# WOLKITE UNIVERSITY

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF MANAGEMENT**

**ASSESSMENT OF CUASES OF LOW INVESTMENT IN WOLKITE TOWN**

**RESEARCH PAPER SUBMITTED FOR THE PARTIAL FULFILMENT OF BA DEGREE IN MANAGEMENT**

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# ABSTRACT

*The main objective of this study was to assess the causes of low investment. Investment is constrained by the interest rate and individual demand determination, human capital base weaker and less diversified economy as most of investigator. The study was to assess the major causes of low investment activities and indicates the direction for investment how to deal with that cause. For this study empirical and theoretical literatures was analyzed and recommended based on their results. In this research the descriptive analysis would be employed. At the end of the study this research has significant for researcher to understand about the concept of research, for the investment office to fill the gap and used as a reference for other researchers related with this study.*

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the study

Economic literatures show that investment is, both empirically and theoretically, the key determinant to economic growth. Economic growth refers to an increase in a country's production or income per capita. It is usually measured by gross national product or gross national income, used interchangeably, an economy's total output of goods and services. Investment is the source of manufactured goods that will be used to produce other goods. It is the major foundation. A rate of investment is one of the key factors that differentiate developed countries from developing countries. In high-growth countries investment is high, where as it is low in low growth countries. The implication of low investment is that the productive capacity of the economy fails to increase. This in turn leads to lower rates of growth and job creation, and fewer opportunities for the poor to improve their livelihoods (White, 2005). According to Sackey 2007, countries with high standards of living are those who have shifted the economic structure from traditional and less diversified to a more diversified one. Commitment to investment is the central issue in the process of structural diversification.

Economic growth has a long been one of primary goals in virtually every country of the world weather developed or developing. To this end capital formation, proper mobilization and allocation of resources and reduction unutilized resources to the productive sector of the economy is very crucial. Growth requires investment of both domestic and foreign, both public and private calls for increased domestic mobilization. (Todaro, 2005).

Investment activity plays a crucial role in the economic growth of a country. 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).

According to Keynes (1964) cited in Olga Kosma, (2015), investment is volatile because it is determined by the "animal spirits" of investors (optimism and pessimism). Furthermore, investment creates new capital goods so it is a very important determinant of an economy's longrun productive capacity, in the sense that a higher investment rate suggests that capital stock is growing rapidly.

According to Bahar Bayraktar 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. (Bahar 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.

Therefore, it is important to examine the main the causes of low investment activities. Based on the literature review, this study has identified both dependent and independent variables. It is expected that dependent variable is affected by multiple factors like economic, social, political, institutional, cultural, geographical and etc. This study, however, focuses on macroeconomic factors affecting private investment activities.

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 is critical determinant of a long run economics performance. Investment involves the formation of capital, fixed capital, such as reputation or technical knowledge; human capital such as: skill or education (Bond and Jan king 1996). The investment sector is the main engine of growth in market economy. It thrives and delivers sustained growth when number of factor combines to product conductive environment for the investment sector to develop (Blejer & khan, 2004). Investment played a great role in country's development especially in developing country whose capital is scarce and their government lack of enough capacity to cover all

constrain and bring economic change for development (Asmelash, 2007). Thus, investment sector involved in investment the out and growth domestic product (GDP) country increase (Hernadeze-cata, 2000).

One of which could be promoting demand countries have shown that growth the economic have come through increased investment. Thus, investment play a vital role for economic growth and development and for improving the welfare of the society recent studies (collier gunning, 1999; dikumana, 2000; Hernadeze-cata, 2000) conducted has established the critical linkage between investment and the rate of economic growth.

## 1.2 Statement of the problem

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.

For developing countries like Ethiopia the basic question in their economy is increase the production and hence improve the standard of living of their people so that there will be dramatic change in their economic, political and social conditions. For this purpose different alternatives are on the table. Investment promotion is one key instrument and primary engine of economic growth (Mustefa, 2014). As a result due attention has been given to development of private sector in developing countries to help improve economic growth (Ouattara, 2004).

Understanding the status and the causes of low private investment activities is essential for successful and effective implementation of sustainable development goals. 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.

Some research findings on promotion of the causes of low investment activities is concluded that, investment is constrained by the interest rate and individual demand determination, human capital base weaker and less diversified economy.

Different researches were conducted on the area of the causes of low investment activity. The study done by Belay focuses on bureaucracy related problem, power supplies as factors that determine investment activity (Belay Kucchi, 2005). Similarly the research under taken by Gatberuach (2015) finds factors that determine the investment activity are investment incentive, and interest rate. Though there are many factors that causes low investment activities this study will be conduct by taking some factors such as economic factors, socio cultural factors, political factors, corruption, institutional problem like land holding policy, lack of advisory. Thus, this study conducted to identify the causes of low investment activity particularly in Wolkite town. To identify the major investment activities obstacles and opportunities in the town this research paper was answers the following general questions, which are useful in identifying the causes of low investment activities in Wolkite town:

## 1.3 Research Question

1. What types of investment activities involved mostly in the town and why?
2. What are the major causes of low investment activities?
3. What are the major investment activities obstacles and opportunities?

