

**WOLKITE UNIVERSITY**  
**COLLEGE OF SOCIAL SCIENCES AND HUMANITIES**  
**DEPARTMENT OF GOVERNANCE AND DEVELOPMENT STUDIES**



**ASSESSMENT OF CHALLENGES AND PROSPECTS OF PRIVATE  
INVESTMENT IN THE CASE OF GURAGE ZONE**

**A THESIS SUMMITTED TO PARTIAL FULFILMENT OF  
REQUIREMENT FOR MA PROGRAM IN DEVELOPMENTAL  
PLANNING AND MANAGEMENT**

**By: ZAKIR ABDELHY**

**Principal Advisor: ZELALEM DENDIR (Phd)**

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**Wolkite, Ethiopia**

**Wolkite University**  
**College of Social Science and Humanities**  
**Department of Governance and Development Studies**

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GURAGE ZONE**

**BY: ZAKIR ABDELHAY**

**A Thesis Submitted To School of Graduate Studies, In Partial  
Fulfillment of the Requirements for the Degree of Master of Arts in  
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Management)**

**Advisor: Zelalem Dendir (PhD)**

**Co.advisor; HassenWorkie**

**April, 2024**  
**WOLKITE, ETHIOPIA**

## Declaration

I hereby declare that this MSc. Thesis entitled “challenge and prospects of privet envastment in the case of gurage zone” was prepared by me, with the guidance of my advisor. The work contained herein is my own except where explicitly stated otherwise in the text, and that this work has not been submitted, in whole or in part, for any other degree or professional qualification.

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Name of student advisor	Signature	Date
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## **Certificate**

This is to certify that the thesis conducted by Mss. Zakir Abdelhay Nuro entitled “challenge and prospects of privet envastment in the case of gurage zone” and submitted as a partial fulfillment for the Degree of Master of social Science complies with the regulations of the University and meets the accepted standards with respect to originality, content and quality.

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## **ACRONYMS**

EC	European Commission
EIC	Ethiopian Investment Commission
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
GTP	Growth and Transformational Plan
GTP-I	Growth and Transformation Plan I
GTP-II	Growth and Transformation Plan II
HGER	Home-Grown Economic Reform
IDS	Industrial Development Strategy
IISD	International Institute of Sustainable Development
IMF	International Monetary Fund
MoFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PDC	Planning and Development Commission
SDPRP	Sustainable Development and Poverty Reduction Program
SPSS	Statistical Package for Social Science

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## **ABSTRACT**

*The aim of the study was to assess the challenges and prospects of private investment in the Gurage zone. The study was survey type which was collected from sample respondents of 70 investors out of 231 investors in the zone. The study has employed survey questionnaire so as to gather data from large number of respondents with in specified period of time. The study used stratified random sampling design because it endeavored to stratify the population in different sectors of investment. Within the strata to select the respondents, simple random sampling; method was used. The study was analyzed using both qualitative and quantitative data analysis methods. The study revealed that Accessibility of natural resource, followed by infrastructure, next cheap labor, and good governance are the main opportunities. As indicated the survey cheap labor, good governance rate the least from the alternatives. As investors responded that they faced different types of challenges at beginning of the investors face obstacle (challenge), only 35.3% of private investors satisfied by their tax payment. because of such challenges 33.8% of private investors have plan to shut down their investment projects . And the respondents indicated that they observed the coordination problem at Gurage zone I nvestment office, by 55.9%. The factors that affected the investment decision shows that good investment environment, the feasibility of the investment project, the existence of potential investment opportunity in the zone and good infrastructure are significant variables that had positive contribution to the private investment activities of the zone.*

**Keywords:** *Private Investment, Opportunities, Challenges, Gurage*

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. BACKGROUND OF THE STUDY

From the point of view of national economy, investment has a very crucial role. To create a good business environment for any country, investment as well as business ethics is necessary Singh, (2019). Private investment is one of the driving forces of an economic growth (Waktole & Bogle, 2018; Woktole, 2020).

