THE ROLE OF FINANCIAL INSTITUTION IN PROMOTIN PRIVATE INVESTMENT (IN CASE OF GUBRE TOWN)



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ABSTRACT

This paper tries to examine the role of financial institutions in promoting private investment in Gubre town. Therefore this study was conducted to identify the role of financial sector in promoting private investment being operated in Gubre town. The researchers collected data from 15 respondents. Accordingly, the researchers have found that financial institution are the back bone for the growth of private investment, found that in Gubre town financial institution of commercial banks provide different kind of service for private investors. In addition, have also analyzed there are some problems faced by financial institutions and private investors. The study found financial institution bank make crucial role in giving deposit (saving) and loan service for investor by medium interest rate and it makes them to invest more, give service regarding with transfer of money from one place to another place, plays a crucial role by providing consultancy service for investors in which they direct the private investor into the best direction. The study recommended that financial institution pays medium interest rate for the deposit and loan of investors, increase interest rate of deposit and decrease interest rate of loan, it is better to increase private saving and loan for private investment, government can take corrective action to decrease inflation rate, like fiscal and monitory policy.

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ACRONOMY

ATM	Automatic teller machine
CU	Credit Union
LC	Letter of Credit
MFO	Micro finance organization
MSB	Mutual saving bank
NGO	Non-government organization
PG	Post graduate
UN	United Nation

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CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

Investment is the process of exchanging income during one period of time for an asset that is expected to produce earning in the future (the new encyclopedia, 1993). Furthermore, we can define investment as the placing capital on lying out of money in a way intended to secure income or profit from its employment. Private investment contributes a lot to sustain economic growth, decent job creation more sustainable production process and technology transfer. Therefore, strengthening partnership with private investor would be an urgent task for the country to insure fair business transaction, create more middle-class society and strengthen better local and foreign market chain Financial institution is institution which collect fund from the public and places them in financial asset, such as deposit, loan and mortgage other than tangible asset. Those financial institutions contribute to private investment through money management and banking service, which include credit service, deposit service, insurance product, and financial advisory service.

Financial institution can extend loans to private investors while, at the same time making reasonable profit (Kabir 2002). So many researchers conduct a research on the contribution of financial institution for investment and other economic development issues from those (Melak,2011) conduct his paper on the title of financial institution and investment on Ethiopia. He by using secondary data form national bank of Ethiopia and other related book try to indicate that financial institution over the post 6 and 7 years highly encourage investment as well the expansion of investment in other way help the finical institution to stand by two legs because investor are the high profit customer of financial institution and (Tesfaneh, 2010) conduct his paper on the role of financial institution in employment creation through expanding of investment in case of Addis Ababa by using time series data of form 1995-2007 and finally he found that financial institution serve as a leading sector for un employment reduction but all of them concerned on Addis Ababa and the researcher try to fill a gap by indicating the role of

financial institute on in promoting private investment in case of Gubre so by using primary and secondary data.

1.2. Statement of Problem

Although estimates of the financial sector needs for the economic, social, and environmental dimensions of sustainable development are imprecise, studies conclude, without exception that needs are extremely large. Because, the achievement of second millennium development goal can only be realized with the development of the financial sector which is the engine of many other sectors to skyrocket the country's economy. It is accepted among economists that a well-developed financial sector encourages economic development and growth by encouraging private investment. Early economists like Schumpeter (1911), identified banks' role in facilitating technological innovations through intermediation role and opined that the allocation of savings through identification and funding of entrepreneurs are veritable tools for achieving the macroeconomic objectives of economic expansion (Oluita, 2009). Financial institution intermediate between the surplus and deficit sectors of the economy.

Many researchers Gross (2001), Athanasius and Antonio's (2010), Schumpeter (1911), conclude that the financial institutions will need to make a many fold contribution to incentivize greater private sector investment in sustainable development by: reducing risks and impediments to investment by creating a stronger enabling environment, including through an effective legal, policy and regulatory framework, as well as responding to other market failures; sharing risks between the public and private sector by catalyzing and leveraging private investment; aligning private sector incentives with public goals; balancing regulations and policies to ensure financial system stability, with access to credit and financial services and many other.

The financial institutions although regulated, still determine the strategies for allocating funds, thereby playing significant role in determining the type of investment activities, the level of employment generation, and distribution of income (Gross, 2001). According to Anthonios (2010), the development of private sector investment is strongly correlated with development financial sector lending. This implies that financing of private investments through the credit from financial sector portends that investments are associated with levels of credit expansion. Thus, the availability of an optimally functioning financial institution allows the realization of this role which is often essential and significant for the development of an economy and

alleviates the external financial constraints that impede credit expansion, and the expansion of firms and industries (Mishkin, 2007).

