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COLLAGE OF AGRICULTURE AND NATURAL RESOURCE

DEPARTMENT OF AGRICULTURAL ECONOMIC

A SENIOR RESEARCH ON

SOCIO ECONOMIC FACTORS AFFECTING THE GROWTH OF URBAN PRIVATE INVESTMENT IN THE CASE OF WOLKITE TOWN

A RESEARCH PAPER SUBMITTED TO: AGRICALTURAL ECONOMICS DEPARTMENT

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ABBREVIATIONS

ADLI	Agricultural Development Led Industrialization
CSA	Central Statistical Agency
EEA	Ethiopian Economic Association
EIA	Ethiopian Investment Agency
ERP	Economic Reform Program
OLS	Ordinary Least Square
PI	Private Investment
RIO	Regional Investment Office
UNCTAD	United Nations Commission for Trade and Development
Wkt	Wolkite town
SNNPRS	South Nation Nationalities and People Regional State

ABSTRACT

In Ethiopia, regional distribution of investment is totally unbalanced despite the clearly stated objectives of the government to remove regional imbalance in the economic growth. Like other regions, investment productivity in SNNP region, specifically wolkite town is underutilized in spite of the license given for investor's .Therefore this study is attempted to identify the major socio-economic problem affecting the growth of urban private investment in the wolkite town. In general the implication of this study is that private investment in the wolkite town and the problems that associated with its activities and their possible solutions by analyzing the data obtained from both primary and secondary sources regarding to this zone through descriptive method of data analysis. Econometric methods of data analysis involving linear regression model were used to analyze the socio economic problem affecting the growth of private investment in wolkite town. The major socio-economic problem of private investors in wolkite town were access to infrastructure, land size, level of education, source of investment fund, access to inadequate credit and source of raw material. Thus, the government has to take measures to promote private investment at national as well as at regional levels. This could be done by establishing a true, independent and efficient institution so as to create access to credit, access to land and provide infrastructure facilities to the private sector. This would help in creating conducive investment policies and promote the private sector in the development Activities.

***Key words**: private investment, socio-economic problem, economic growth, significant variables.*

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

Conducted in Africa, Asia and Latin America has established the critical linkage between investment and the rate of economic growth. It also plays multiplier effects through creating employment opportunity, reducing poverty, transferring technology through foreign direct investment (FDI), increasing capital accumulation and Government revenue collected in very essential economic as well as social institution in which the private sectors is not involved which requires huge investment like construction of roads, electricity generating, telecommunication, and so on (Birhanu and Befikadu, et., al., 2003/04).

Since the Ethiopia started a free market economy policy and the investment activity started reviving parallel to the reformed policies of investment (asmelashe, 2007).Thus, the level of privet investment in the country during the last two decades (1975-1994) will be fluctuating. in 1994, the share of private investment total investment was 39.5% and it dropped to in 11.7%in 1990 and1991 as the dergue regime started ‘’reform’’ early in 1989 and proclaimed a mixed economy in much in much in 1992, the rate of private investment continued to in increase substantially through change in market principle of the present government (workie, 1996).

Nowadays, the issues of development become crucial. Especially, in developing counties to achieve economic growth and development, investment is required. Investment is major determinant of economic growth and the higher investment activities leads to a higher economic growth. Investment enhances a nation's ability to produce goods and services and to increase its standard of living (World Book, 2001).Investment is a critical determinant of a long-run economic performance. Investment involves the formation of capital; fixed (tangible) capital, such as reputation or technical knowledge; human capital such as skills or education (Bond and Jankinson; 1996).

Economic growth could be realized through a proper development policy. One of which could be promoting; developing countries have shown that growth the economic have come through

increased investment. Thus, investment plays a vital role for economic growth and development and for improving the welfare of the society (Collier Gunning, et., al., 1999). Investment plays a very important and positive role for the progress and prosperity of any country to solve their economic problems. Developing countries like Ethiopia try to learn from each other how to attract private investors, because proper investment in proper economic sectors can change economic conditions quickly. Ethiopia as a developing country aims at achieving economic development. Accordingly, the Ethiopian government is working a lot to attract investors for investment in different sectors of the economy (Zelalem, et. al., 2005).

SNNP regional state is one of the owner of different natural as well as human made resources that in enhances the participation of private investors have been investing on different sectors such as; agriculture, service manufacturing, others, from 2006 -2009 the total project gained investment license was 2008 whose planned capital is 12.8% billion and expected employment opportunities for 92000 on casual and contrast basis, from the private investment in the region is that the majority engaged in service out of the total licensed projects service and agriculture together account for 80.4%,41% and 39.4% of number of projects ,investment capital and employment opportunity respectively. The government of the region is commuted to enhance the participation of the private sectors to play portent role for economic development; private investors are welcome to invest on different sectors in entire of the region (statistical bulletin 2008) over the past two decades wolkite become the owner of the fast growth as well as the capital of SNNP regional state. (Zonal report, 2018).

1.2. Statement of the problem

Private investment is an engine for creating innovation, economic growth and poverty reduction. In Ethiopia domestic investment has shown progressive trends with speedy starting from announcement of liberal policy in 1992. Nevertheless, the gap between domestic investment and saving has remained wide thereby reinforcing the need foreign direct investment in development of the economy (UNCTAD, 2002).

According to the SNNP regional state investment office shows that in 2010 around 585 investment projects were approved in region. Out of which, 61 have communicated operation (started production and rendering service), 48 projects in implementation (started construction),

435 projects in pre-implementation and 41 projects terminated their projects due to different reason(regional report, 2018). wolkite takes the highest share of total planned to be invested in next to multi zones is 2billion (14.8%) with 358 total numbers of licensed projects of total projects their status is much more frustrating despite it has increasing trends from past, almost only 15% of the projects were joined implementation and operation, the rest 85% were not started any investment activities (Zonal report, 2018).

Off the total investors who have got investment license, the majority had not entered in the operation and implementation. On the other hand, no study has been undertaken regarding socio-economic factors that affecting private investment in study area. To address this gaps the study was attempted to answer for the following question; what are the major socio-economic factors that affects private investment in wolkite town?

1.3. Objective of the study

1.3.1. General objective

The general objective of the study is to analyze the major socio-economic factors affecting the growth of urban private investment in the case of wolkite town.

1.3.2. Specific Objective

The specific objectives of the study are:

- . To analyze the major socio-economic factors that affects the growth of private investment in wolkite town.
- . To come up with intervention that idea enhances private investment in wolkite town.

1.4. Research Question

The following are research questions that are answered by this research.

1. What are the major socio-economic factors that affect the growth of private investment in wolkite town?
2. What is the major intervention that enhances private investment in wolkite town?

1.5. Significance of the study

This study initiated to explore the current factors that affect the development of private investment in Wolkite town. The study adds knowledge in area of private investment and it has its own contribution for future research work.

The study is important to show factors that affect the growth of private investment activity. In addition, it is served as a step for other researchers who want to conduct a research on this and related topics. In general the results of this study may benefit positional researches, policy makers and development planner in re-designing appropriate policies and strategies.

1.6. Scope of the study

There are many factors affecting the growth of private investment but the paper was only cover the socio-economic factors in private investment and it focuses mainly the area in wolkite town.

