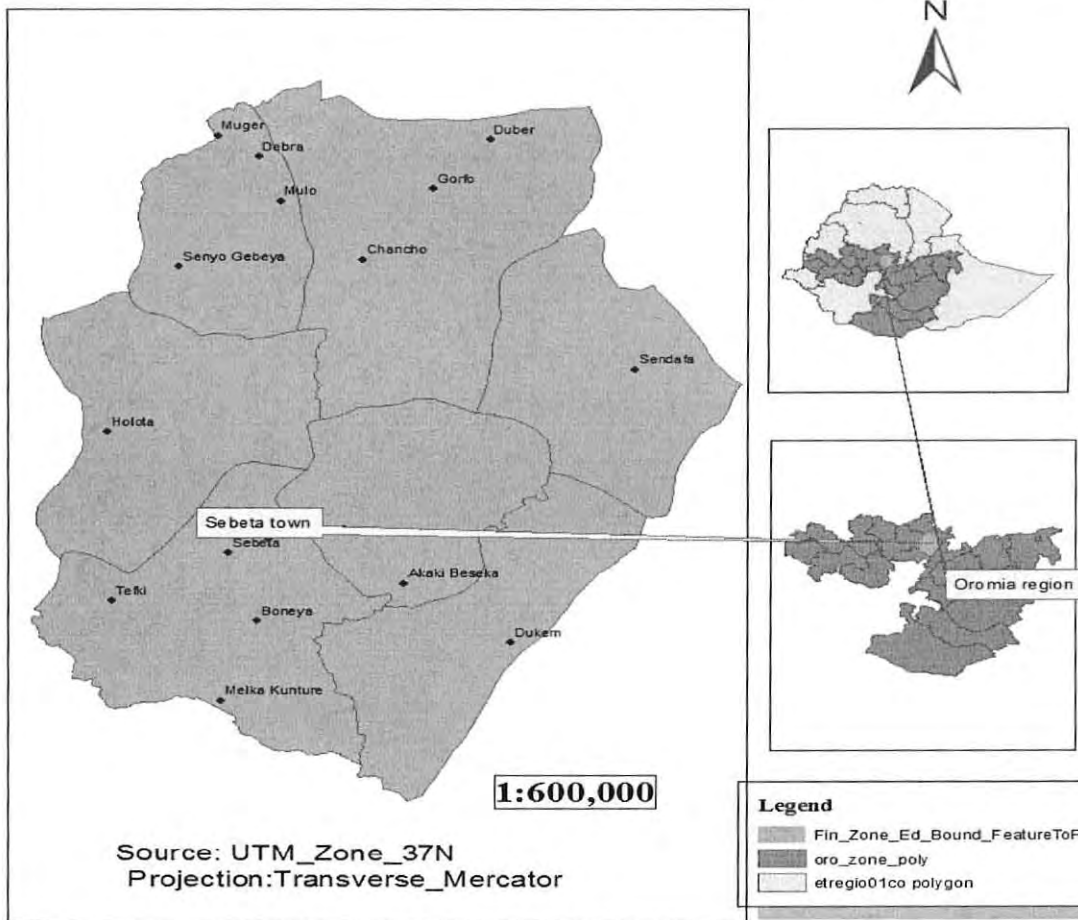
Source: MOFED, 2012

Annex-7: Rank of the Ease of Doing Business for Ethiopia against some selected Countries (2012)

No	Topical Rankings	Rank of Sample countries selected for Analysis Purpose out of the 183									
		Ethiopia	Kenya	Botswana	Mauritius	Namibia	Rwanda	Tanzania	Uganda	Eretria	Best performer
1	Starting a business	99	132	90	15	125	8	123	143	182	New Z.land(1)
2	Dealing with construction permits	56	37	132	53	52	84	176	109	183	Hong Kong SAR ,China (1)
3	Getting electricity	93	115	91	44	105	50	78	129	96	Iceland
4	Registering property	113	133	50	67	145	61	158	127	178	New Zealand
5	Getting credits	150	8	48	78	24	8	98	48	177	UK
6	Protecting investors	122	97	46	13	79	29	97	133	111	New Zealand
7	Paying taxes	40	166	22	11	102	19	129	93	121	Canada (8)
8	Trading across borders	157	141	150	21	142	155	92	158	165	Singapore (1)
9	Enforcing contracts	57	127	65	61	40	39	36	116	47	Luxembourg(1)
10	Resolving insolvency	89	92	28	79	56	165	122	63	183	Japan (1)

Source: Compiled from Different Countries Doing Business Profile, 2102

LOCATION MAP OF SEBETA TOWN



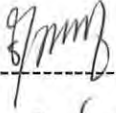
Source. OUPI,2012(Annex 8)

Declaration

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

Declared by

Kuma Daba

Signature ----- 

Date ----- 27/10/2024. E.C

Confirmed by

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

Name Issac Paul (PHD), Advisor

Signature ----- 

Date ----- 3/07/2012

Addis Ababa, Ethiopia.