Again, financial institutions provide sources of external financing to firms and so create information that guide the allocation of resources. Greenwood and Smith (1996), show that, large financial institutions can lower the cost of mobilizing savings and hence facilitate investment in most productive technologies. According to Levine (1991), financial sector increase investors liquidity by providing overdraft which allows investors to withdraw more money than they have in their bank account. In addition, the study indicated that the financial sector will provide guarantee for the private investors on some bid that require financial sector guarantee. This help for the smooth functioning and value creation of private investors. Though private investment productivity increased along with financial sector development in Gubre the increase was not commensurate with that offinancial sector. There is small amount of literatures that are devoted to identify the role of financial institution in promoting financial sector development. Nevertheless, the bulk of such research tends to concentrate on developed countries; very limited studies have provided such research in Africa. There were some researchers' conducts on this topic in our country and it was not enough to studying on role of financial institutions on promoting private investment activity. Therefore, this study would fill this gap depend on the literature.

1.3 Research Questions

- What is the role of financial institution in capital formation?
- What is the problem faced by the financial institution in promoting Investment?
- What is the role of financial institution in extension of credit?

1.4. Objective of the Study

1.4.1 General Objective

The main objective of the study was to investigate the role of financial institution in promoting private investment in Gubre town

1.4.2 Specific Objective

- To identify the role of financial institution in capital formation.
- To identifies the problem faced by the financial institution in promoting Investment.

- To identify the role of financial institution in extension of credit.

1.5. Significance of the Study

This paper lays out the role of financial institutions in promoting the private sector investment in Gubre, with the aim of better identifying the role for financial institutions policies to leverage private resources for investment in sustainable development. Policy should be attentive to the possibility of the private sector being crowded out financial constraint, especially as markets become more developed. The finding of this study was expect to be significant for the following reasons; government and other party involved in the promotion of the development of private sector investment may use the finding of the the study as additional input in designing policy towards private investment. Academicians, consultants and government agencies may use the study as steping- stone for further study in the area at advanced level. Both graduate and under graduate students may find the study relevant for their academic work. The finding may also be considered as important addition to the existing body of knowledge or literature in the area.

1.6 Scope of the Study

The geographic area of the study was limited to Gubre town. The focus of the study was limited to the clear and deatail identification of the role of financial institutions in promoting private sector investments in Gubre town.

1.7. Limitation of the Study

There were challenges that affect the fullness of this study. Among these challenges of the study, the major one are, Lack of reference materials such as a book and sample research, Lack of money, Lack of time, lack of the employees give the real information. Thus, these limiting factors may negatively impact the findings of this study in one or another way.

1.8, Organization of the Study

The research paper would be classified in to five chapters. The first chapter provides general introduction information about the topic of the study. In this part, back ground of the study, statement of the problem and objectives of the study, methodology of the study, significance, and scope of the study the second chapter outlines the related literature reviews the subject matter under the study. The third chapter explains about the methodology to be adapted in the processes of research undertaking. The fourth chapter mainly the analysis part of the study diagnosis the

data collected and relates them to different aspects. Finally the fifth chapter was sum up all the points that are raised in the paper, draw conclusion and raise sound recommendation

CHAPTER TWO

2. LITERATURE REVIEW

2.1. An over view of financial institutions in Ethiopia

The financial sector r development in Ethiopia is shallow and immature like in many other developing countries. Before, January 1, 1975, Ethiopians financial sector was open for domestic and foreign private investor. However, following the overthrow of the feudal government in 1974, the DERG regime nationalized the emerging financial system. First, the Addis Ababa banks, Bank Roma and Dagon which were private owned banks were amalgamated and forms governors owned bank known as

Addis bank later on Addis bank was also merged in to the stated owned bank called commercial bank of Ethiopia since the nationalization of all private banks on January 1, 1975 onwards, the financial sector passed through mono banking and insurance system and guided by the central plan like other sector until 1990-91(BIRRITU, 2007)

Following the overall economy reform of 1992-93 however new monitory and banking proclamation was enacted in 1994 were private participation in the sector was allowed for Ethiopian nationals. this after, several amendments in interest rate policy have taken pace step by step so as to encourage market oriented financial system in the country Accordingly, at the end of fiscal year 2005-2006,ended on June 30,2006, Ethiopians financial sector consists of one central bank (national bank of Ethiopia ,twelve state owned insurance company(Ethiopia insurance company),nine private insurance companies ,one specialized bank(development bank of Ethiopia) and about 26 micro finance institution .further more private bank are free to operate their business based on market system except determining minimum saving and time deposits, which is still under regulations (IBIT)

2.2 Investment and Financial Institution

An Investment is the current commitment of resource for a period in the expectation of receiving future resource that will compensate the investor for the time the recourse are committed ,the expected rate of inflation and the uncertainty of the future payment (Relly, 2004).