1.7. Limitation of the study

The term investment is abroad topics. However, this study was taken in to consideration only private investment. Also, the study was focus mostly on the institutional factors was not involve the overall factors especially macroeconomic factors like GDP, inflation, exchange rate etc. because of the availability of data from investment promotion agency, the study was limited on licensed projects for the year 2010. The principle limitation of this study was that the study was not involving investment climates indictors of the other area. It is only one area wolkite town. Thus, the result of this study was not be reliably used for other area. In addition owing time constraints the sample size limit or restrict to convenient size only. Therefore, further studies on this issue are recommended to fill the research gap. The results of this study need to be understood by taking in to account the above limitations.

1.8. Organization of the study

The paper contains five chapters and appendixes in the end. The first chapter is the introduction section. The second chapter contains the review of related literature on the topic of the study. The third chapter contains methodology of the study; the fourth chapter contains data analysis and discussion. In the last chapter conclusion and recommendation are sited. In addition to this bibliographic and reference are included.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Theoretical literature Review

2.1.1. Definition of investment

Investment is a fixed and initial operating resources used for the production of goods, the provision of services and the development of science and technology capability. Investment in economic analysis can be defined as flow of expenditure devoted to increase or maintain the real capital. More broadly, it is defined as the flow of expenditure devoted to projects producing goods and service, which are mostly not intended for immediate consumption where this project may take the form of adding both physical and human capital as well as investors. It is also defined as flow of capital, the volume of which is determined by those entire projects, which will yield positive net present value of an internal rate of return greater than interest rate (Dictionary of modern economics, 1992).

Investment is the part of national expenditure devoted to the production capacity of 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 future output income, new factories, machinery, equipment and material increase the physical capital stock of nations and make it possible for expand output level to be achieved. These directly productive investment are supplemented by investment in what is known as social and economic infrastructure, water and sanitation, communication and the like which facilitate and integrate economic activity (Todaro, 2007).

2.1.2. Types of investment

An investment may be ex-ante or planned or anticipated or intended investment or it may be ex-post, i.e. actually realized investment or when investment is not merely planned or intended but which has actually been invested or implemented. Another classification of investment may be private investment or public investment. Private investment is on private account, i.e. by private individual and public investment is by the government. Private investment, i.e. by private

investors or entrepreneurs is influenced by marginal efficiency of capital i.e. profit expositions and the rate of interest it is profit elastic. Public investment is by the state or local aesthetes, such as building of roads, irrigation projects, school buildings, public parks, electricity works, etc. In the public investment profit motive does not enter in to consideration. It is undertaken for social good and not for private gain.

Generally, there are three type of investment spending; business fixed investment**,** including the equipment and structure that business buy to use in production. Residential investment**,** included, the new housing that people to buy to live in and that land lords buy to rent out. Inventory investment**,** includes, those goods that business put aside in storage, including materials and supplies, work in process and finished goods. When expenditure on goods and services foul during a recession much of the decline is usually due to a drop in investment spending (Mankiw, 2006).

2.1.2.1. Business Fixed Investment

The largest piece of investment spending, accounting for about three-quarter of the total business fixed investment the term "business" means that these investment goods are bought by firms for use in future production. The term "fixed" means that this spending is for capital that will stay put for a while as opposed to inventory investment, which will be used or sold shortly later. Business fixed investment includes, everything from fax machined to factories, computers to company cars. The standard model of business fixed investment is called the neo-classical model of investment. The neo-classical model examines that the benefit and cost of firms to owning capital goods and also shows the level of investment, in addition to the stock of capital, these related to, the marginal product of capital, the interest rate, and the tax value.

2.1.2.2. Residential Investment

This investment includes the purchasing of new housing both by the people who plan to live in it themselves and by land lords who plan to test it to others. This investment depend on the relative price of housing price in turn depend on the demand for housing and the current fixed supply. Increases in housing demand, perhaps attributable to a fall in the interest rate, raise housing price, and residential investment.

2.1.2.3. Inventory Investment

Inventory investment is the goods that business put aside in storage. It is one of the smallest components of spending, averaging about 1% of GDP. Yet its remarkable volatility makes it central the study of economic fluctuation. In recessions, firms stop replenishing their investment as good are sold, and inventory investment becomes negative, in a typical recession. More than half of the fall in spending comes from a decline in investor investment (Mankiw, 2006).

2.1.3. Theories of Investment

There are a number of competing theories of investment behavior in the literature and it is not clear which one is superior to the other. Therefore, in this section an attempt is made to review only some of discussed theories of investment. Investment is generally defined as the flow of spending that adds to physical stock of capital. According to Dornbusch and Fishery (1994), investment spending is important as it is accounts for much of the movement in business cycle. It was attempted to those theories of investment. However, Emphasis was given to those theories of investment that won the attention of development economists.

These are classical theories of investment, Keynesian theories of investment, the accelerator theories of investment, and the Tobin's 'q' theories of investment. Each of these theories is discussed below:

2.1.3.1. Classical theory of investment

Classical theory investment did not explain spending in well systematic way, as other did classical theories treated investment as an inverse function of interest rate. The lower, the interest rate, the greater investment spending, According to the classical theory for every prospective investment project, management estimates the expected rate of returns before allowance for the interest cost on the funds tripe up in the project. One of the well-known classical economists, Adam smith (1776) took for granted that capitalists make investment because they expected to earn profit in the future. This depends on the actual profit rate.

2.1.3.2. Keynesian theories of investment

Keynes (1936) who introduced the idea of an independent investment functions in the economy. According to him investment depend on prospective marginal efficiency of capital which is the

expected field from new investment relative to some interest rate reflecting the opportunity cost of the invested fund. Moreover, Keynes also pointed out that spending is highly volatile due to the uncertainty associated with the return on investment, which explains the business cycle. Hence, he said investment decisions are very much affecting by how optimistic or pessimistic the investors feel.

The definition of marginal efficiency of capital invokes the present value criteria of the investment project in which account is taken of an expected steam of future returns associated with a given investment project. This income is then discounted at some appropriate rate of interest. In order to undertake, the investment project a certain cost and its present value, which gives a clue about of its profitability. One of the criticisms that it has faced is the model that is not applicable to developing countries.

Investment is an important economic variable to economic growth and development. The history goes back to Keynes (1936)," the general theory" who first attempts to explain the existence of an independent investment decision function in the economy. According to Keynes, investment can be increased either by decreasing interest rate or by increasing marginal efficiency of capital along with the above variable he introduced expenditure of further demand for firm output, velocity of investment uncertainty and other non-economic variables such as political, socio-economic variables and human instincts as possible determinants of investment which regard to government intervention. Keynes says government expenditure on infrastructure, education and health have a possible effect on investment, but if government involve directly in productive activities that will discourage private investment (Abdurahman, 2011).

