FACTOR AFFECTING EXPANSION OF INVESTMENT ACTIVITY IN CASE OF WOLKITE TOWN

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Abstract

The topic of study is factor affecting expansion of investment activity. The objective of the study is to assess the factors that affect expansion of investment activities in case of wolkite town and after assessing the factors the studier will be able to identify the problems and give comments. There by intending to suggest some possible solutions to problems that may are identified in the course of the study. The order to accomplish properly the studie used different methods of data collecting and analyzing method. The primary data are the observation of the studie during data collection of questionnaire and interview.questionarie that are filled by the investors of the town and interview for employer of investment office Gurage zone. The total population of the study 53 investors. Stratified random sampling was used and the sample size was 47and from this 43 investor and 4 employer of the office. The findings were analyzed using descriptive tables was used to analyze factor affecting expansion of investment in case of Wolkite town .The sampling technique used is sample surveys which enable the studie research not biased and to get proportional and full information about this studie.

The finding of the study show that The incentives provided are not adequate enough.there is lack of infrastructure facilities, bureaucratic nature of local government to give investment permission, lack of credit availability is also there. *All organization and institutions should draw programs for the development of the economy and* Supporting and encouraging those investors those are on the phase of processing *and give training of investors* and infrastructure facilities *to remove the bottlenecks for expansion of investment in the town.*

key word :expansion of investment ,Wolkite twon,factor affect

Table of Contents

Acknowledgments i
Abstract ii
Table of Contents iii
ACRONYMS v
CHAPTER ONE 1
INTRODUCTION 1
1.1 Background of the Study 1
1.2. Statement of the problem 3
1.3. Research Questions 4
1.4. Objectives of the study 5
1.4.1. General objective 5
1.4.2. Specific objectives 5
1.5. Scope of the study 5
1.6. Significance of the study 5
1.7. Limitation of the study 6
1.8. Organization of the paper 6
CHAPTER TWO 7
LITRETUR REVIEW 7
2.1. Introduction 7
2.2. Definition 7
2.3. Theoretical Approach 9
2.4. Empirical Approach 10
2.4.1. Empirical approach in developed country 11
2.4.2. Empirical approach in developing country 12
2.4.3. Empirical approach in Ethiopia 14
2.5. Summary and knowledge gap 15

CHAPTER THREE 17
Research design and Methodology 17
3.1. INTRODUCTION 17
3.2. Description of study area 17
3.3. Research Design 17
3.4. Source of Data 18
3.5. Sample Size and Sampling Technique 18
3.6. Method of Data Collection 19
3.7. Method of Data analysis 19
CHAPTER FOUR 20
DATA ANALYSIS AND DISCUSSION 20
4.1. Areas of participation and corresponding participation of the people 22
4.2. Investment incentives and promotional service 23
4.3. Effect of low promotion activity 25
4.4 Result of interview question 29
CHAPTER FIVE 31
CONCLUSION AND RECOMMENDATION 31
5.1. Conclusion 31
5.2. Recommendation 32
REFERENCE 33
APPENDIX 37

ACRONYMS

ARDL	**Auto regressive distributed lags**
ADLI	**Agricultural development led industrialization**
FDI	**Foreign direct investment**
GDP	**Gross domestic product**
GNP	**Gross national product**
ISD	**Investment status delay**
LDC	**Less developing country**
MEC	**Marginal efficiency of capital**
OECD	**Organization for economic corporation and development**
OLS	**Ordinary lease square**
UNCTAD	**United nation commission for tread and development**

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Investment is an act of current spending for expected future return. It expands the productive capacity of a nation and plays a crucial role in the economic growth and development process. Investment has been regarded as one of the primary engines of growth (UNCTAD, 2013). and the proposed solutions to economic and geographic disadvantages (Sachs, 2005). It seems why almost all nations try to motivate the internal and attract foreign investment. However, investment performance varies across borders and over time. Hence, what determine investment spatially and temporally remains a vital question. As investment is one of the key points for the growth of an economy it is not doubtful to deal with the problems that hinder investment activity. Without investment activity it is not possible to have any development rather it remains in the circle of poverty. This is true in developing countries like ours (Ethiopia). To speed up the economic and societal development of any country the efficient and effective utilization of the available resources is advisable and the development of other sectors like industrial, agricultural and also investment must be encouraged in addition to agricultural sector. Investment has a great role in the development of every economy. Hence facilitation of infrastructure, ownership right policy, identified potential investment opportunity, political stability; technological background should be realized to attract investors (Emru, 2016).

Investment is widely considered as one of the main drivers of economic growth in the world because it is a flow that increases the existence of capital in the economy. Over the years, indicated that a strong investment sector contributes prominently to the economy of a country through creating more employment opportunities, generating higher production volume, increasing export and introducing innovations. Consequently, the promotion of investment has an important to play in developing countries, and particularly in African countries where it will markedly improve the peoples' standard of living and so decrease poverty. Ethiopia has also benefited from investment in different sectors. Job opportunities have been created, there has been an increase in the productivity of the society, and hard currency has been earned through participation in the export sector. (OECD, 2013).

For Africa Investment activity plays a crucial role in the economic growth of a country. The role of investment to the development of a nation is very large. Investment increases the productive capacity of an economy. It is a very important to utilize untapped resource to create job opportunity for citizen, to increase foreign currency through import substitution and export promotion of a nation and facilitate the communication and cultural exchange of society. Investment can increase a country's productive capacity, provided that investment expenditure regards durable goods that have comparatively long useful lives and embody the latest technological advances. In addition, changes in investment expenditure can potentially result in shifts in the level of employment and personal income by affecting the demand for capital goods. Although gross fixed capital formation usually represents a substantially smaller fraction of an economy's total expenditure compared to consumption expenditure, it is a highly volatile component that causes strong fluctuations to a country's economic activity (Olga Kosma, 2015).

Ethiopia is known with ancient civilization, historical culture, proud of tradition and on the top of all the land with immense potential for economic development of a country .The country is rich in natural resource and human resource. The climate and fertile soil are suitable for the cultivation of wide ranges of crops and live stocks. But this land of plenty is also suffering from poverty, lack of infrastructure, under development health center and fundamental ills of the economy system and reacts up on to keep the country under development. Wolkite town's people almost reflect the real situations of a country in Ethiopia. The town has abundant natural and human resources. It is the habitual of various location of best kept secret of tourism site. It is natural resource such as mineral, forest, energy and diversified of climatic conditions, geographical area of the town. As investment plays a great role in economic development, the government of Ethiopia has given emphasis concerning this activity. Its purpose was to develop the investment activity by giving major incentives for investors and promotion of investment opportunities both for domestic and foreign investor so as to increase the number of participants in this activity. But due to social, political & economic constraints this activity has not shown a remarkable development in the town (Whit, 2005).