Investment financed by financial institutions is made through the provision of credit facilities to the potential investors for the production of capital good (Is Omiya 1994) Capital good is one aspect of what are called investment good.

Financial institution contributes to the operation and growth of investment through various roles, including that of intermediary and provides of payment settlement facilities and they must also execute these roles faultlessly in order to promote confidence and stability in the system additionally financial institution contribute to private investors through giving overdraft, loan, mortgage, LC loan and taking deposit.

Financial institution can extend to the poor while, at the same time making a reasonable profit by charging high interest rate. Financial institution can afford the high transaction cost of processing large volume of loan as small as a few dollars. Financial institution provide client from house hold with a range of money management and bank service which include :credit service, where by small loans are allocated against collateral substitutes, such as group guarantees or compulsory savings, deposit service, designed to offer alternative saving option; Insurance products; including insurance against loan default due to misadventure, and financial advisory services, were the views and need of the poor are brought to the attention of policy makers. Financial institution can be profitable in the providing services to the poor .If cost are contained, risk are managed, and the clients are treated as active partnership (kabir, 2002)

Financial institutions are mobilization of financial resource has led to capital formation since capital formation requires the release of domestic goods and service which promote the real investment. Then any economy that wants to increase its real capital formation must be able to provide a climate respective to the impact of resource from overseas and the encouragement of domestic savings. This requires an institution arrangement that encourage the mobilized savings and productive investments (Josiah, 2012).

The role of financial institutions in the development trajectories at late industrializing, developing countries can't be over emphasized. However as noted above, with financial liberalizations at the neoliberal variety transforming financial structures some countries and doing away with specialized development banking institutions on the grounds that equity and

bond market would do the job. This is bound to deal to short fall in finance for long term investments, especially for medium and small enterprise (Chandrasekhar, 1997).

Financial institutions are firms that provide financial service to surplus spending units (Lenders) and deficit spending units (borrowers). The most important financial institutions are financial intermediaries-various institutions such as, Banks, saving and loan association and credit unions that serve as go-between to link up surplus spending unit and deficit spending units. Here the linkage between saver and borrower is indirect. For example, an investor might deposit some surplus fund in a saving account at a bank; the deposit is an asset for the investor and liability for the bank. If the bank, in turn, makes a loan to deficit surplus unit, the loan is an asset for the bank and liability for the deficit spending unit (Burton, 2003).

Economic growth and development of any country depend up on a well join financial system. Financial system is comparison of financial institution It provides a mechanism by which saving are transformed in to investments Thus, financial institution can be said to play a significant role in economic growth of a country by mobilizing surplus fund and utilizing them effectively for productive purposes.

Banks rank as the most important of our financial intermediaries-institutions that serve as "middle men" for transfer of fund from the millions of individual households, investors and other entities with surplus funds to those who borrow in order to purchase consumer goods or invest in real assets such as houses, business plants, and equipment Financial intermediaries promote economic efficiency by gathering the saving from millions of individual households' other surplus units and making the funds available in appropriate denominations and maturities to deficit spending units. This process contributes to raises the nations living standards. Financial intermediaries transfer funds from saver to borrower, improving the well-being of both savers and borrowers. Banks and other financial intermediaries are important sources of financial innovations that have expanded the range of alternatives open to both savers and borrowers (Thomas, 2006).

The recent development of microfinance has made it possible to expand financial services to reach a large segment at the poverty-stricken population. MFOS must usually overcome several difficulties in order to successfully provide financial services to the poor. Therefore, the role of

public policy should be creating conditions for the development of sustainable and profitable micro finance organization (kabirhassan 2002).

Credit facilities are defined as the facility through which an investor borrow and repay at later date in order to facilitate the acquisition of capital asset for production, processing and marketing of their product. It is luck of credit some of the factors that make that difficult for investors might which obviously, is the innovation which investor might wish to carry out may not be possible if asset to financial resource is restricted or not in existence for the necessary transformation to take place in the economic activities (Encyclopedia Poritanica).

The SME, constitute a significant part of total employment in many countries. The finance access is an important growth constraint for SME that financial institutions play an important role in relaxing this constraint (Beck et al, 2006).

Financial institution could benefit countries over all society by overcoming the liquidity and UN employment problems associated with highly imperfect credit markets (Kheker, 1998).