2.1.3.3. Accelerator theories of investment

Keynes theory of investment was denied by accelerator theory, for it claimed to investment on the bases of current profit and future expected profit. Accordingly, accelerator theory's argue that the investment to acquire more goods arises, because increase in output are putting pressure on firms existing productive capacity an increase in productive capacity, requires an expansion of capital stock, which in turn calls for a higher rate of investment spending than would otherwise needed. Following Keynes, investment theory is developed around growth models on HarrodDomar tradition giving rise to the now popular accelerator theory according to which

investment is a linear proportion of output changes. Keynes' ideas were never left unchallenged because in 1950s and early 1960s other economists formulated models that gave rise to the accelerator theory of investment. These models are used to determine the rate of saving and hence, investment required to achieve a given target of income with available technology.

2.1.3.4. Tobin's 'q' theory of investment

Tobin's 'q' theory of investment is developed by the noble-prize winner economist James Tobin. He proposed that firms base their investment decision on the following ratio.

$$\text{i.e. } q = \frac{\text{Market value of installed capital}}{\text{Replacement cost of installed capital}}$$

The numerator of Tobin's 'q' is the value of the economy's capital as determined by the stock market. The denominator is the price of the capital if where purchased today, Tobin's reasoned that the net investment should depend on whether "q" is greater or less than one (Gupta, 2008).

2.1.4. Impediments of private investment at micro level

Although, adjustment of macroeconomic factors stabilization is necessary, it is not sufficient so as to increase the private investment. Thus, there should be also adjustment of microeconomic factors and institutional factors that affect private investment. Inadequate accesses to land, weak market, bureaucratic red tape, corruption, and poor functional factors. These are much of the problem for expansion of private investment in developing countries in long term (Workie, 1996) as cited in Dawite, 2010.

According to Girma as cited in Dawite (2010) although, many author showed determinants of private investment decision like political, and macroeconomic instability, availability of natural resources and market size insignificant, a lot of new factors are emerged that inhabit the expansion of private investment at micro level. Some factors that inhibitor reduces private investments are discussed below:

Poor business environment: this refers to the general frame work of regulation not being clear and unequal provision of service, anticompetitive policies by the government and practice by private enterprises, inefficient legal system and negative attitudes toward a private investment.

Distorted incentive policies: i.e. this refers to only some groups benefiting from incentives such as controls on product and factor prices, tax incentives, trade protection, state subsidies, and access to resources.

Inadequate legal framework: Insufficiency of laws defining property right, regulating enforcement of contracts, ensuring effective competition, establishing bankruptcy procedures and regulating labor contracts.

Weak financial systems: i.e., inefficiency of the financial market and financial institutions in providing credit and other money related services.

Inaccessible to land: i.e., difficulties in gaining access to land through outright purchase or leased contracts.

Poor infrastructure: i.e., shortage of communication networks, domestic and international links, and reliable power supplies.

Lack of skilled labor: i.e., not fitting to the increasing demand for skilled or highly trained human capital that can cope with emerging technologies.

Absence of supplies network: i.e., not creating appropriate conditions and supportive policies investors to contribute to the development of the networks.

Hence, along with macroeconomic factors, microeconomic factors should be considered to create a business friendly environment for the recovery and expansion of private investment.

2.2. Empirical Literature Review of Private Investment

From the theoretical as well as empirical point of view there are number of macroeconomic variables that influence private investment.

According to Asmelash (2007), private investment in developing countries determined by the following factors:

Real Interest Rate: The demand for investment depends up on the level of interest rate because interest rate is a measure of cost of finance for financing investment. When the interest rate is high, the cost financing projects is high, as this time the level of demand for investment coming

to down (Mankiw, 2000).Given the neoclassical model interest rate come up with a conclusion of negatively related with private investment. However, some arguments suggested that the cost of money to investors is less important than other major costs like cost of machinery, labor, and raw material. Moreover, most studies suggested that in developing countries which have repressed financial markets like Ethiopia, its interest rate are not affected the level of investment rather it is affected by credit policy. Thus, the study includes it as an empirical study which does not support the negative relationship between investment and interest rate in developing countries (Husain, 1993).

Availability of Finance: It is one of the factors that affect the level of investment especially in developing countries, there is high problem regarding the availability of finance. Because of segmented capital markets and non-flexible regulatory rules in developing countries the level of private investment is adversely affected (Akpalu, 1997).

Economic Growth: In most developing countries the rate growth of real output (GDP) per capita should be positively related to the private investment, but common in industrial countries (Blejer and Khan, 1984). Empirically, however, the postulate does not work well because, it is unlikely that the economy's output ratio is fixed overtime as it is influenced by such factors like cost of capital, labor and technological progress, etc. for greater relative rate of investment there must be appropriately faster rate of output.

Public investment: the relationship between public and private investment takes on greater importance in developing world than in industrial countries because of the large role played by the government in the overall process of capital accumulation. At the theoretical level the effect of public investment on private sector investment is ambiguous. On the one hand, public investment activity may be complimentary and thus support private investment, particularly where public investment involves useful infrastructure. It includes communication facilities, transportation system, schools, water and sewerage system and to like. Projects in these areas tend to raise the expected rate of return on private investment. On the other hand, public sectors investment may detract from private investment activity to the extent that it substitute or ''cords out ''private investment. This may occur the investment involves same enterprises producing

goods that compete with the private sectors, or when heavy spending for public capital projects lead to high interest rates, sever credits rationing (Green and Villanueva, 1991).

Macroeconomic stability: macroeconomic stability indicates important signals to the private sectors about the direction of economic policies and credibility of the authorities' commitment to manage the economy efficiently. The key macroeconomic stability indicators are described below:

Domestic inflation rate: high domestic rate of inflation will have an adverse effect on private investment. It enhances the riskiness of long-term investment projects. It reduces the average maturity of commercial loans and distorts the information conveyed by prices.

In the economy income per-capita: income per capita is hypothesized to effect of private investment positively. Positively correlation is due to the ability of high-income countries to devote much more income to saving, so that investment is positive.

Foreign exchange availability: Access to international market is one of the key factors that determine the private investment. In most developing countries the real price of foreign exchange and availability affects private investment consequently there is real limit on import capacity resting from foreign exchange short falls.

Devaluation: A real devaluation of countries currency (fixed exchange rate system) is usually included in switching policies this generally negatively affect investment in the short run. Devolution may also reduce investment by depressing aggregate demand. Moreover, if investment has significant to import content in the expansion of output is likely to be necessary condition to expand investment (Mankiw, 2007).

Uncertainty: uncertainty lays in impact on private investment decision. change in uncertainty are usually associated with unpredictability, instability of the incentive structure as well as lack of sustainability and imperfect credibility of macroeconomic policy reforms. Thus, private investor will be reluctant to commit large expenditures on fixed investments when they are

uncertain about the future political, social and economic environment (Green& Villanueva, 1991).

Before the current government literature on private investment was very limited and the available literature, were also sort of data despite this fact an interesting study has been carried out on private investment by "workemitiku" in 1997 under the little of "determinate and constraints of private investment in Ethiopia". The study had attempted to identify the macro-economic determinate of private investment. Using time serious data for the period 1976-1994, the econometric result has shown that private investment is determined by the availability of finance, the real interest exchange rate, investment policy, debt service payments and debt overhang. The real interest rate, growth of per capital GDP public investment and changes in terms of trade not affect private investment during the period of study.