## 1.4 Objectives

### 1.4.1 General objective

The general objective of this study was to assess the causes of low investment activities in the Wolkite town.

### 1.4.2 Specific objective

The specific objective of the study focuses on the following:

- ✓ To identify Investments activities mostly involved in the town.

- ✓ To identify the major causes of low investment activities in the town and examine how this factors affect the investment.
- ✓ To identify the major investment activities obstacles and opportunities in the town

## 1.5 significance of the study

This research paper may enrich the knowledge of the reader on the causes of low investment activities. It may add to the existing literature and serve as an additional source of reference. This paper also has the significance in initiating researchers to study the problem in depth, so that the researchers and readers understand the causes of low investment in the town.

## 1.6 scopes the study

The study was delaminated by geographically, conceptually and methodologically. Geographically, this study was limited in wolkite town. Conceptually, this study was on the assessment of the causes of low investment activities in wolkite town. Methodologically, the researcher used descriptive type of researcher design.

## 1.7 Limitation of the study

There may some limitations that the researcher may face as a challenge while conducting this study such as Lack of experience of the student researcher as it is the first time, Lack of consistency of response given by respondents.

## 1.8 Organization of the paper

This study was organized into five chapters. The first chapter was deals with the introduction of the study, statement of the problem, research question, objectives of the study, significance, scope, limitation of the study. The second chapter was deals about review literature. The third chapter was deals recommendation and suggestion

# CHAPTER TWO

## LITERATURE REVIEW

## 2.1 THEORETICAL RELATED LITERATURE REVIEW

### 2.1.2 Definitions of Investment

Many scholars and academicians have defined the term of investment differently. According to Mankiew investment is defined as spending today for future benefits and it's the component of national income that links with future". (Mankiew, 2002) 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 finance 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.

Once an individual receives income, there are two alternatives to spend or to save it. Regardless of how you use your income, investment can be defined as postponed consumption. Individuals

may postpone their current consumption to accumulate for the sake of accumulating. For any or all of these reasons individuals save part of their income rather than spend all of their income.

The above analysis shows that 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 standards of the masses are too low, to curb consumption, it is difficult to mobilize and allocate resource in to investment activity. (mayrad,2003).

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.

In Ethiopia foreign and direct investment has been steadily growth the federal and regional government encourage investment: they provide land incentive such as; tax holding, an improved bureaucracy at the federal and regional investment office. The Ethiopian government special focus on investment and private investors both Ethiopian and non-Ethiopian national undertaken investment activities in the agriculture, construction and manufacturing sectors, flower farm, cement factory, steel melting and rolling mills are becomes more and more common in Ethiopia. Investment is the current commitment of dollar (birr) for period of time in order to drive further payments that will compensate the investors: the time the funds are committed, the expected rate of inflation and the uncertainty of the future payment

From this we can answer the question about why people invest and what they want from their investments. They invest to earn a return either income or capital appreciation from saving due to their deferred consumption. Investment emphasis to the capital to be used for investment as well as the risk associated with investment in two ways. The first one is Investment is the commitment of funds with the view to minimize risk and safeguarding capital while earning

return (investment constructed with speculation). The other one is investment is the commitment of something other than money to a long or term interest or project (Caves 1993).

In modern changing economic nature and scope it is defined by the agreement of the association of south. East Asian nations (ASENS) given due emphasis to its scope as the term investment every find of asset and in particulate shall include through of exclusively.

In other words investment can be showed as: Movable and immovable property and any other property right such as mortgage liens and pledges; Shares, stocks and debentures of companies or interest in the property in such companies; Claim to money or any performance under contract having a financial value and intellectual property right and good will; Business concession conferred by law or under contract including concession to reach for, cultivate, extract or exploit natural resources (UNCTAD, Vol.11. 1999. P. 19)

### 2.1.3 Elements of Investment

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).

### 2.1.4 Causes of low investment

What determine the level of investment are highly continuous and emphasized topics in economics.

Investors invest more that will enable them to earn profit. According to him there are three main determinates. These are revenue that is an investment will bring more product which leads to encourage investors less and otherwise it discourage. The second one is cost which is interest rate and government taxes. As it is obvious investors invest by borrowing of funds and if the interest rate is higher it discourage investment. The third one is execration were the investors

predict about the future return of investment and if its prediction is negative on its return this leads to discourage. (Samuel son, 2002) Source: literatures (conceptual framework)

Private investment is a major driver of economic growth. In LDCs, increasing the growth rate of private investment would be a desirable target to achieve development agenda of the country For this purpose policymakers need to find the right balance between creating a climate conducive to investment, removing barriers to investment and they need to find mechanisms to attract private investors.

It is important to examine the main the causes of low private investment. Based on the literature review, this study has identified both dependent and independent variables. It is expected that dependent variable is affected by multiple factors like economic, social, political, institutional, cultural, geographical and etc.

Investment, as it has seen earlier, 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 private 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 private investment activities.