2.3 Major Financial Institution

There is different major financial institution but in this paper look some major types of financial institution as follow (Edmister, 2001).

2.3.1 Commercial Bank

Commercial banks are the most important financial institution. It is type of bank that provide service such as accept deposit, making business loans and offering basic investment products. Commercial banks perform many functions; they satisfy the financial needs of the sectors such as agriculture industry, trade communication, so they play very significant role in a process of economic social needs. statement of condition and income statement of banks provide valuable information concerning its resource and operation. The statement of condition shows that principal financial contracts issued by banks are demand deposit, saving deposit and time deposits.

The roles of commercial bank are; accepting money on term deposit, Lending money by over draft installment loan, Safe keeping of documents and other items in safe deposit boxes, Sales, distribution or brokerages with or without advise of insurance, unit trust and similar financial

products a financial super market, Processing of payments by way of telegraphic internet banking or other means, Issuing bank drafts and bank check, Merchant banking and private equity. Traditionally large commercial banks also underwrite bonds and make markets in currency, interest rate, and credit related securities but today large commercial banks usually have an investment bank arm that is involved in the aforementioned activity.

Functions of commercial banks are: Provide loan and advance of various forms including an overdraft facilities, cash credit, bill discount, money at call. They also give demand and demand term loans to all type of clients against proper security. Commercial various types of deposits from public especially from its clients, including saving account deposit, recurring account deposit and fixed deposit. These deposits are payable after a certain time period. Credit creation is most significant function of commercial banks. While sanctioning a loan to customer, they do not provide cash to the borrower. Instead, they open a deposit account from which the borrower can withdraw. In other word sanctioning a loan, they automatically create deposit known as a credit creation from commercial bank (Albuquerque, 1855)

2.3.2 Saving and Loan Association, Saving Bank and Credit Union

Three financial institutions specialized in consumer saving, instruments saving and loan association, mutual saving banks and credit union.

Saving and Loan association obtain fund interim of middle income savers and lend these funds to purchasers of real estate. Until 1980's, saving and loan invested primarily in ‘‘conventional’’, home mortgage. Mortgage interest is the principal source of income of saving and loans and correspondingly its interest paid on saving is the major deposit of this income.

Saving and loan association is also known as thrift, is a financial institution that specializes in accepting saving deposit and making mortgage and other loans. The saving and loan association become a strong force in the early 20th century through assisting people with home ownership, through mortgage lending and further assisting their members with basic saving and investing outlets typically through passbook saving account and term certificate of deposit. Saving and Loans were given a certain amount of preferential treatment by the Federal Reserve in as much as they were given the ability to pay higher interest rate on saving deposit as compared to regular commercial bank. Loan and saving association is types of financial institution that was originally

created to accept saving from private investors and to provide home mortgage services for public.

Mutual saving banks (MSBS) are a regional phenomenon existing in one's country. MSB'S channel deposits primary in to long term investment and liquid assets. Investment of MSBS includes corporate bonds, federal fund open market paper and short term marketable securities (Thomas, 2006).

Credit Union (CU) is saving institution formed around a common association. These over of fund is saving by members which are represented by shares. Funds are invested in loans to members to generates consumer loans, although real estate loans. Credit union is organized by group of individual such as labor union, universities or member of particular firm occupation. Credit union issue time deposit (share) to members and use the funds chiefly to lend to other members. Loan usually is guaranteed for home improvements or good purchases (cars, furniture). Profit earning by credit union are exempt from federal income taxes, allowing credit unions to offer attractive interest rates relatively to bank and other financial institution (Thomas, 2006).

2.3. 3 Empirical Review

As the study of Melak (2011) conduct his paper on the title of financial institution and investment on Ethiopia. He by using secondary data form national bank of Ethiopia and other related book try to indicate that financial institution over the post 6 and 7 years highly encourage investment as well the expansion of investment in other way help the finical institution to stand by two legs because investor are the high profit customer of financial institution

The study of Tesfanshe (2010) conduct his paper on the role of financial institution in employment creation through expanding of investment in case of Addis Ababa by using time series data of form 1995-2007 and finally he found that financial institution serve as a leading sector for un employment reduction.

Financial sector reforms result in increased saving and lending for the small and medium scale enterprises and the poor done by Gibson chigermira and Nickolas Masiyandma (2003) they

concluded that the financial sector liberation to be successful small and medium scale enterprise should be implemented not in isolation but in conjunction with other matching and appropriate policies in the real, financial external and public sector.