Most of the problems identified in the study also share some common features. This includes structural problems, which are in one way or another result of institutional failure. According to her analysis to accelerate the pace of private investment as a basic engine of economic growth, a development, is a pre-requisite. The study also recommitted that the development of private sector investment needs a state committed for development, a state that provide a suitable macro and micro economic environment, a state that gives the required guidance and support for the private investors, a state that proved a suitable institutional interest, physical infrastructure and legal services.

Another empirical study has been carried out on private investment by "(Tweros Gash as" in 2001) under the title of "economic policy and private investment in Ethiopia" this study has used descriptive data analysis mainly based on secondary data the major source of data for this study were the Ethiopian Investment Authority (EIA) annual reports, Ethiopian Economic Association (EEA), the World bank publication, publication of world investment reports etc.

The study discloses that even though a relatively improved investment policy measure have been undertaken currently to increase. The participation of the private investment sectors, the respond of private investment particularly foreign direct investment is for in adequate for the required economic growth to a chive sustainable economic development in the countries. And it has also

observed various factors contributing to the low level of private investment in the country, among those various impediments the major ones includes absence of effective demand, poor infrastructural facilities, and land problem, low level of saving, weakens in the financial sector, major economic and political uncertainty and lack of investment promotion, bureaucracy, and inefficient fiscal in contrives and lack protection to domestic projects.

Mbugua (2000) analyzed the micro and macro determinants of private investment in the manufacturing sector in Kenya, using OLS the technique, for macro level determinants and descriptive statistics for micro level determinants of private investment. His findings showed that high interest rate, inefficient infrastructure, corruption, insecurity, weak institutional framework and inefficient and bureaucratic public serves are the greatest hindrances to investment.

Furthermore, according to Getachew (1997) in this thesis on determinants private investment industrial investment in Ethiopia by using OLS technique in analysis of macro level determinants and descriptive statistics for analysis of micro level determinants found out that sever constraining factors to private manufacturing investment were sets of markets, financial, infrastructure, policy, technology and input related. He further noted that the root cause for these problem were many and interdependent. Moreover, the degree of severity of these problems was found to be independent of location of the enterprise.

Finally, the study recommends that to accelerate the private investment, the government should open its door to private sector investment established. Development policy in collaboration with private sectors, impartment the existing land policy, facilitate a mechanism to establish business information and advisors center stabilize, financial sectors, create stable economic and political conditions. Be transparent; minimize bureaucratic procedure and re-organizes current customer service.

Generally, the above summarized review of the empirical literature on micro level factors affecting private investment revealed there are different factors that affect private investment at operational levels. Thus, this study was attempted to identify major factors affecting private investment to the north central part of Ethiopia, guragie at wolkite town.

CHAPTER THREE

3. METHODOLOGY OF THE STUDY

3.1. Description of the study Area

Wolkite town is one of two administrative sub city of Gurage zones. It has three main sub cities such as Gubre sub-city, Addis sub-city and Bakur sub city. The study was conduct Wolkite town which found in southeastern part of Ethiopia from Addis Ababa 158km far apart to south east direction in Gurage zone of the south nation nationalities 'and peoples state (SNNPRS) of Ethiopia. It has altitude and longitude of 80 17N and 37047E with in elevation between 1910 and 1935 meters above sea level respectively. The annual average ran falls is from700-1300mm Belge rain from March to May, winter rain from June to September mid, and mean monthly temperature 290c. Agro ecologically Wolkite town is classified as weina dega. According to (CSA, 2007) for population senses, this Town have total populations 43,195 among those 21,963 is males and are 21,232 females. The main economic activities are, cultivation of land, rearing of animals, and trading activities as the source of income for the community. Wolkite town bordered in east by kebena woreda in north by goro woreda.

3.2. Methods of Data Collections

For the study the data was used both primary and secondary data sources. Structured questionnaires, interview and personal observation was employs to gather data from primary sources. Secondary data was collected from unpublished reports from the trade and industry bureau .Moreover, various books, magazines referred from investing documentation library.

3.3. Sample Size and Sampling Methods

Both probability and non-probability sampling technique was used for our study. The individual investors are actually responsible for making decision on investment activities. Thus, individual investors who are licensed since 2015 are the basic sample unit for our study. A multistage sampling technique was the preferable method to determine the sample unit. In the first stage the study was selected gurega zone as the general sit to conduct the study, because of its proximity and constraint of resource. In the second stage the study was selected wolkite town because of private investment is under taken here. In the third stage the study was selected two sub cities

namely (Addis sub-city and Bakur sub city), because of private investment is common in all sub cities and they are homogeneous (Workie.M, 1997).

The study has a total of 60 target population in the two sub cities. Because of heterogeneity among investors in the fourth stage the study was categorized the investor according to their activity. Accordingly the numbers of projects licensed in the study area classify into four groups based on their project types: Group 1 encompasses investors who invested in hotel and the total number is 17. Group 2 investors who consists service sector and total number 14. Group 3 investors who invest in industry and the total number are 15. Group 4 investors who invest in construction and the total number are 14. However, after reviewing different literatures for determination of scientifically acceptable sample size using a simplified formula provided by Yamane (1967), The formula was given as,n= $\frac{N}{1+N\,(e2)}$

Where: n = statistically acceptable sample size

N = Total size of target population

e = level of precision (error level) at 95% confidence level (0.05).

n= $\frac{N}{1+N\,(e2)}$=$\frac{60}{1+60(0.05)2}$=52

Using this formula, the statistically acceptable sample size from the given population with maintaining a 95% confidence level is found to be 52 licensed investors.

So, to avoid problem of bias and to represent each stratum adequately, non-proportional sampling technique was used. Because this method guarantees representation of each subgroup's views and it helps to take equal number of samples from each stratum irrespective of their population size it was employed. In the fourth stage of sampling, the licensed investor was stratified into four strata. Then, the sample investor (52) was selected randomly using Simple Random sampling technique (SRS).

3.4. Methods of Data Analysis

3.4.1. Descriptive Analysis

Descriptive statistics describe the main features of a collection of data were quantitatively. It aims to summarize a data set quantitatively. Descriptive statistics was used to describe coefficient of variation, variance, standard deviation, standard error etc. So the study was used

the descriptive statistics to describe how much a variation occurs within the data collected related to the socio- economic factors that affect the growth of privet investment in wolkite twon. The analysis for the study will base on the survey of a sample of enterprises undertaken. The study was employing both qualitative and quantitative analysis so as to produce a good researcher document. The descriptive statistics that are used in the study include percentages, standard deviation, mean and frequency of occurrence to our quantitative data numerically**.**

3.4.2. Econometrics Model

To analyze the socio-economic factor of privet investment the study was used multiple linear regression model of estimation. It is an essential method of econometric analysis to recognize and realize patterns of the influencing factors. The most important variables that could determine the private investment include level of education, access to adequate credit, Access to infrastructure facility, source of investment fund, land size and source of raw material that are discussed below.

Model Specification

The econometric model specification of the variables will be as follows.

$Yi = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3\ X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + Ui$

Where, X1=Level of education

X2= Access to adequate credit

X3=Access to infrastructure facility

X4=Source of investment fund

X5=Land size

X6= Source of raw material are the explanatory variables.