Many factor might have contributed to the low level of investment, one main factor can be the limited experience and skill of the investors, especially, the domestic investors in identification of profitable projects. In addition to this, other factor for expansion of investment are necessary, such as, available natural resource, availability of land area demarcation suitable demographic structure, investment incentives, investment protection, attractive tourist sites, construction areas, service sectors and

availability of human capital. On the other hand, there are many factors which hinder expansion of investment. Among these problems some are, infrastructural, marketing, financial, technological, license, taxation another problems are the main challenges of investors. These factor exist in Wolkite town which is one of the potential areas for investment. In this research the researchers mainly will focus on the factor affecting investment expansion and how to bring economic development by throwing these factors.(Aweke,2017).

1.2. Statement of the problem

Globally investment is important to most economies, and can be particularly vital for developing countries. In many instances, developing countries have both the demand for a good or service, and the labor and natural resources to supply it, but they lack the access to capital necessary to begin producing. Investment is an engine for economic growth and is one of the most important weapons in poverty alleviation. It improves the productive capacity of the nation and also creates job opportunity for many people. One of the most important components of investment is investment in which business institutions engage in the production of goods and services with the twin objectives of profit maximization and improving national economy. That is why due attention has been given to investment activities(Hernadeze-cata, 2000).

The issue of investment is very important for the sub-Saharans and other developing nations in order to generat growth and development like Ethiopia. The growth of output and living standards depends first and foremost on investment and capital accumulation. Investment in turn depends on savings. Despite its prediction on the independence of steady state growth on the rates of saving and investment, neoclassical model also emphasises the importance of saving and investment in determining the level of per capita income and living standards in the long run.. In economics larger capital expenditures are required for larger production, but if there is lack of properly organized stock markets, credits and banking institutions, there will be challenges. Also if small size of markets resulted insufficient saving to be mobilized for investment as a result the rate of capital formation will remain low. This study mainly deducts if the above determinant factors affect wolkite town investment or are other factors on this local economy (Ouattara, 2004).Different studies were conducted on the area of factor affecting expansion of investment activity ,The study done by Haroon and Naser(2011) in Pakistan, the study covering period in 1981- 2010 using (OLS) is focused on the function of inflation rate,indirect taxes subsidies given by

the government. Other study done by Frimpong and Mabruan(2010) in Ghana the study covering period in 1998-2009 is focused on real interest rate,openness,exchange rate and arigime of constitutional rule.and the similar study done by Kucchi(2005)and undertaken by Gatberuach focused on investment incentive and interest rate.and also other study done by Adugna(2013) in Ethiopia the study focused on bureaucracy and related problem,power supplies as factor affect.On the other hand the uniqueness of this study would be conducted by taking some factors such as economic factors, socio cultural factors, political factors, corruption, institutional problem like land holding policy, lack of advisory.and also the study include questionary of employees of investment berau of wolkitetwon. According to BaharBayktar Economic growth and development depend essentially on a country's ability to invest and make efficient and productive use of its resources. In this regard, the role of the private sector is important both in terms of its contribution to the quantity of Gross domestic investment and its ability to allocate and employ resources efficiently. (Bayraktar, 2003). Briefly, there cannot be growth without investment of sufficient amount and quality. In fact, investment is both a result and cause of economic growth.Thus, this study is conducted to identify factor affecting expansion of investment activity particularly in wolkite town. The study attempts to address the question of what really motivate individuals or organizations to invest in wolkite town. According to Edwin, et al. (2006), it is when individuals and organizations anticipate future cash needs, and expect that their earnings in the future will not meet those needs, that they take a decision to invest and make thief money grow. This study addresses what factor affect expansion of investment in this town.

1.3. Research Questions

By taking the above and other facts in account, the studie is to address the following questions.

- What are the attitudes of investors and investment office towards the investment activity of Wolkite town?
- What are the most social factors that affect investments in Wolkite town?
- What are the most economic factors that affect investments in Wolkite town
- What are the reasons for slow rate investment growth in Wolkite town?
- What types of investment activities involved mostly in the town and why?
- What are the major investment activities obstacles and opportunities in the town?

1.4. Objectives of the study

1.4.1. General objective

The general objective of the study was factors affecting the expansion of investment activities in Wolkite town.

1.4.2. Specific objectives

- Studying investor's attitude and regional government motivation towards investment in wolkite town.
- To identify social factor that affect investments expansion in wolkite town.
- To identify economic factor that affect investment expansion in wolkite town
- Assessing the reasons for slow rate investment growth around wolkite town.
- To identify types of investment practice in the town and the reason.
- To identify the obstacle and opptunity for the expansion of investment in town.

1.5. Scope of the study

For the reason that investment economic role and wolkite town vast investment opportunity the study was confined to investors and wolkite town investment Bureau staff members' activity from the year 2013 to the recent. designing and establishment of a more effective and efficient system which will enhance careful use of Therefore, this study was be beneficial as it give ways to better drive the investment agenda in the town to reap benefits out of it and ultimately improve the economy of town. Furthermore, as the government is constantly faced with competing demands for public funds, the study will facilitate the scarce resources to attract investments in the town.

1.6. Significance of the study

The expansion of investment is essential for the economic growth of any country and especially for developing countries like Ethiopia. Investors spend their money and time to sell their products and services by competing with other investors in the sector. The government also attempts to construct infrastructures and create an environment conducive to attracting and encouraging investors. In spite of this, the contribution of investment to the overall development in Ethiopia is still at a very low level

(Alehegn, 2008).As a result, it is very important to study the factors that affect the expansion of investment. This study, however, mainly focuses on the factor affecting of expansion of investment in case of wolkite town. Once complete, this was help the investment offices at the state level to identify appropriate solutions for improved future performance of investment. In general, the results may benefit investors by helping them to understand the major factor affecting investment, and researchers by providing literature to be used for future study. Policy makers was also have additional information to use when they develop and redesign their investment policies and strategies to minimize ISD.

1.7. Limitation of the study

This research may be inapplicable in other areas. Because, of the study focused only on wolkite town. To study in other areas there are many problems. For example, lack of experience, financial shortage, and unavailability of investment office in wereda level I.e. investment office located only at zone level.