The research paper of report on support to small and medium scale enterprise in developing countries through financial intermediaries done by Dalbery (2011), he concluded that small and medium scale enterprise in developing countries are often hampered by inability to obtain financial capital; for growth and expansion and develop intervention to close the gap in financing and out lines contribution role for public and mutual actors

The other previous research done by Jean samuragwa (2014), he focuses on identifying the contribution of financial institution in promoting private investment. He tried the challenges investor faces in accessing credit, the competitive efficient and effective financial system, on problem of financial service extends to private investment.

2.3.4 Conclusion and Knowledge Gap

As theoretical related and empirical related reviewed the investment as the placing capital on lying out of money in a way intended to secure income or profit from its employment Private investment contributes a lot to sustain economic growth, decent job creation more sustainable production process and technology transfer. Therefore, strengthening partnership with private investor would be an urgent task for the country to insure fair business transaction, create more middle-class society and strengthen better local and foreign market chain financial institution which collect fund from the public and places them in financial asset, such as deposit, loan and mortgage other than tangible asset. Those financial institutions contribute to private investment through money management and banking service, which include credit service, deposit service, insurance product, and financial advisory service.

But as we seen in empirical reviewed there were some researchers conducts on this topic and it was not enough to studying on role of financial institutions on promoting private investment activity, and the researcher try to fill a gap by indicating the role of financial institution in promoting private investment in case of Gubre town.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Research Methodology

In this chapter detail methodology is presented showing the logical frame work that discuses research design, sampling design and research method. To achive the objective of this research the approprate method would be adoptend. Basically there are three type of research approaches qualitative, quantitative and mixed approach (Cress well 2003). The choices of these methods were dependent of several factors, including researchers' interest and experience, nature of the study, etc. This paper was used qualitative techniques. The study tries to quantify some of the key issues regarding each role of financial institution in promoting private sector investment in gubre town.

3.2 Research Design

The researcher uses a descriptive study. The researcher selects this method to describe, summarize and present the data. The data would be presented on descriptive bases by using tables and percentage that can facilitate to interpretation which focused on result that are relevant to the study.

3.3 Types and Data Source

For the study purpose, both primary and secondary data would be gathered from the concerned bodies; managers and employees of financial institutions found in gubre town.

Primary data would be go to the institutions and collected from employees of two financial institutions in Gubre town through distribution questioners which consist of both open and closed-ended questions to get detail information for the study to successful and fruitful completion of the study.

3.4. Target Populations

As the primary objectives of this study was focused on the role of financial institutions on promote private investments and mainly on financial institutions in Gubre town for this reason the target populations of the study would be employees of two financial institution in Gubre

town. The currently available of total population of the two financial institutions are 15 of the employees.

3.5. Sampling of Techniques

The terms sample simply the process of learning about populations on the bases of sample drawn from the populations in order to get information about population from the sample, but in case of this study the researcher was used census methods, because the study population is very small in numbers.

3.6 Data Analysise

Presented data would be analyzed accordingly. Descriptive technique also would be used to present the data that would collect via questioners.

3.6 Data presentation

The data collected would be coded, summarized and presented in table and percentages which were easy for interpretation.

CHAPTER FOUR

4. DATA ANALYSIS AND PRESENTATION

4. 1 Introduction

The objective of the study is to investigate the role financial institution can play in promoting private sector investment in Gubre town and want to enhance the contribution of those financial institutions to private sector investment. Data were collected from two financial institutions with 15 numbers of employees through questionnaire which was conducted with officials and employees. Descriptive analysis was used to interpret the data gathered through questionnaire and the questionnaire has two parts; the first part asks about respondents' characteristics, the second part contains questions about the role of financial institutions in promoting the private investment sector development. In this particular chapter the data is analyzed and interpreted depending on their respective information.

4.2. Primary Data

4.2.1 General Information of Respondent

The first part of the questionnaire was designed to gather information about respondents' characteristics. It has general information about the respondent's characteristics like gender, education level and working institution.

Table: 4.1. Personal information

Sex	Frequency	Percentages (%)
Male	11	73%
Female	4	27%
Total	15	100%

Source: researcher own survey, 2019

As shown in the above table, out of the total respondents 73% was male and the remaining 27% are female. This may show that most of workers are male and it indicates that the proportion females' participation is low.

Table: 4.2. Education level of respondents

Education level	Frequency	Percentages (%)

Diploma	2	13%
BA Degree	10	67%
MA	3	20%
Certificate	0	0%
12^{th} complete	0	0%
Other	0	0%
Total	15	100%

Source: researcher own survey, 2019

The study also tries to analyze the respondents' maximum education level attained. Accordingly, the table above shows the education levels with maximum attained level. Concerning the education level of the respondents, majority of the respondent (67 %) were BA degree holders, 13% have college diploma and 20% had MA and there were no person who certificate and below. This shows that most of the workers in those financial institutions are first BA degree holders.