Dependent Variable:

Initial private investment capital growth (IPICG); these refers to the total initial capital Registered for investment activity: This is continuous variable that might help to represent The preference of an investor to participate investment activities by contributing money,

Labor, time and his entrepreneurship ability: So in this study, investors who were start operation and, it was going to be measured by the amount of registered initial capital, which was in fact continuous. Investor's registered initial capital was used to measure intensity of capital allocation for investment activities. It takes a value of greater than zero up to infinity. In the course of identifying factors influencing investor's decision to invest, the main tasks are to analyze the degree and significance of potential variables affecting private investment. Therefore, potential variables that are supposed to influence investment decision in the research areas are explained below.

The Independent variables: The independent variables of the study are those variables which are hypothesized to have associations with private investment decision. The findings of past studies on private investment decisions, the existing theoretical knowledge as well as the researcher's knowledge and experience in the area of private investment was used to select the explanatory variables and structure the working hypotheses. Thus, the following variables are identified to have direct/indirect effect on private investment decision.

Level of education (LOE): This variable refers to the number of years of formal:-Education of the same investor: It was assumed that education is a key factor for investment Decision because any investment activity involves risks. Moreover, investment is irreversible activity. Education was hypothesized to positively influence on investment decision.

Access to adequate credit (ATAC): This is a dummy variable, which takes a value1 if the investor has access to adequate credit and 0 otherwise. Economic theory has shown that access to credit plays a significant role in promoting investment. It was hypothesized that affecting the growth of private investment to have positive impact on the privet investment.

Access to infrastructure facility (ATIF): This is a dummy variable, which takes a value1 if the investor has access to infrastructure facility and 0 otherwise. We were decided to: Accessible, if from 52 selected people 30 or more are good or very good. Not accessible, if from 52 selected people 30 or more are bad.

Several studies and economic theories have shown that infrastructure plays a key role in promoting investment. The existence of adequate infrastructure attracted more investors to

invest. Infrastructure facilities like road, water supply, electric power supply, telephone, education, health, postal, & other.

Source of investment fund (SOIF): This variable refers to sources of investment fund for financing investment projects by sample investors. A value 1 was assigned to this variable if the source of investment finance was own capital and 0 otherwise. A study by Aramyan et al. (2007) reveals that high solvency (sufficient amount of own capital) motivates investors to make investments because they are less dependent on financial Intermediaries.

Land size (LS): It should be noted that any investor who were like to have land for investment activity is required to have an investment permit. It is quite obvious that land is one of the major factors of production and investment could not be materialized without having access to land. Recent empirical studies confirm that access to land is significantly and positively related to private investment (Kefay, 2005). This variable is expected to have a positive association with private investment.

Source of raw materials (SORM): This variable refers to the source of raw material. This variable takes a value 1 if the sample investor uses purely domestic source of raw materials and 0 otherwise. In the context of this study was hypothesized that those investors who procured their raw materials from foreign sources would face more difficulties (delays, foreign exchange constraint, administrative red tape. etc.) than those who procure them from domestic source.

CHAPTER FOUR

4. RESULTS AND DISCUSION

This chapter analyses the result of the socio economic factor affecting the growth of urban private investment in wolkite town by using descriptive statistics and econometrics model (multiple linear regression). This part presents the empirical findings of the study and interpretation of analytical findings. It is structured in the way to answer the research questions/specific objectives.

4.1. Background of Respondents

4.1.1. Demographic characteristics of the Respondents

Personal information refers to the written account of an individual life or biography the term "biography" connotes an artful, conscious literary gender that employs a wide range of source, strategies, and insight; that deals with the intimate, inconsistent textures of personality and experience; and attempts to render the whole sense its subject, not the life only but what like to have lived it has its several stages. Therefore, the following four tables are describes the personal background of the respondents.

4.1.1.1. Sex and Marital Status of the Respondents

Table 1: Sex &marital status of the respondents

sex	Freq.	Percent
female	25	48.08
male	27	51.92
Total	52	100.00

MARSTATUS	Freq.	Percent
married	33	63.46
single	15	28.85
divorce	4	7.69
Total	52	100.00

Source: own survey in wkt, 2019

As it can be observed from the table sex distribution out of total sample respondents is 27(51.92%) of male, 25(48.08%) female. This means, even though males have the highest number of participation improvement in the engagement in private investment activities than females participation was recorded in the study area. As it seen the above table, out of total respondents respond 33(63.46%) are married, 15(28.85%) are single and 4(7.69%) are divorce in the study area. It means that gender was affected private investment, but the marital status was not affecting the growth of private investment in the study area.

4.1.1.2. Age of Respondents

Age: Economically active age group population contribute to the development and growth of domestic product of the country as well as towards the achievement of the strategy of agricultural development led industrialization (ADLI) as stated in macro-economic performance of Ethiopia (As cited in kefay, 2005).

Table 2: Age information of the respondents

AGE	Freq.	Percent
Young (1-15)	6	11.54
Adult (16-40)	39	75.00
Oldest (41-60)	7	13.46
Total	52	100.00

Source: own survey in wkt, 2019

In the above, the result of the study shows that the majority of the ages respondents are found in interval 16-40 which accounts 39(75.00%) are adults. This indicate that majority of the respondents are found in economically active age group which may contribute the product of not only the wolkite town but also the development of growth domestic products of the country. Furthermore, as table show about 6(11.54%) of the respondents fall between 1-15 age interval which also founding the active group categorized and able to contribute to the economy. Also respondents which founds between 41-60 age and greater than 60 years old groups which are 7(13.46%). So, this indicates the active population age have significant impact on the growth of private investment in study area.

4.1.1.3. Analysis of Family Size of Investor's Respondents

Table 3: Family size of investor's respondents

FAMILYSIZE	Freq.	Percent
Low (1-3)	20	38.46
Medium (4-5)	13	25.00
High (6-10)	10	19.23
Bad (>10)	9	17.31
Total	52	100.00

Source: own survey in wkt, 2019

As the survey shows, low family size, that 20(38.46%) of respondents their family size ranged between 1-3 person per households, medium 13(25.00%) of the respondents whose family size ranged between 4-5 person per households, high 10(19.23%) of the respondents whose family size ranged between 6-10 person per households and bad 9(17.31%) of the respondents whose family size ranged between or above 10 person per households. As we observe from the table the majority of the respondents holding few families have more invest as compare to have more families. So, family size of investors has impacts on the growth of private investment.

4.1.1.4. Analysis of Educational level of respondents

Since development is impossible without privet investor participation, the government should play a great role to change negative attitude of the society towards privet investor and to improve their participation in the economy by providing education. This helps to decrease the constraint of privet investment. The table below shows the investors educational level in the study area.

Table 4 Educational level of the respondents

LOE	Freq.	Percent
Illiterate	4	7.69
Literate	48	92.31
Total	52	100.00

Source: own survey in wkt; 2019

From the selected 52 respondents educational level 4(7.69%) are illiterate and finally from selected 52 respondents 48(92.31%) have educational level of literate. This shows that all of the investors involved in private investment activity in wolkite town were educated people.

For the investment and other activities, educational level is very crucial as the countries level of education is increase, the way looking each and every activity is also developed especially today in which world become neighbors. Most of the time as the knowledge is increase the performance also increases like investment activity, research activity, and invention activity. As educational level increase the participation in investment activities can also increase mostly, because risk taking ability of more educated people in every aspect is more effective than those less educated or illiterates (Worhemitiku 1997).