1.8. Organization of the paper

The paper has five chapters. Chapter one deals about the introduction, background, statement of the problem, research question, objectives, significant,limitation of the study, and organization of the study. Chapter two discusses about the related literature reviews of the study. Chapter three examines about the research methodology and methods of data collection for which it consists of the methods data collection, sample design and procedure, tools of data collection and methods of data analysis. Chapter four presents about the discussion, analysis, interpretation and findings of the study. Finally, chapter five deals about the conclusions, recommendations.

CHAPTER TWO

LITRETUR REVIEW

2.1. Introduction

This chapter discusses the literature related to the study and investigates the theoretical framework of investment in general. It is mainly focused on theories of the factor affecting of investment in developing countries, African countries, Ethiopia and specifically in wolkite town economists interpret and define investment in different ways. They use the word capital, capital accumulation and capital formation interchangeably with the word investment. Investment is the part of national expenditure devoted to the production of capital goods over a period of time". According to him capital accumulation results when some proportion of present income is saved and invested in order to augment output and income new factories, machinery, equipment and materials increase the physical capital stock of a nation and make it possible for expanded output levels to be achieved. These directly productive investment are supplemented by investment in what is known as social and economic infrastructures, roads, electricity, water and sanitation, communication and the like which facilitate and integrate economic activity(Todaro,2005).

2.2Definition

Many scholars and academicians have defined the term of investment differently. According to Mankiew investment is defined as spending today for future benefits and its the component of national income that links with future". And also many economists interpret and define investment in different ways. They use the word capital, capital accumulation and capital formation interchangeably with the word investment. Defined it as follows "Investment is the part of national expenditure devoted to the production of capital goods over a period of time". According to him capital accumulation and invested in order to augment output and income new factories, machinery, equipment and materials increase the physical capital stock of a nation and make it possible for expanded output levels to be achieved. These directly productive investment are supplemented by investment in what is known as social and economic infrastructures, roads, electricity, water and sanitation, communication and the like which facilitate and integrate economic activity. And investment may be defined as per or all the stock of goods in existence at a particular moment while income or product refers to goods and services, which are product during a

period care and clothing etc… are used up soon after being are constructed with an eye to facilitate future production, loosely speaking their latter proportion of current output is referred to as investment while the term consumption is reserved for the former capital and its several components, then, are "stock" concepts while income and sub categories (mankiew,2002).capital or investment may be defined as per or all the stock of goods in existence at a particular moment while income or product refers to goods and services, which are product during a period care and clothing etc.… are used up soon after being are constructed with an eye to facilitate future production, loosely speaking their latter proportion of current output is referred to as investment while the term consumption is reserved for the former capital and its several components, then, are "stock" concepts while income and sub categories are flow concepts(hernadeze-cata,2000)

capital formation as "society does not apply the whole of its current productive activity to the needs and desires of immediate consumption, but directs a part of it to the making of goods, tools and investments, machines and transport facilities, plant and equipment all the various forms of real capital that can so greatly increase the efficiently of productive effort. The term is sometimes used to and covers lower humans as well as material capital; it can be made to include investment skills, education and health very important form of investment (kekilk, 2011).has stated investment as "a fixed and initial operating resource used for the production of goods, the provision of service and the development of science and technologycapability(white,2005).

Investment has been viewed and defined by different ways. It has different meaning in finance and economics. In economics investment is related to saving and deferring consumption it involved in many areas of the economy, such as business management and finance whether for households, firms or government. In economics investment is putting money into something with the expectation of gain, usually over a longer term. The term investment refers to a sum of funds committed on the physical and human cavity by both profit and no profit oriented individuals and institutions. It is applied to production of goods not meant for immediate consumption but further production of goods such goods are called, investment goods. The investment of business firms usually comprises of capital goods and inventories (Baddely, 2005).According to Dr. Mohammad, Investment is the flow of capital which is used for productive purposes. There is a great emphasis on investment for being the primary instrument of economic growth and development for a country. Investment means an increase in capital spending and it helps in creating a robust economy (Dr. Mohammad Shafi, 2014). In economics, investment can be

defined as the purchase of plant, equipment or inventory. In lay terms investment is the acquisition of an asset such as a stock or a bond.

2.3. Theoretical Approach

Investment is an investment which is invested by individuals or group of individuals and it plays its own role in the economic growth within a state. Here, there are different factors applied for the purpose of economic growth which is act by the government but the performance of the government is very limited and it cannot achieve the growth independently. According to this point the government gives the opportunity for the investor as well. So, investment can be get the opportunity in order to play its own role in the economic growth. In addition to the government economic activities, the contribution of the investor is high and this helps the economy by creating employment opportunities, income generation, market stability and in general on poverty reduction . Sustained economic growth and in terms of employment opportunities and income generation is necessary for poverty reduction and require enhanced investor investment resulting in economic growth, reduction in poverty and improved quality of life for the majority of the population.Investment is the flow of expenses that increases the physical stock of capital. (Cited in Bayai&Nyangara, 2013) noted that economists usually reserve the term investment for transactions that increase the amount of real aggregate wealth in the economy. This includes mainly the purchase (or production) of new real durable assets such as factories and machines. Under the International Centre for Settlement of Investment Disputes Convention, investment encompasses any reasonable activity or asset, that is any form of investment, which adds to the existing capital formation of a country and so has a positive effect on the gross output of a country. Investment is generally classified into four major components: private domestic investment, public domestic investment, FDI and portfolio investment. Private domestic investment refers to gross fixed capital formation plus net changes in the level of inventories whereas public investment includes investments made by the government and public enterprises on social and economic infrastructures, real are flow concepts estate and tangible assets. The combination of private investment and public investment is normally referred to as gross fixed capital formation and this is distinctive from their counterpart – foreign investment. When foreign investment is on a tangible asset, it is referred to as a direct foreign investment; when it is in shares, bonds, securities, etc., it is called portfolio investment (Bakare, 2011).

Investment has a strong relationship with saves income. But the extent of investment also depends on the level of consumption. As Mayra observes "there are no other road of economic development than a compulsory rise in the share of the nation's income which is withheld from consumption. In an economy where living standard of the masses are too low, to curb consumption, it is difficult to mobilize and allocate resource in to investment activity. As investment activity is affected by social, political and economic condition, there are some criteria have to be considered before starting investment activity. It is obvious that before starting investment activity, one investor must know and analyze in what area he is going to invest, the available funds he/she has for investment, the economic and political situations and profitability. In addition, an investor should know the advantage for the society. That is the quality and quantity of goods and service to be produced, employment, export and utilization of natural resources(mayrad,2003). Element of investment are those which are common in investment activity. These are return, risk and time. Return refers to reward from investment which includes currently income, capital gain or losses and profits. Risk is the change when the expected or prospective again or profit less they expected outcomes is the degree of happiness of losses. Time is the important factor in investment is the time which offers different courses of action. As time move on analysis believe that conditions changes and investors revaluate expected return for each investment (Garagdhia and Babuks, 2003).