Table: 4.3. Working institution

Working institution	Frequency	Percentages (%)
Bank	15	10%
Saving &loan institution	0	0%
Insurance	0	0%
MFI	0	0%
Others	0	0%
Total	15	100%

Source: researcher own survey, 2019

Again, the study also tries to analyze the type of financial institution the business is dealing with. This may help the researchers to understand the type of financial institution operating in the town to the largest level. As shown in above table all of sample firms (100%) were from banking institution. And there is no of the respondents are working in saving and saving institutions, insurance, micro finance.

4.2.2. The role of financial institution in promoting private investment

4.2.2.1. Provision of deposit service and level of interest rate

Saving is the core source of finance and the major activity in creating value for private sectors to make investment. Saving determines were a firm intends to go and how it intends to reach there. Without the availability of saving investors cants do anything. Again, unless money is kept in bank cash may be easily misappropriated if kept in the hand of employees. So investors have to have a place to keep their money in order to make their dream possible. With this regard financial institutions should accept money and keep it in the same place for letter use to identify this objective, financial institutions are asked whether they are providing deposit for private investors. Financial institutions take money from those who have money, and lend it for those who don't have. This means financial institutions will direct money from the surplus sector to the place where there is a shortage of money.

Table: 4.4. Provision of deposit service

Does your institution give service regarding with deposit (saving) money to investors?	No of respondents		
		frequency	Percentages (%)
	Yes	15	100%
	No		0%
	Total	15	100%

Source: researcher own survey, 2019

Financial institutions can play a crucial role in the establishment and development of private investors through various kinds of assistances. Deposit service is one of the major functions of financial institutions services. Accordingly, the respondents were asked whether their financial institutions are providing a deposit support investors. According to the above table (100%) of the respondent said that, financial institution give deposit service to the investors. This expresses that financial institution like banks institutions makes crucial role in giving deposit (saving) service for investors.

Table: 4. 5. Level of interest rate for deposit

What is your opinion	No of respondents

about the interest rate for depositors?		frequency	Percentages (%)
	High	3	20%
	Medium	7	47%
	Low	3	20%
	Satisfactory	2	13%
	Total	15	100%

Source: researcher own survey, 2019

Considering the above table large percentage of the of the respondent(47%) shows their financial institutions provide a medium interest rate for their saving (deposit) to customers or investors,(20%) of the respondent provide high interest rate for depositors,(13%) of the respondent provide satisfactory and (20%) of the respondent provide low interest rate of their saving (deposit) to customers. This implies that large percentage of financial institution pays medium interest rate for the deposit of investors. If financial institution increases the interest of deposit, many investors come up with financial institution and depose their money in the institution. So it is better to increase interest rate of deposit to increase private saving for private investment.

Table: 4.6. Provision of money transfer

Does your institution transfer money from one place to another place?	No of respondents		
		frequency	Percentages (%)
	Yes	15	100%
	No	0	0%
	Total	15	100%

Source: researcher own survey, 2019

As show in the above table all (100%) of the respondent of the bank said that, they transfer money from one place to another place and there is no the respondents are from banks responds that, they do not transfer money from one place to another place.

Table: 4.7. Provision of Insurance service

Does your institution	No of respondents

give service regarding with insurance?		frequency	Percentages (%)
	Yes	10	67%
	No	5	33%
	Total	15	100%

Source: researcher own survey, 2019

Concerning to the above table 67% of the respondent said that the institution gives insurance service and the left 33% does not give insurance service. The existence of insurance makes the individual investors to be free to make investment for any loss to be covered if happened. This will make investors to work freely without thinking about

Table: 4.8. Consultancy service

Does your institution have advice or consultancy service to Economic sector?	No of respondents		
		frequency	Percentages (%)
	Yes	15	100%
	No	0	0%
	Total	15	100%

Source: researcher own survey, 2019

As shown in the above table (100%) of the respondents said they advice or give consultancy service to economic sector. Financial institutions play a crucial role in consultancy service for private investors in which they direct the private investors to the best direction. Private investors have industry specific expertise on the area that make them to have an in depth knowledge of the area. So this will contribute a lot to private investors in which they get all the advices from those peoples who have a direct knowledge of the area under consideration

Table: 4. 9. The need of money for private investors

Do your institution give enough amount of money that private investors require (need)?	No of respondents		
		Frequency	Percentages (%)
	Yes	6	40%
	No	9	60%
	Total	15	100%

Source: researcher own survey, 2019

According to the above table 40%of respondent response as the institution give enough amount of money that private investors requires and 60% of respondent response as the institution does not give enough amount of money that private investors requires.