4.2. BUSSINES CHARACTERISTICS

4.2.1. Analysis of License of the Respondents

License: The first phase of Economic Reform Program (ERP), different polices were reform so as to expand private investment, among the notable reforms, which are expected to promote private sectors participation, among those the easing of licensing requirements and deregulations is necessary (As cited in kefay, 2005).

Table 5: Investor's perception about license

license	Freq.	Percent
yes	21	40.38
no	31	59.62
Total	52	100.00

Source: own survey in wkt, 2019

Regarding to get license for investors 21(40.38%) of they face some challenges while getting licenses are yes. and 31(59.62%) of the respondents said 'no' or no problem of license. So, the majority of the respondents said that did not have any problem to get license for their investment.

4.2.2. Types of Business Run In the City by Investors

In wolkite town there are many different private investment activities such as hotel, Service sector, construction and industry etc. Those activities create employment opportunity for people living in the city as well as that come to the town (from the respondent 2019).

Table 6: Types of business run in the city

Types of business	Freq.	Percent
hotel	10	19.23
construction	12	23.08
service sector	13	25.00
industry	17	32.69
Total	52	100.00

Source: own survey in wkt; 2019

As it is indicated from the collected data from the investors, the most dominant type of investment activity performed in wolkite town were industry 17(32.69%), Construction Service sector 13(34.62%) have the second largest market share, the third investment activity that cover most part of the construction were 12(23.08%) and hotel is the final one were which cover 10(19.23%). The Majority of investor's reason to establish private investment was to get profit, to be self dependent and to create job opportunity. As we can see from the table the dominant

privet investment activity were industries, because they have high demand for their products as compared to other types of business in the study area.

4.2.3. Satisfactions /Profitability/ Of Investors in Their Investment Activities

Individual's investors utility from their corresponding activities is based on their risk for casting and withstanding ability. The investors those are capable of risk taking are more satisfy than those of risk adverse investors. Most of the respondents were satisfied from their investment activity and from this we can understand that the majority of investors were satisfied.

4.2.4. Source of Raw Materials /Service/ Provider

Table 7: Source of raw material or service provide

Source Of Row material	Freq.	Percent
around project	14	26.92
from outside of the side	20	38.46
from abroad	18	34.62
Total	52	100.00

Source own survey in wkt; 2019

As precisely indicated in the above table 7 out of 52 respondents 14(26.92)% of respondents replied that they obtain their raw materials from around investment project, 20(38.46%)replied that they obtain their raw material from local outside of the town, 18(34.62%) of investors said that they get it from abroad.

From this data we can conclude the source of the raw materials for the investors find from local outside of city, which has negative impact on their investment activities by increasing transportation cost and other expense. A source of raw material or service provider is one critical factor that should be considered before establishment of any project. So, investment activity should be near the area where raw materials are easily accessed and are sufficient for its continuous functioning to its proposed period of time.

4.2.5. People Interested To Consume the Investors Product or Service

Table 8 People interested to consume investors product

People interest Respt	Freq.	Percent
very high	10	19.23
high	15	28.85
averege	14	26.92
less	13	25.00
Total	52	100.00

Source own survey in wkt; 2019

As it is indicated in the above table 8 out of 52 respondents 19.23% of them have very high purchasing power that mean the interested people to purchase their product is very high. 28.85% of respondents replied that the people interested to consume their product are high. 26.92% of the respondents replied that they have average people to consume their product and 25.00% of the respondents replied that they have less people to consume their product. From this we conclude that most of the people engage in private investment in wolkite town have an averagely demand or people interested to consume their product, which initiates other investors to invest in the city. Peoples interested to consume investors product or service aspect needs to ensure the existence of effective demand at remunerative prices. The number and relative size of buyers or sellers existing in a market are indicators of some degree of positive attraction or push factors of investment activities in the study area.

4.2.6. Plan of Investors to Continue or Discontinue Their Business

Table 9 Plan of investors to continue the business

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Business Contuation	Freq.	Percent
Yes	23	44.23
No	29	55.77
Total	52	100.00

Source: own survey in wkt; 2019

The above table 9 justifies that 44.23% of the respondents replied that having an intension to continue their business, but 55.77% of them said that they have no intension to continue. Here the majority of the investors have a plan to continue their business. From the result we can understood that most investors business are giving good profit as they expected. As we know the investment activity can continued or discontinued based on positive or negative results respectively based on the owners benefit obtained when running their business. If the business is permissible they may intend to keep on their investment activities and unless they are forced to stop.

4.2.7. Access to Infrastructure Facility

Table 10: sample investor's Respondents Access to infrastructure

InfrastratureRespond	Freq.	Percent
not access	20	38.46
Access	32	61.54
Total	52	100.00

Source: own survey in wkt; 2019

As precisely indicated in the above table 10 out of 52 respondents 20(38.46%) of respondents replied that they have not access of infrastructure around investment area, 32(61.54%) replied that they obtain infrastructure access. From this data we can conclude that most of the investors in the town have got access of infrastructure, which has positive impact on their investment activities. An access of infrastructure is one critical factor that should be considered before establishment of any project. So, investment activity should be near the area where access of infrastructure are easily accessed and are available for its continuous functioning to its proposed period of time.

4.2.8. Source of Investment Fund

Table 11: sample investor's Respondents in the Source of investment fund

SOIFrespondt	Freq.	Percent
borrowed from other	22	42.31
own saving	30	57.69
Total	52	100.00

Source own survey in wkt; 2019

As precisely indicated in the above table 11 out of 52 respondents 22(42.31%) of respondents replied that they obtain the Source of investment fund were borrowed from other around investment project, 30(57.69%) replied that they obtain the Source of investment fund from the own saving.

From this data we can conclude the source of investment fund for the investors got from their own saving, which has positive impact on their investment activities. A source of investment fund is one critical factor that should be considered before establishment of any project. So, investment activity should be considered easily available and sufficient for its continuous functioning to its proposed period of time.

4.2.9. Land size

Table 12: sample investor's Respondents in the land size

Land size	Freq.	Percent
Less than 2hactare	24	46.15
Above 2hactare	28	53.85
Total	52	100.00

Source own survey in wkt; 2019

As precisely indicated in the above table 12 out of 52 respondents 24(46.15%) of respondents replied that they have access to land around investment project but 28(53.85 %) replied that they did not have access to land around the investment project area. From this data we can conclude that most of the investors in the town did not have access of land, which has negative impact on

their investment activities. An access of land is one critical factor that should be considered before establishment of any project. So, investment activity should be near the area where access of land are easily accessed and are available for its continuous functioning to its proposed period of time (own survey; 2019).

4.3. Econometrics interpretation

:

$$Yi = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3\ X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + Ui$$

4.3.1. Multi-colnearity

The term multi-colinearity refers to the existence of perfect or exact linear relationship among some or all explanatory variable of regression model. It affects the exact relationship between dependent and independent variable. To know or examine the relationship of those dependent and independent variable the multi-colinearity has to be found in tolerant scale. It can be measured by using VIF (variance inflation factor) under (table 13).