2.4. Empirical Approach

Many scholars and academicians have defined the term of investment differently As the main aim of this research is to assess the factor affecting expansion of investment, different authors and studie idea and recommendations regarding the related topic of expansion of investment and presented. the expansion of investment of the town in particular are challenged because of the factors that hinder the investment expansion in Wolkite. In investment, many studie have studied expansion of investment from different perspectives. In investment, many have studied expansion of investment from different perspectives. The studies provides an overview of empirical studies on expansion of investment and this is presented as the following(Emru,2016)

Classical theories did not explain investment spending in a well systematic way as others did. Classical investment theory did. Classical investment theory related investment as an inverse function of interest rate. The lower the interest rate the greater the investment spending. According to classical theorists for

every prospective investment projects, management estimates the expected rate of return before allowance for the interest cost on the funds raised up in that project. Equilibrium level of investment will be determinant by the interaction of saving and investment function where interest is the reward for the former and the price of the latter. Interest rate determined how production is allocated between consumption goods and capital goods. (Emru,2016)

Keynes (theory of investment was denied by accelerator model for it claimed inducement to investment on the bases of current profit and future expected profit. Accordingly, accelerator model argues that the incentive to acquire more goods arises because increases in output are putting pressure on firms existing production capacity (Froyer, 1995). An increase in productive capacity require on expansion of the capital stock, which in turn calls for a higher rate of investment spending than other could otherwise be needed. Therefore, rate of investment spending is made to change with change in the level of output. That is I=a(y) where I is investment and y is output (Dorn Bush And Fisher 1994). But accelerator model exhibited draw backs, which are the assumptions of sufficient investment to keep the desire capital stock to the actual capital stock. In addition, this model disregards the importance of expectation, profitability and cost of capital (Mohammed, 2014)

However, Keynes's theory of investment has been criticized on a number of grounds. One of the eroticism that it has to face is the model is not applicable in developing countries. What keyed argue as MEC to be inversely related to investment seems in applicable in the sense that both MEC and investment are very low. This paradox stems from the very fact of LDC's such as small size of market, low income, low demand, high cost and uncertainties. The Keynesian approach was also criticized on the basis of complications. If created in computing the present value of an investment project because of the discounting. Assuming a perfect capital market, the market rate of interest will be used which must be consistent as one prevailing for long of comparable risk. Because the lending rate and the borrowing rate for a firm may vary, one not to be careful in selecting the rate of interest, which will equate to managerial efficiency cost. (Emru,2016)

2.4.1. Empirical approach in developed country

Empirical evidence on the relative effects of investment in developed country has a number of studies have been conducted with different scope and methodology.Karagoz (2010) analysed the determining factors of private investments in Turkey between 1979 and 2005 using the Auto-Regressive Distributed Lags (ARDL) model. The result of their analysis shows that in the long run real GDP, real exchange rate,

the ratio of private sector credit to GDP, private external debt, inflation, and trade openness have a significant impact on private investments. The impacts of first and last variables are negative whilst others are positive.

Abbas Valadkhani (2004) made study on determinants of private investment in Iran. His finding shows that there is negative relationship between inflation and private investment and that a 1 percent increase in inflation in the long run would result in 1 percent decline in investment in the short run.Ang (2010) carried out a study on the availability of financial resources and a greater level of aggregate output has a strong positive impact on private investment, while macroeconomic uncertainty has a negative influence. Both foreign direct and public investments have a complementary effect on expansion of investment.

Sajid and Sarfraz (2008) investigate the causal relationship between investment and exchange rate on saving and economic growth in Pakistan. The study used co-integration technique and vector error correction model to examine causality between investment and exchange rate. Their result showed that there is long-run as well as a short run equilibrium relationship between them.

Bhaumik, Das and Kumbhakar (2011) studied firm investment and credit constraints in India at the turn of the century using a stochastic frontier approach. The results suggested that the degree of credit constraint of an average firm increased over time during the sample period, despite significant reforms in the Indian banking sector. They also found that the degree of credit constraint decreases with cash flow and assets, i.e. credit constraints are alleviated by cash flows and assets of firms, but aggravated by a high leverage level. Furthermore, a threshold effect of leverage exists and the degree of credit constraint is greater for highly leveraged firms. Finally, the study found that business groups alleviate credit constraints of member firms, but their ability to do so declines over time.

2.4.2. Empirical approach in developing country

Empirical evidence on the relative effects of investment on growth in developing country has anumber of studies have been conducted with different scope and methodology. A study by Anyanwu (2006) on promoting investment in Africa examined the trend, constraints, promotion and prospects of investment in Africa. In particular they looked at domestic investment, FDI and private portfolio investment, and they identified a number of reasons for the low level of investment in Africa. It ranged from political and macroeconomic instability to inhospitable regulatory frameworks and weaknesses in infrastructure provision, governance, and institutions in general. The major factors that are examined in the study are:

According to Abuka, Egesa, Atai and Obwona (2006), carried out an analysis of firm level investment determinants and constraints using data collected by the Bank of Uganda, location is significant and firms located within the central region are likely to invest less than those located outside the central region in Uganda. Concerning size, it is indicated that large sized firms are more inclined to reinvest over time as opposed to small and medium sized enterprises. This could possibly be attributed to an easier access to credit for large firms as well as the possibility of large firms investing more from retained earnings. Lastly, the effect of sector location is also found to be significant for firms in agriculture, manufacturing, and services (Abuka, Egesa, Atai and Obwona, 2006).