The reason of the respondents whose answer is "NO" is The institutions gives loan for investors as per economic activities of the investors and as rules and regulation of the institution, they highly focus on public sectors rather than private investor, due to lack of money and many investors requires high amount of money from institution without knowing the value of their collateral as current market. This is the factor that they don't gain as they want.

Table: 4. 10. Promotion of private investors by financial institutions

Is there any problem faced by financial institution in promoting private investment?	No of respondents		
		Frequency	Percentages (%)
	Yes	8	53%
	No	7	47%
	Total	15	100%

Source: researcher own survey, 2019

As shown in the above table (53%) 0f the respondent response as there is problem faced by financial institution in promoting private investors, (47%) of respondent response as there is no problem face the financial institution in promoting private investment. According to 53% of the respondent the problem faced by financial institution is; there is problem of inflation which is general increment of price in all over the country. Many investors have lack of awareness regarding rule and regulation of the loan, less collateral, high requirement of loan, to fulfill the criteria of gaining loan from bank i.e.; evidence of owner and unable to pay return the amount they are borrowed. To decrease inflation government can take many fiscal and monetary policies. That measurement can be the selling of Treasury bill in open market operation which is buying and selling of bond by government for the society to collect money from all country. This is one way to protect inflation, so the national banks can use fiscal policy and monitory policy to measure inflation.

Table: 4.11. Provision of loan or credit

Does your institution	No of respondents

give loan or credit service to investors?		Frequency	Percentages (%)
	Yes	13	87%
	No	2	13%
	Total	15	100%

Source: researcher own survey, 2019

As the above table shows, all of the respondents from all type of financial institutions say that their institutions will provide loan service for investors. The table shows (87%) of the responds confirm that their institution gives loan or credit service to the investors and the left 13% of the respondent from insurance. Since the financial institutions are established to support the country economy by contributing loan that increase private investor's capital. As personal saving is not enough to make investment especially in developing countries like Ethiopia, it is must for the investors to get finance from financial institutions to make their investment and get profit.

The main source of their investment both in developing and developed countries for private sector investment is loan from financial institutions. This shows that the financial institutions currently operating in Gubre are providing credit service which is the main contribution of their value. The implication of this is that, they are having a major role in making private investment possible.

Table: 4.12. Level of interest rate for loan

If your answer on the above table is yes, what is your opinion about interest rate investor pay for the loan they borrow?	No of respondents		
		Frequency	Percentages (%)
	High	2	13%
	Medium	7	47%
	Low	4	27%
	Satisfactory	2	13%
	Total	15	100%

Source: researcher own survey, 2019

As shown in the above table (47%) of the institution respondents said they give loan with medium interest rate , (27%) of the respondent give loan with low interest rate , (13%) of the respondent give loan with high interest rate and (13%) of the respondent give loan with

satisfactory interest rate for their customer or investors. This implies that the private investor pay medium interest rate for their loan. So to increase the number of investor that take loan, financial institution should lower their interest rate as much as possible for them

Table: 4.13. Provision of letter of credit

Does your institution give LC service for the investors?	No of respondents		
		Frequency	Percentages (%)
	Yes	8	53%
	No	7	47%
	Total	15	100%

Source: researcher own survey, 2019

The study has identified the possible level of institutions that provide letter of credit to investors in Gubre. Accordingly, the study has found that there exist a large number of financial institutions who are providing letter of credit for private investors. As shown in the above table (53%) of the respondent response as the institution gives LC service for the investors where as 47% of the respondent respond as they do not give the LC service for the investors.

Table: 4.14. Mortgage service

Does your institution give a loan in mortgage?	No of respondents		
		Frequency	Percentages (%)
	Yes	9	60%
	No	6	40%
	Total	15	100%

Source: researcher own survey, 2019

As shown in the above table, large percentage of the respondent (60%) responds as the institution gives a mortgage loan which is from banks and the rest 40% of the respondent response that their institution does not give mortgage loan. As this table indicates the financial institution give mortgage loan to private investors.

Table: 4.15. Loan to small business enterprise

Does your institution	No of respondents

give loan service for small enterprise?		Frequency	Percentages (%)
	Yes	9	60%
	No	6	40%
	Total	15	100%

Source: researcher own survey, 2019

As shown in the above table 60% of the respondent answer this financial institution provide loan for the small enterprise and 40% of the respondent said that not provide. The reason for those respondent is, absence of collateral, in small enterprise they has not enough machinery, vehicle, urban land and villa that the institution requires from them.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1 conclusions

Economic growth and development of any country depend up on a well join financial system. Financial system is comparison of financial institution. It provides a mechanism by which saving are transformed in to investments. Financial institution contributes to the operation and growth of investment through various roles. Based on the analysis and interpretation the researcher based on general objective the following point is concluded.