Table 13: The socio economic factor affecting the growth of urban private investment

Source	SS	df	MS	Number of obs = 52 F(6, 45) = 11.90
Model	4.0916e+10	6	6.8194e+09	Prob > F = 0.0000 R-squared = 0.6135 Adj R-squared= 0.5619 Root MSE = 23936
Residual	2.5782e+10	45	572937599	
Total	6.6699e+10	51	1.3078e+09	

IPICG	Coef.	Std. Err.	t	P>t	[95%Conf.	Interval]
ATAC	26578.1	8224.901	3.23	0.002*	10012.3	43143.9
ATIF	-32838.32	10528.57	-3.12	0.003*	-54043.95	-11632.69
SOIF	-52843.71	12333.48	-4.28	0.000*	-77684.61	-28002.8
SORM	-3074.997	1737.719	-1.77	0.084 **	-6574.943	424.9487
LOE	-58994.01	14490.91	-4.07	0.000*	-88180.19	-29807.82
LS	3126.003	4765.691	0.66	0.515	-6472.59	12724.6
_cons	189663.7	29581.68	6.41	0.000	130083.2	249244.3

,,*,*, are significance at 1%, and ** significance at 10%

Vif (variance inflation factor)

Variable	VIF	1/VIF
SOIF	1.61	0.621769
LS	1.46	0.686046
ATAC	1.45	0.688128
LOE	1.35	0.738955
SORM	1.34	0.747976
ATIF	1.17	0.853221
Mean VIF	1.40	

Source: own survey in wkt; 2019

As Table 13 above illustrates

Source of Investment Fund: the most significant constraint that determines the initial investment capital growth is source of investment fund. These independent variables (source of investment fund) have a positive relationship with initial investment capital growth (dependent variable). This means when the source of investment fund of the investor very high by own saving, the investment capital decreasing significantly by 52843.71birr. In addition, when source of investment fund increases, their investment capital growth also increases. This could be due to the number investors increased in the business activity so that it adds value in to their investment capital increment. However, in this study shows the opposite result is observed (it affects negatively).

Level of Educational: Also the most significant constraint that determines the initial investment capital growth is level of education. This shows a significance relation with 1% probability level with an investment capital growth but the relationship is negative indicating that the increase in the educational level of investor affects the investment capital growth of them. Educated people are more energetic, motivated and interested than uneducated people and hence they might become successful in their business. Studies conducted in this area (constraint) assert that uneducated investor seem to have a better chance for business success than educated ones (Workemitiku 1997). However, in this study shows the opposite result is observed (it affects negatively).

Access of Credit: This independent variable is significant by 1% and a positive effect on the investment capital growth of the investors. Even access of credit has important for an investor to start up his business after established his business when he/she accessed more and more the investment capital generate capacity of the business increase when the interest rate of the bank increase from time to time.

Access of infrastructure: This independent variable also is significant by 1% and has a positive relationship with initial private investment capital growth.

The given R-Square value of 0.6135 and adjusted R-square value of 0.5619, realized that 61.35% of the variation in initial investment capital growth can be explained by the independent variables. The unstandardized coefficients column, gives us the coefficients of the independent variables in the regression equation indicated below.

Initial Private Investment Capital Growth = source of investment fund + level of education + access to adequate credit + access to infrastructure facilities

$$IPICG = 189663.7 - 52843.71(SOIF) + 189663.7 - 58994.01(LOE) + 26578.1(ATAC) + 189663.7 - 32838.32(ATIF)$$

$$= \underline{450893.16}$$

Table 13 further shows that, all the explanatory (independent) variables that are source of investment fund, access to credit, access to infrastructure and level of education his study can significantly explain at 99% confidence level to the variation on the dependent variable. The standardized beta coefficient column shows the contribution that an individual variable makes to the model. The beta weight is the average amount the dependent variable increases when the independent variable increases by one standard deviation (all other independent variables are held constant).

Before finalizing the model, the hypothesized explanatory variables were checked whether multi-colinearity exists among the variables. Multi-colinearity problem arises when two or more explanatory variables in a regression equation are highly correlated. If there is presence of multi-colinearity between independent variables, it is very difficult for use to estimate accurately the effect of the variables. Thus, it is important to test the presence of multi-colinearity before finalize the regression. To test whether or not multi-colinearity presence among the explanatory variables techniques of variance inflation factors was employed (VIF).It is the square of multiple correlation coefficients that results when one explanatory variable (xi) is regressed against the entire explanatory variable, if regressed against all the explanatory variables, it is computed as follows.**)**

VIF (xi) = $\left(\frac{\mathbf{1}}{\mathbf{1-Ri2}}\right)$

From many theoretical and empirical points of view the VIF value which is greater than10 often taken as singles for the existence of multi-co linearity problem in the model. VIF with the value less than 10 it is tolerant and cannot disturb the regration model.

VIF= $\frac{1}{1-0.6135}$= 2.59 the result is less than 10 so it is tolerance.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATION

5.1. CONCLUSIONS

In this study, factors that affecting the growth of urban private investment at town level was analyses. The survey was conducted at Wolkite town through structured question. The sample investors were repaired from list of regional investment office which seat at wolkite town and were taken from licensed investors in 2010EC that is the only one year. This study employed stratified random purposive sampling method, because of heterogeneity among the sample units, stratification needed based on their project sectors. In this study both descriptive as well as econometrics analyses were used for analytical purpose.

Linear regration test were employed for the descriptive purpose while, econometric model were used for analysis the influence of each selected variables on the dependent variables. Multiple linear regression models were chosen because of its advantage over other models reflecting both probability to invest and intensity of capital allocation for investment activities. Stata, econometric software was employed to run the multiple linear regression models which examines influencing factors for investment activities and intensity of capital allocation for investment activities.

The study identify the main factors that affecting investor's decision on investment activities to be: level of educational, access to credit, access to infrastructure facilities, and source of investment are significantly affected the investment activities and intensity of capital allocation. The other variables such as source of row material, land size were not significantly related to the dependent variable.

The finding of this study could be used to recommendation for future intervention that can boost private investment in town, which is one of the specific objectives of the study. Well implication of polices the participants of investors in the study area, it is also important to improve investment climate in the town or region and finally it increase the volume of private investment in our country, Ethiopia. Policy and strategies formulated at national level should also be implemented at region or town level.

National development policy and strategies could give the desired outcome only if it supported by appropriate regional polices and strategies for effective investment activities. Therefore, implementation of development plane sand strategies in town would be taken in to account the surrounding socio- economic and institutional factors that are directly and indirectly related with private investment. A clear message from this research is that having well formulated national polices and strategies by it is not enough to attract investors in our economy. It needs properly regional and town level implementation strategies to change the investment climate that increases the participation of private investors up on investment.

5.2. Recommendation

Based on the result of the study, the following recommendation are suggested to be considered for future intervention strategies by regional government and city administration which are aimed for promotion of private investment in the town. This are broadly viewed about strengthening of institutional procedures in city.

- The finding indicates that educational level, access to credit ,access to infrastructure and source of investment fund were significantly affecting the growth of private investment and intensity of capital allocation .this reflecting the importance of improving the functioning of government institution while provides different services for different private sectors.