Different factors are expected to affect the performance of private investment activities, especially in the long run.

Muhidn M.Batu (2016) in his study the causes of low 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 will to systematically review cause of low investment. Public investment, in majority of the case, is seen a complement to private investment and hence promote private sector expansion and development. Exchange rate, like GDP and public investment, is important in the promotion of private investment. However, countries should take care in its management as its implication is in both directions: positive and negative.

The others variables: interest rate, credit, inflation rate, international trade, and money supply are also slightly important in explaining the performance of private investment. In this regard, reasonable interest rate, broad money expansion and trade liberalization positively contributes to private investment. On the other hand, inflation and miss-targeted credit reduces private investment. Because of poverty, people, sometimes, would borrow to finance other matters like education, healthcare and basic necessities.

## 2.2 Empirical Literature

The empirical research on the causes of low investment activity has in variably been limited in the developed country. However many studies have been made in developing country recently and have been conducted about the causes of low investment activity in different countries.

Corruption can be affect investment activity and there by lower the economic development (Mauro, 1995). Corruption is a specific measure of illegal activities within the political system. The opportunity for corruption occurs when public officials are the gate keeper of public goods and services.

Shaum's (1999) has set the process for evaluation and selecting long term investment in long term asset such as property, plant and equipment or resource commitments in the form of new product development, market research, refunding and replacement decisions such as replacement of existing facilities with new facilities

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 unattained variables.

Muhidn M.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.

Abraham (2001) conducted study on weakness of business investment in the case of nekemt town, two main explanations have been proposed for the weakness in business investment despite low interest rates and widely accessible capital market funding. The first has to do with the apparent mismatch between favorable financial conditions and investment opportunities. In particular, it could be that the firms that have the best investment opportunities do not have sufficient internal funds or easy access to external funding. As discussed below, there are some deficiencies in this explanation. A second, more plausible, explanation is that even if firms do have funds to invest, they are too uncertain about future economic conditions and so whether the possible return on investment will justify its cost.

Tesfaye (2018), conducted study on determinants of investment activities in wollaga some of the main findings of the study were difficulties of finance and lack of credits when they started their business, and low encouragement from the investment offices are the major findings of this study. Finally, concluded as, investment related problem is not the responsibility of the government alone, but also all investors, the local community, the private business man of the town has to work together with the government so as to attain the desired objectives.

(Belay Kucchi, 2005) focuses on bureaucracy related problem, power supplies as factors that determine investment activity similarly the research under taken by Gatberuach (2015) finds factors that determine the investment activity are investment incentive, and interest rate. Though there are many factors that determine the investment activities 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. Thus, this study conducted to identify the causes of low investment activity particularly in Wolkite town to identify the major investment activities obstacles and opportunities in the town.

# CHAPTER THREE

## 3 Research Methodology

### 3.1 Research Design

In this study, descriptive type of research design based on survey employed. The reason for selecting descriptive type of research design is that it is clear that the researcher simply describe the available data which already exist and also the study describe characteristics of particular events.

### 3.2 Data source and method of collection

Secondary data will be gathered from documents, reports books, magazines, internet and manuals.

### 3.3 Target population

The target population for this study individual investor's and government organization investors engaged in agriculture, service and manufacturing sectors

### 3.5 Method of data analysis

After collected necessary data the researcher classified, analyzed and summarized the data in order to give meaningful results. The simple descriptive analysis used because of its simplicity and clarity for drawing inferences.

# 4 CONCLUSION AND RECOMMENDATION

## 4 .1 CONCLUSION ON THE LITERATURE REVIEW

The study was on determinants of low investment and the followings are some of conclusions and recommendations resulted from different literatures.

Investment spending depends on the economic, social and political situation of a country that affect the return, but such favorable conditions is often lost for most developing countries in realizing this, there is a growing interest in the countries on the factors that influence the pattern of investment activity and some factors identified.

Allocation of capital on different sectors of economic activity is essential to move the available resources in to more productive. To increase the development, allocation of human and natural resources in effective and efficient manner on investment activity is very crucial aspect. Without investment it is impossible to have any development rather it remains in poverty. This is mainly seen in developing countries like Ethiopia. If there is unemployment, there will be low productivity which results in low level of income, there is poverty.

The evidence suggests that, uncertainty about the future state of the economy and expected profits play a key role in driving investment, and financing conditions less so. As a result, investment after the Great Recession appears to have been broadly in line with what could have been expected based on past relationships. A stronger recovery of investment would seem to depend on a reduction in economic uncertainty and expectations of stronger future growth.

## 4.2 RECOMMENDATION ON THE CONCLUSION LETRATURE REVIEW

It is recommendable to prepare land for investment with infrastructural facilities. The other thing is it is advisable to expand loan institutions to increase the financial capacity of the investors and enhancing promotions for investment

In addition it is advisable to provide different training, group discussions, seminars on various issues so as to avoid or minimize the corruption behavior of individual investors and the concerned offices.

Generally the researcher recommended that the government body should facilitate infrastructure and also to promote essential information to investors and should establish efficient advisory and consolation service.

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