- ✓ According to finding financial institution like bank make crucial role in giving deposit (saving) and loan service for investor by medium interest rate and it makes them to invest more.
- ✓ According to the finding bank give service regarding with transfer of money from one place to another place.
- ✓ Financial institution plays a crucial role by providing consultancy service for investors in which they direct the private investor into the best direction.
- ✓ Many of the financial institution does not give enough amount of money that the investor need the reasons are the institutions focus on public sector rather than private investor, there is lack of money and the other reason is investor requires high amount of money from financial institution without knowing the value of their collateral as current market.
- ✓ Banks give LC service to the investors when they require for competitive bidding and they also give mortgage service.
- ✓ Some of financial institutions do not give loan for small enterprise the reason for those respondents is absence of collateral in small enterprise.
- ✓ according to many of the respondents the problem faced by financial institution is inflation which is generate increment of price in all over the country there is also a problem faced by investors ,lack of awareness regarding rule and regulation of the loan.

Generally financial institutions are the back bone for the country socio economic development. Since the private investor have a significant role in the economy of the country. Financial institution provides service as the linkage or the bridge that facilitate the way for private investor. Financial institution also makes the private investor to be efficient and effective in the activity they undertake to increase the income of private investors that lead them from low level living standard to the medium as well as high level standard.

5.2 Recommendation

The study recommend financial institutions should give better privilege and more chance to private investors in granting loans than an individual's credit users and it is also recommends for the financial institutions to provide their service

- ✓ According to the finding many of the financial institution pays medium interest rate for the deposit and loan of investors. If they increase interest rate of deposit and decrease interest rate of loan, it is better to increase private saving and loan for private investment.
- ✓ In order to give enough amount of money for private investor financial institutions try to solve the problem of money shortage.
- ✓ Inflation is the problem faced by financial institution so government can take corrective action to decrease inflation rate, like fiscal and monitory policy.
- ✓ In order to provide a loan service for small enterprise the financial institution should ask the appropriate collateral for the loan.
- ✓ Governments regularly reviews and improve the policy environment particularly for the development of private investment and should provide special support and should encourage for those investors.

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APPENDEX

WOLKITE UNIVERSITY

COLLAGE OF BUSINESS AND ECONOMICS

DEPARTEMENT OF ACCOUNTING AND FINANCE

This study is conducted under title the role of financial institution in promoting private investment in case of Gubre town. Dear respondent, we would like to express our gratitude in advance for corporation. You will show in completing the questionnaire

Please put (x) in the box your choice.
Personal information

1. Sex Male ☐ Female ☐
2. Your academic qualification

   12th complete ☐ certificate ☐ Diploma ☐

   Degree ☐ MA ☐ Other specify------
3. your working institution

   Bank ☐ saving and loan association ☐

   Insurance ☐ Micro finance institution ☐ other specify _
4. Does your institution give services regarding with deposit (saving) money to investors

   Yes ☐ No ☐
5. If your answer for number "4" yes what is your opinion about the interest rate for depositors?

   High ☐ Medium ☐ law ☐ satisfactory ☐
6. Does your institution transfer money from one place to another place?

   Yes No ☐
7. Does your institution give service regarding with insurance?

   Yes ☐ No ☐

8. If your answer for number “7” yes what type of service?

Life insurance ☐ Health insurance ☐

Property liability insurance ☐ other specify_

9. Does your institution have consultant or advice services to economic sector?

Yes ☐ No ☐

10. Does your institution give enough amount of money that private investors require (need)?

Yes ☐ No ☐

11. If no could you express the reason?

_____
_____
_____

12. Is there any problem faced by financial institution in promoting private investment?

Yes ☐ No ☐

13. If yes what is the problem?

_____
_____

14. What measure to be taken by the bank to solve the problem?

_____
_____

15. Does your institution give loan or credit services to investors?

Yes ☐ No ☐

16. If your answer for number "15" Yes what is your opinion about interest rate investor pay for the loan they borrow?

High ☐ Medium ☐ Low ☐ satisfactory ☐

17. Does your institution give LC loan service for the investors?

Yes ☐ No ☐

18. Does your institution give a loan in a mortgage?

Yes ☐ No ☐

19. Does your institution give a loan service for small enterprise?

Yes ☐ No ☐

20. If no could you express the reason?

_____

_____

21. What is your general comment about the role of financial institution to private investment?

_____

_____