- The results found that level of education and source of investment fund was most important factor for increasing private investment. Therefore, the federal as well as the regional government should give attention up on supplying adequate credit for active investors as well as potential investors that helps running investment activities.

- The analysis also revealed that the availability of infrastructure was important factors in promoting private investment. Therefore, regional government as well as city administration should invest on infrastructure such as road, power supply, telecommunication and water supply etc. so as to increase the participation of investors on investment activity in town. Accordingly, an efficient road network, railway system and recommendation system has been cited as a major factors that discourage investment

in our country. Thus, the regional investment should construct a better infrastructure facility that encourages activities as well as potential investor's to participate investment activities.

- The growth of real credit to private sectors has positive and statically sufficient effect on private investment. The quantity finance must therefore be addressed in order to ensure continuity participation of private sectors in investment.

- To accelerate growth, it is imperative that the public sector should increase its investment to provide adequate infrastructure. Thus, the government should consider better means of coping with insufficient infrastructure facilities by reducing recurrent expenditure so that it can release funds for development purposes.

- The results also indicate that, investment incentives were found to be one of the determinants of investment decision. Therefore, the government has to identify the types and area of investment incentives and it should be distributed equal so as to motivate more investors in investment activities.

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APPENDIX A: Regression table

1) For linear regression model

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. regress IPICG ATAC ATIF SOIF SORM LS LOE
```

Source	SS	df	MS
Model	4.0916e+10	6	6.8194e+09
Residual	2.5782e+10	45	572937599
Total	6.6699e+10	51	1.3078e+09

Number of obs	52
F(6, 45)	11.90
Prob > F	0.0000
R-squared	0.6135
Adj R-squared	0.5619
Root MSE	23936

IPICG	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
ATAC	26578.1	8224.901	3.23	0.002	10012.3	43143.9
ATIF	-32838.32	10528.57	-3.12	0.003	-54043.95	-11632.69
SOIF	-52843.71	12333.48	-4.28	0.000	-77684.61	-28002.8
SORM	-3074.997	1737.719	-1.77	0.084	-6574.943	424.9487
LS	3126.003	4765.691	0.66	0.515	-6472.59	12724.6
LOE	-58994.01	14490.91	-4.07	0.000	-88180.19	-29807.82
_cons	189663.7	29581.68	6.41	0.000	130083.2	249244.3

Appendex B: conduct test of multicollinearity vif

```
. vif
```

Variable	VIF	1/VIF
SOIF	1.61	0.621769
LS	1.46	0.686046
ATAC	1.45	0.688128
LOE	1.35	0.738955
SORM	1.34	0.747976
ATIF	1.17	0.853221
Mean VIF	1.40	

Appendex C. Autocorrelation using Durbin-Watson d test

```
. gen space=_n

. tsset space
        time variable:  space, 1 to 52
                delta:  1 unit

. dwstat

Durbin-Watson d-statistic(  7,    52) =  2.060089
```

Appendex D Heteroscedasticity Using forhottest and imtest

```
. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of IPICG

         chi2(1)      =   134.48
         Prob > chi2  =   0.0000

. imtest

Cameron & Trivedi's decomposition of IM-test
```

Source	chi2	df	p
Heteroskedasticity	51.70	19	0.0001
Skewness	27.43	6	0.0001
Kurtosis	-3299.03	1	1.0000
Total	-3219.90	26	1.0000

Appendex E Endogeneity Using forovtest and linktest

```
. ovtest

Ramsey RESET test using powers of the fitted values of IPICG
       Ho:  model has no omitted variables
                  F(3, 42) =     93.75
                  Prob > F =      0.0000

. linktest
```

Source	SS	df	MS
Model	6.1446e+10	2	3.0723e+10
Residual	5.2524e+09	49	107191803
Total	6.6699e+10	51	1.3078e+09

```
Number of obs =      52
F(  2,    49) =  286.62
Prob > F      =  0.0000
R-squared     =  0.9213
Adj R-squared =  0.9180
Root MSE      =   10353
```

IPICG	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
_hat	-.1049068	.0948368	-1.11	0.274	-.2954885	.0856749
_hatsq	.0000111	8.00e-07	13.84	0.000	9.46e-06	.0000127
_cons	1414.945	1531.291	0.92	0.360	-1662.3	4492.19

```
.
```

WOLKITE UNIVERSITY

COLLAGE OF AGRICULTURALAND NATURAL RESOURCE

DEPARTMENT OF AGRICULTURAL ECONOMICS

This questionnaire is prepared by wolkite university department of agricultural economics under graduating student in an attempt to conduct a survey on socio economic factors affecting the growth of private investment, In case of wolkite. And know that it is only for academic purpose and your response will be kept confidential.

HOSHOLD CHARACTERISTICS

1. Sex A. Male B. female
2. Age A. 1-15 B.15-40 C.40-60
3. Educational level A. illiterate B. literate
4. Marital status A. Married B. Single C. divorce
5. Family size A.1-3 B.3-5 C.6-10 D >10

ABOUT BUSSINESS CHARACTERISTIC

6. Initial capital ----------
7. How much is the current capital ----------
8. Types of business A. Industry B. service C. agriculture
9. What are the source of initial capital for your business
   A. Borrowing from bank C. partnership contribution
   B. owing saving D. others specify
10. If you borrow from bank, have you faced any difficulty in acquiring bank loan?
    1. Yes 2. No

11. If you yes what were the problem?

A. .collateral requirement of bank
B. high interest rate
C. need special connections with banks
D. adequate credit
E. bank required detailed feasibility study information on customers

12. Who do find the prevailing interest rate of formal financial institution on borrowing funds?

A. low B. high C .medium D. very high

13. How long it take to acquire the loan from a formal source

A. less than three month
B. six month
C. one year
D. more than one year

14. If licensed how long did it take to obtain year ----------

15. Is this licensed by the minister of trade & industry? A. yes B. No

16. If licensed, how long did it take time ----------

17. What is your impression about the time it takes for licensing?

A. short B. long C. too long D. all right

18. Do you think obtaining license cumbersome A. yes B. No

19. How do you see the profit trade in this investment through time?

A. satisfactory B. good C. unsatisfactory D. bad

20. What was the main source of finance to pay profit?

A. personal saving
B. profit from business
C. loan from saving groups and credit union
D. loan from local lender
E. credit from suppliers
F. others

21. Did you face any problem in these investment activities? A yes B .no

If yes what kind of problem ----------

22. Do you believe support of government is important to solve the problem?

A. yes B. No

23. What is the most significant obstacle to expanding your investment?

A. government attitude towards private investment
B. high level of tax problem of credit
C. interest rate to high
D. .lack of demand e/lack of row materials
E. if others specify

24. Do you firm benefit from investment incentive promotes you much to invest? Pleas rank from starting with the most important to list important.
    A. income tax
    B. duty free import of machineries and equipment
    C. availability of market
    D. Others specify

25. Pleas rate the overall quality and efficiency of service delivered by the following services.

A. infrastructure

26	Very good	Good	bad
services	1	2	3
Road	1	2	3
telephone	1	2	3
Electricity supply	1	2	3
Water supply	1	2	3
postal	1	2	3

B. social services

Health	1	2	3
Education	1	2	3