Matwanga (2007), found a positive influence of savings, GDP growth and public investment on the expansion of investment in Kenya. Similarly, Kariuki (2003) found that public investment positively affects private investment while studying the determinants of gross fixed capital formation in Kenya

Frimpong and Marbuah (2010) conducted an empirical assessment of factors that have stimulated expansion sector investment in Ghana. Using the co-integration and error correction techniques within an ARDL framework, their results suggest that expansion investment is determined by public investment, inflation, real interest rate, openness, real exchange rate and a regime of constitutional rule. Raza et al. (2013) carried out a study on the relationship and impact of expansion of investment in Nigeria. He found that public investment is competitive (not complementary) for expansion of investment. A depreciation of the exchange rate has a negative influence on expansion of investment because it makes imports of capital goods and raw materials more costly for investors. An increase in corruption index and political instability prevent investment to grow. A rise in saving and an improvement in infrastructure, stimulate expansion of investment

Ang (2010) conducted a study on the determinants of private investment in Malaysia in 2010 using OLS analysis and ECM methods found that both foreign direct investment and public investment have a positive effect on private investment. Wahid et al. (2008) using Panel data of five South Asia countries over the period 1973-2012, found the existence of low positive correlation between savings and investment in three selected Asian countries. Vergara (2004), in his study on taxation and private investment in Chile, confirmed that investment was positively affected by tax reforms because lower taxes induced a higher private investment ratio. Private investment was negatively affected by higher corporate tax rates.

A study by Busia (2007) on the overview of challenges of the investment climate stated that potential investors in Africa are confronted with a number of challenges including prolonged delays in starting a business, getting requisite licenses, legal regimes for hiring and firing workers, registering property, obtaining credit, protecting investments and enforcing contracts. In addition, the overall favorable political environment for investment including peace and security are not guaranteed, and there is a ever present perception of corruption in the region.Suhendra and Anwar (2014) researched the determinants of private investment and the effect of economic growth in Indonesia using panel data. Their results show that the availability of investment financing in the form of investment loans has a positive and significant effect on private investment. They added that the increase of banks' role in financing investment through bank loans to business or real sector investment would increase the level of investment. The analysis concluded that there was a positive relationship between the availability of debt finance for investment purposes and the growth of private investment.

2.4.3. Empirical approach in Ethiopia

Empirical evidence on the relative effects of investment on growth in Ethiopia has been limited. A number of studies have been conducted with different scope and methodology. For example, Biruk, 2001, investigated the contribution of private investment to economic growth with special reference to employment creation. Accordingly, employment was positively correlated with private investments on the other hand, Bikila and Abera, in 2006, explained private investment in Ethiopia post reform period using descriptive method of analysis. And they show that private investment in Ethiopia wason an increasing trend. In 2003, Getaneh, Seyoum and Hashim conducted a research on the performance, trend and problems of private investment independently using data from 1991 to 2002. From their descriptive analysis, investment was growing important. Finally, Simon, 2009, in his research on the impact of public spending on economic growth of Ethiopia, private investment was positively related to economic growth, but was not significan

MuhidnM.Batu (2016) in his study determinants of private investment in Ethiopia concludes that investment is one of the key elements in economic growth and hence improving living standards of nations. A rate of investment is one of the key factors that differentiate developed countries from developing countries. Low investment leads to lower rates of growth and job creation, and fewer opportunities for the poor to improve their livelihoods. The primary objective of this study was to systematically review factors affecting private investment. For this purpose eleven studies were collected

from nine African countries.(Mudin M.batu,2016). Daniel (2004) has tried to model the determinant of investment activity in Ethiopia following the argument that investment is externally constrained in developing countries and it is affected by risk and unattainable variables. The model tries to determining the investment activity, effects of external financial constraints domestic and international risk variables, public investment of infrastructure and out on the private investment. In this research we are concluded the determinants of investment activity by availability of finance, the real exchange rate, investment policy, debt service payment and the debt over hanging.

Adugna (2013) undertook a study covering the period 1981-2010 using Ordinary Lease Square (OLS) regression to model the determinants of private investment in Ethiopia. Findings from the study showed that public investments in basic infrastructures and social overheads are essential for private investment. In addition, the rising real per-capital income of the people has a crucial positive effect on private investment by way of increasing market demand for goods and services. These in turn trigger private investment. Likewise, external debt has a favorable effect on private investment in countries like Ethiopia where there is a serious shortage of finance. A study by Baye et al. (2005) on the macro and microeconomic determinants of private investment both at national and regional levels in Ethiopia showed that at the micro level the probability of individual's to invest is significantly and positively influenced by the level of education, access to land and investment incentives. The 42 influence of bureaucratic red tape was also found to be negative and significant.

Dawit (2010) showed that the following are the success factors for private investment in Mekelle City: the maintenance of good accounting records by firms, good managerial skill, experience, government support and training. The major problems are a lack of proper planning and feasibility studies, lack of skilled staff, delays in securing bank loans, a lack of market for output, infrastructure problems and in

2.5. Summary and knowledge gap

Different studies were conducted on the area of factor affecting expansion of investment activity ,The study done by Haroon and Naser(2011) in Pakistan, the study covering period in 1981- 2010 using (OLS) is focused on the function of inflation rate,indirect taxes subsidies given by the government. Other study done by Frimpong and Mabruan(2010) in Ghana the study covering period in 1998-2009 is focused on real interest rate,openness,exchange rate and arigime of constitutional rule.and the similar study done by Kucchi(2005)and undertaken by Gatberuach focused on investment incentive and interest rate.and

also other study done by Adugna(2013) in Ethiopia the study focused on bureaucracy and related problem,power supplies as factor affect.On the other hand the uniqueness of this study would be conducted by taking some factors such as economic factors, socio cultural factors, political factors, corruption, institutional problem like land holding policy, lack of advisory.and also the study include questionaries' of employees of investment bureau of Wolkitetown. According to BaharBayktar Economic growth and development depend essentially on a country's ability to invest and make efficient and productive use of its resources. In this regard, the role of the private sector is important both in terms of its contribution to the quantity of Gross domestic investment and its ability to allocate and employ resources efficiently. (Bayraktar, 2003). Briefly, there cannot be growth without investment of sufficient amount and quality. In fact, investment is both a result and cause of economic growth

CHAPTER THREE

Research design and Methodology

3.1. INTRODUCTION

This chapter provides a detailed discussion of the research methodologies employed in this study. It starts with a description of the study area and is followed by apresentation of study design, the sampling procedures and data collection methods used. The latter includes sampling techniques, sample size, sources and methods of data collection. Finally, this chapter presents the method of data analyses – the descriptive and econometric methods.

3.2. Description of study area

This study was conducted in one of the urban center,wolkite town, which is located in Gurage zone. The town is established long years ago. But still the investment activity is in its infancy stage. Wolkite town has vast natural resources and good climatic condition which indicates the relative advantage for the potential investment opportunities.

3.3. Research Design

According to Zikmund (2003), a research design is a master plan specifying the methods and procedures for collecting and analyzing the needed information. It is a framework or blueprint that plans the action for the research project. And states that there are four basic research methods that can be used to conduct descriptive and causal research, namely, surveys, experiments, secondary data studies and observation. Also states that descriptive studies are based on some previous understanding of the nature of the research problem whereas causal studies can only be conducted when a problem is sharply defined. The study was use descriptive survey type of research to obtain the intend information. Because the researcher to collect the necessary data and detail description of the existing phenomena concerning the determinants of investment activities.

3.4. Source of Data

The studie was obtain the require data from both of primary and secondary sources. The primary data was gather from the investment office of Gurage zone directly through interview and from investor of wolkite town through questionnaire . the secondary source of data obtain from document report, Magazines and Publish materials.

3.5. Sample Size and Sampling Technique

Sampling as any procedure using a small number of items or parts of the whole population to make conclusions regarding the whole population.Zikmund (2003) goes further to say that a sample is a subset, or some part, of a larger population. Sampling is performed to enable inferences to be drawn about the population from a smaller group as in most cases it is impractical and/or impossible to include the entire population in the study. Sampling is normally performed due to budget and/or time constraints (Zikmund, 2003).The target population for this study was individual investor's and government organization of the town who give important information about the investment. There are 48 investors in the work of investment in investing in different sector when number of investor inter in to investment sector are 13, in industry,4 in education 3 in agro processing, 28 in hotel sector and 5,employe in investment berauw in wolkite town. From all this population of 48 investor and 5,employee the studier select 47 sample. From the population the studier use sample size using the following formula of Ymane(1967).

$$n = N/1+N_e^2$$

Where, n =Sample size

N =Target population

e =Error term

In this study the studie was estimate 95 percent of the study as confidential and the remaining 5 percent as error term then the sample (n) of the study is

$$n = 53/1+53(0.05)^2$$

n =47

This 47 sample is selected based on the ratio from investment sector 3,fromagro processing 4,from education 11,from industry 25,from hotel and 4,from employee of investment bureau. From this sample we use 43 investors to the questionnaires and the other 4 employer of investment bureau of Gurage zone for interview

3.6. Method of Data Collection

The study was collect the raw data from each sample population by using questionnaire and personal interview. The structure questionnaire will design and distribute to investor and investment office of wolkitetown.This questionnaire allows the respondent to express their feeling and suggesting freely and openly without enforcement of the researcher. The questionnaires consist of two types question (open and closed ended question).The other data collect method unstructure interview and undertake the investor and investment bureau of the town.

3.7. Method of Data analysis

The raw data was collect and process in the primary editing, coding, and classifying so as to make the data for further analysis. The data was analysis based on descriptive analysis techinques.It includes tables and percentage representation data this format may use to facilitate the process of data comparison summation of data, detection of errors and omission.

CHAPTER FOUR
DATA ANALYSIS AND DISCUSSION

In this chapter the impact of low investment incentives and inadequate promotion of investment areas on the business investment activity is analyzed.

Despite the government's priority to develop agriculture as per agricultural development led industrialization (ADLI) strategy, most of the investment project so far tended to concentrate in urban areas and non-agricultural activities presumable due to poon infrastructural development in ruler areas.

Table 1.1 Sex distribution

Sex	Frequency	percent
Male	33	70.21
Female	14	29.79

Source: questionnaire Survey and interview

The above table shows70.21% of the respondents were males. This indicate that most of the investors involved in investment activity of the town were males even if the current government polices encourage the participation of the females in investment activity in the case of the wolkite town the participation of the females in investment is very low.

Table 1.2Age distribution

Age	*Frequency*	*percent*
Less than 20	0	0
Between 21-40	16	34.04
41 and above	31	65.96

Source: questionnaire Survey and interview

The distribution of the respondents' shows that the majority of the respondents involved investment activities of Wolkite town are found at the age 41 and above.

Table 1.3 Education Level

Education	Frequency	percent
Certificate	24	51.06
Diploma	14	29.79
Degree and above	9	19.15

Source: questionnaire Survey and interview

The distribution of the respondents' shows that the majority of the respondents education level are29.79% have diploma 51.06% have certificate and19.15% have degree and above degree.

Table 1.4 marital status

Response	Frequency	Percent
Married	32	68.09
Unmarried	10	21.28
Widowed	2	4.26
Divorced	3	6.38

Source: Primary Data

From this we know the investor marital status, 68.09 of investor ismarried, 21.28 of investor is unmarried, 4.26 of investor is widowed and the other 6.38 of investor is divorced.

4.1. Areas of participation and corresponding participation of the people

Any kind of project always affects the society nearby either positively or negatively. The investment projects at the research site are various and indifferent sectors, even of most of them are in the service giving sector.

Table 1.5Areas of business investment

Response	Frequency	Percent
Agro processing	3	6.38
Education	4	8.51
Hotel and tourism	25	53.19
Industry	11	23.40
Others	4	8.51
TOTAl	47	100

Source: Primary Data

So far as the participation of society in the business areas is coconcerned 53.19% of them are currently participating in hotel and tourism sub-sector.8.51% in education, 23.40 in industry 6.38 inagroprocessing,8.51 the others. It is well known that the service sector comprises communication, trade hotels and restaurants. From the total percentage 61.70% of the investor is engaged in the service giving activities, which are indeed the education, hotel and tourism services.

As a matter of fact, these activities are not only dominant on the study area, but also for the country as a whole economy their share is significant. Needless to say, the growth of service giving activities are relatively higher that agricultural and industrial sectors. Unlike the other sectors, the service giving activities has a great impact on the overall performance of the area under consideration. This is of course true also on the overall economy. The service giving sector accounts for a substantial proportion of real GDP on the country. The participation of the society in the agricultural, manning, construction and

import-export sectors are almost negligible. dominancy appeared. The answers should be either the minimized risk of the sector or the fund needed to act in this sector is relatively low and acquirable.

4.2. Investment incentives and promotional service

Investment incentives and promotion is great asset to inspire and encourage an investor to get in to an action. 'What kind of incentives and promotional activity does the study areas concerned bodies and officials serve for the investors?' is the question to be answered in this sub-chapter.

Table 1.6:showing time of investment starte

Responses	Frequency	Percent (%)
Above 2013	28	59.57
Below 2013	19	40.43

this show that most of investor is start ther investment above 2013 in this questionnaire implies that based on this 59.57 start above 2013 and 40.43 is below 2013 they start

Table 1.7: Showing how much investors get promotion and explanation about their business.

Responses	Frequency	Percent (%)
Yes	30	69.77
No	13	30.33

Source: primary data

Table 1.8**:** Adequacy of the information obtained from the office

Responses	Frequency	%
Yes	12	27.91
No	31	72.09

Source: primary data

With regard to information about investment, areas of participation before they start their business activity get the necessary information from the investment promotion center. Accordingly,72.09% of them (table 1.5) state their investment after getting information from the concerned offices regarding different issues that may encounter their business either favourly or disfavourly. However, the information obtained was not adequate enough to build up their confidence in the way to make their business operational. This condition causes the concerned officials for understanding the investment activities of the area from multi-dimensional perspectives and then provides adequate information for the society, so that conductive environment will be created for the needle people.

Table 1.9: Consultation of advisory when they start investment

Responses	Frequency	Percent
Yes	38	88.37
No	5	11.63

Source: primary data

Table 2: Showing adequacy and continuously of the advisory service.

Response	Frequency	Percent
Yes	19	44.19
No	24	55.81

Sources: primary data

Looking at the consultation of an advisory service from the investment office of Wolkite town, most of the people get this service when they start their business. Accordingly 88.37% of them (table 1.7) get an advisory service when they started their investment activity. But, the service provide for them is not sufficient enough when they are in the way to operate their business. Thus, if can be said that no adequate and continuous service. That can motivate the investor towards a better beginning in the activities of their interest.

Table 2.1**:** Showings their intention towards investment in future.

Responses	Frequency	%
Continuing	30	69.77%
Starting other business	9	20.94%
closing	4	9.30%

Source: primary data

Table 2.2: Other means of information adequacy and continuous

Responses	Frequency	%
Yes	6	13.95
No	37	86.05

Source: primary data

So far the means of getting information about investment in the areas of their participation other than the regional government investment promotion center is canceled and the culture is not that much developed. Even for the country as a whole, the access is not that much promissory. Let alone deal for the study area; the media is not that open for such activities, except in some situations. This condition, therefore, hinders the expansion of private investment in the country in general and in the research site in particular. Thus, the concerned parties should give attention for this problem and should go in line with the need of the people.

4.3. Effect of low promotion activity

The previous sub-chapter clarified that the regional administration represented by Wolkite town investment bureau didn't perform well on giving adequate and sustainable information (awareness) on

the action investors were moving on. This section tries to see if this inadequately served service affected the investors.

Table 2.3: showing weather the low promotion activity by the region has major effect on investment or not.

Responses	Frequency	%
Yes	30	69.77
No	13	30.23

Source: primary data

Table 2.4: The adequacy of promotional activity has effect on attracting potential investors.

Responses	Frequency	%
Yes	34	79.07
No	9	20.93

Source: primary data

Regarding the promotion activity by the region, there is no enough promotional activity that can increase the participation of the people of the area. Hence, this low promotional activity has an immense impact on the business investment. Consequently, new investment areas will not be pared. So that, opportunities for employment will be under question mark, that in turn hinder the growth of the area. Hence, it does not mean that promotional activity is completely absent. But adequacy is not attained. If practiced successfully the ongoing promotional activity can attract potential investor, despite measures, private investment remain below expectations. This can readily be seen from the existing number of projects that progressed to operation. The existing promotional measures in the area are for the sake of encouraging the people. The fact that the promotion is geared towards encouraging the private business investors in the area under consideration is a good indicator of establishing a market oriented system where the private sector plays a dominant role.

Table 2.5: showing weather investment incentives are obtained or not before and after they start investment.

Responses	Frequency	Percent
Yes	24	55.81
No	19	44.19

Source: primary data

Table 2.6: Types of incentives they got and their participation.

Responses	Frequency	%
Invest allowance	23	53.49
Loss credit forward	0	0
Market access	20	46.51
Free from tax	0	0
Permission from customer duty	0	0

Source: primary data

Table 2.7: Showing the reasons for the absence of investment incentives

Responses	Frequency	%
It is because of low understanding of the concerned bodies in the area that giving major incentives to private business investors has an effect on the private business integration.	15	34.88
It is because of concerned office fails to implement policies that are drafted by the regional government about privet business investment.	19	44.19

Because of giving major investment incentive is beyond the governments scope	9	20.93

Source: primary data

Table 2.8: Showing weather Wolkite is comfortable or not for investment.

Responses	Frequency	%
Yes	37	86.05
No	6	13.95

Source: primary data

With regard to investment incentives, market access and investment allowance are the most important incentives by which the regional investment office provides for those people willing to start the investment activity the provision is also given to those who have already started their business. Accordingly, 55.81% of the people get such investment incentives just before and after they start their investment flam the regional investment office. However, this doesn't mean that the incentives provided are adequate enough to pick up and consequently blood up the participates. The remaining 44.19% of the people couldn't get it. Some of the reasons underlying these facts are;

There is low understanding of the concerned office in the area giving major investment incentives to private business investors has an effect on the private business activities. The concerned office fails to implant policies that are drafted by the regional government about private business investment. Giving major investment incentives in beyond the scope of the government.

Hence, failure to give such incentives has an effect on the private business activity. This fact calls for a thorough study to property understand and knows well the impact of failure to give major incentives of investment on the business activity. For that matter, the concerned office has to understand and analyze such impacts and accordingly should go for feasible.

Table 2.9: Showing the most serious constraints for the expansion of their business.

Constraints	Rank	Frequency	%

Capital constraints	1st	13	30.23
High tax rates	3rd	7	16.28
Infrastructure constraints	5th	5	11.63
High collateral requirements	2nd	9	20.93
Lack inadequate business premise (shortage of demand) for your product and inadequate (uncertainty) of the market	4th	6	13.95
In sufficient promotion of market facilities	6th	3	6.77

Source: primary data

The most sever handicap or problem, for the expansion of business investment in the area is the adequate capital, that can motivate to start the business activity and that, can further strengthen the existing business activity towards a better performance.

4.4 Result of interview question

Q1.There are different challenge that affect the growth of investment activities in the town despite the opportunities and potential for investment in wolkite, several major challenges were emerged. Among these challenges; infrastructure problem roads, power, and water, lack of financial and technical assistance to investors, lack of alternative domestic and regional markets, there is no enough promotional activity, the incentives provided are not adequate enough. Lack of credit availability is also there.

Q2.the key factor which influence the investment prospectsuffering from poverty, lack of infrastructure, under development health center and fundamental ills of the economy system and reacts up on to keep the country under development. Wolkite town's people almost reflect the real situations of town Wolkite and also as summarizes the investment prospects in major sectors of the economy in light of these developments: agriculture and hotel, economic infrastructure, manufacturing, and selected services, including tourism and health.

Q3. Many factor might have contributed to the low level of investment, one main factor can be the limited experience and skill of the investors, especially, the domestic investors in identification of profitable projects.investment prospectsuffering from poverty, lack of infrastructure, and reacts up on to keep the country under development.

Q4.berau investment need to put ther vision have various tools to promote expansion of investment and societal well-being. berau undertakes long-term investments in public infrastructures as well as research and development that can contribute to balancing the investment, create new jobs and enhance productivity by applying town-cyclical policies).It commits government to address apparent market failures (e.g., trade logistics), identifies strategic growth sectors (textiles, leather, agro-processing, and mining), and sets out an ambitious program of infrastructure development (transport, energy, telecommunications), with the aim to meet the socioeconomic .

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

Investment is a key sector in the economy. It contributes a lot to the betterment of national economy in a multiple way. Without investment activity it is hardly possible to have any development rates it remains in the vicious circle of poverty. This is especially true in developing countries like our country Ethiopia. That means if there is low investment, there is poverty. Therefore the causes of the cause of low investment shall always be minimized. To minimize the cause of low investment first identifying and studying the factors of investment is very important. In order to asses' factors of investment the research has collected necessary data and information through questionnaires from investor and personal interview from Wolkite town investment bureau.

This data or information gained through questionnaires form inventors, investor employees and personal interview from Gurage zone investment bureau employer help to know what investor perceived the major constraints facing the enterprises operation and expansion. As a result, this paper tried to flash out those factors that determined investment activity. Then the following were obtained:-The mining and import export sector to invest in this area or town where almost zero or negligible this means before The investors obtained information about business investment area of participation from the area of investment promotion center is not adequate enough. There is no adequate and continuous consultation service. The media is not that much open for getting information about business investment in the areas of their participation. There is no enough promotional activity. The incentives provided are not adequate enough. There is lack of infrastructure facilities. Bureaucratic nature of local government to give investment permission. Lack of credit availability is also there.

5.2. Recommendation

Depending on the above finding the studier would like to forward the following recommendations. As the studier understand from the finding the participation of the society in the construction and import-export sector are negligible. So the investment bureau or concerned bodies should take in to consideration and open opportunities for the participation of those sectors.In order to increase the society need the concerned bodies provide adequate information for the secretly. In order to motivate the society towards a better beginning in the activity of their interest the concerned parties give adequate and continue the consultation service. Provide investors with information regarding market, finance, technology, and policies. The Gurage zone investment office must undertake some promotional effort to attract potential investors to invest using idle resource through, bazaar, TV, etc. The concreted parties should also introduce special incentives for investment of profits.

We know that infrastructural facility plays a major role in promoting development, order to faster the growth of investment activity of in order to increases the participants of investor the concerned parties must facilitate, transportation service, communication, electric power etc. Bureaucratic administration must be changed and open the door for potential investors in order to improve the life standards of the society. Banks provide loan based on project performance and type of project.Loans should be available at subsidized interest rates, tax incentive and in general this package of incentive must be accompanied by a clearly stated and administered performance and to protect abuse of the system. For investment projects whose capital requirements are high and difficult for them to raise the responsible parties should either participate in joint venture or search partners for them with some concerned bodies guarantees. The concerned bodies in on area should utilize its experts to generate detailed feasibility studies on the project and should make their studies openly and equally availed to the business class.

Allocation of infrastructural facilities must get emphasis to reduce its impact on investment activity. Prepare land for investment and equipped with infrastructural facilities. Supporting and encouraging those investors those are on the phase of processing. All organization and institutions should draw programs for the development of the economy and training of investors to remove the bottlenecks for investment.

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APPENDIX

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Questionnaires Format

First of all I would like to thanks your willingness to answer each provided questions.

- Purpose: The purpose of this questionnaire is to undertake research study on the factors affecting investment activity in wolkite town.
- Do not write your name on questionnaire paper(your name is secured)
- The following sign in the empty box below for each closed ended questions.
  - ✓ For any option you select.
- Please give your answer for each question very carefully that it may have value to and it helps the studie to find out the problem.

Questionnaire designed to the Investor

PART 1: Personal Information

1. Sex Male ☐ female ☐
2. Age < 20 years ☐ Between 21-40years ☐
   Above 41 ☐
3. Education
   Certificate ☐ Diploma ☐ gree ☐
4. Marital status
   Married Unmarried
   Widowed Divorced

PART 2: Specific Question

5. What type of business you running?
   a. Service ☐ c. Manufacturing ☐
   b. Merchandise ☐ d. Others(Specify) _____

1. When did you start your business?

   Before 2013 ☐

   After 2013 ☐

2. have you explain and promote your business to the public

   Yes ☐ No ☐

3. do you get adequacy information from office

   Yes No ☐ ☐

4. have you an adviser when you start an investment

   Yes ☐ No ☐

5. have you continue your advisory service

   Yes ☐ No ☐

6. What is your intention toward your business in the future?

   a) Continuing ☐

   b) Starting other business ☐

   c) Closing ☐

   d) Other(Specify) _____

7. Have you get other means of information from other part and they have adequacy

   Yes ☐ No ☐

If your answer on question #8 is closing" please specify your reason which leads to stop the business activity.

_____

8. do you think the low promotion activity have impact on the investment in the town

   Yes ☐ No ☐

9. Dose the promotional activity has effect on the attracting potential investor

   Yes ☐ No ☐

10. Do you get an incentive from the local government?

    Yes ☐ No ☐

If your answer on question#10 is "yes", what type of incentive you receive?

A. Invest allowance ☐

B. Loss credit forward ☐

C. Market access ☐

D. Free from tax ☐

E. permission from customer duty ☐

11. What do you recommended to the local government to improve the investments activity of the tow

_____

_____

12. Do you think that Wolkite is comfortable for investments?

Yes ☐ No ☐

If you say “no” on question #13 please specifies some factors that affect investments activity?

_____

13. What is your constraint for the expansion of investment activity

_____

Interview

Interview questions designed to the investment bureau of Gurage zone

1. What are the challenges that affect the growth of investment activities in the Wolkite town?
2. What are the key factors which influence the investment prospect of the town?
3. Based on the question number #2 what are needed to be addressed the influence immediately?
4. What are the vision of the bureau towards investment and the attitudes of investors?