According to the International Institute of Sustainable Development (IISD) cited by (Bedri, JUNE, 2021), the term investment forms part of everyday usage, which may give the impression that there is a common or shared understanding of the term. However, investment is a broad term invoking different meanings in everyday, economic and legal usage. In particular, the definition of investment has far-reaching legal implications (Bedri, JUNE, 2021).

According to Federal Negarit Gazeta of the Federal Democratic Republic of Ethiopia Proclamation no. 769/2012, investment meaning expenditure of capital in cash or in kind or in both by an investor to establish a new enterprise or to expand or upgrade one that already exists and here Investor means a domestic or foreign investor having invested in Ethiopia, but this study will not incorporate the foreign investors because the study is all about domestic private investment.

Ethiopia follows a market-oriented economic development strategy. In order to encourage, promote and expand private investment, the Government has issued council of ministers regulation No. 313/2014 to establish the Ethiopian Investment Commission (hereafter EIC) as an autonomous federal government office having its own legal personality which is accountable directly to the prime minister with the objective to implement transparent and efficient investment administration system and thereby encourage and expand investment.

According to (Bedri, JUNE, 2021), the vision of Ethiopia with regards to investment states that, “To see Ethiopia as one of the leading investment destination countries in Africa by 2023.” In addition, the mission statement states that, “To enhance investment in the country by promoting investment opportunities through creating conducive investment climate and providing efficient services to investors so as to bring rapid and sustainable economic

development in the country.” Gurage zone as part of Ethiopia shares the same investment vision and mission and strive to achieve them.

Investment in Ethiopia has been steadily increasing over the past ten years owing to favorable investment climate. And there are feasible trends that Ethiopia is becoming an investment hub in the horn of Africa. Ethiopia investment commission and Regional investment offices issued licenses to 2,610 investment projects with an aggregate capital of Birr 36.148 billion during 2017/18 to 2019/20 (NBE annual report, 2019/20) as cited by (Bedri, JUNE, 2021).

According to the Report of (Gurage Zone Investment office 2022) Gurage Zone state has licensed total of 231 projects that started operation up to now. According to the report the priority areas of investment that the state wants to attract domestic as well as foreign direct investment include: SERVICE SECTOR Education in one of the service areas that will attract private investment in the country because the primary school gross enrollment ratio (GER) increased from 94.4 in 2008/2009 to 104.9 in 2019/20, registering 11.12% growth. During the same period the secondary school GER from grade 9-10 increased from 32.4% to 51.1% and grade 11-12 from 6% to 26.4% (Bedri, JUNE, 2021). Thus, the education sector of investment such as primary school, primary and secondary school, secondary schools, grade 9 – 10, grade 11 – 12 (college preparatory), 10+1 and 10+2 (vocational training schools) are the opportunities for private investment in the region that the investment office has given priority areas (Gurage zone Investment Office Report, 2022).

In the health sector similar achievements were registered. The health coverage has increased from 77.6% in 2014 to 89.8% in 2020 E.C (FMOH, 2020). And thus, the Gurage zone has given priority for the investors in relation to health services include hospital that has a capacity to serve as referral hospitals, higher clinic, medium level clinic, lower level clinic and specialized clinic (Gurage zone Investment Office Report, 2022).

INDUSTRIAL SECTOR Private Industry in Ethiopia is not growing as fast as it should in other sectors of investment, even by the standards of Sub-Saharan Africa countries (World Bank, 2004). The industrial sector in the Gurage Zone could involve manufacturing activities, processing industries, and other economic activities. This might include food processing, textile manufacturing, and potentially small-scale industries. The specifics would depend on the local economic landscape, available resources, and government policies. (Gurage zone Investment Office Report, 2022).

**AGRICULTURAL SECTOR** The agricultural sector in the Gurage Zone likely involves a mix of crops and livestock farming. Common crops may include cereals like teff, maize, and barley, along with pulses and oilseeds. Livestock farming might include cattle, sheep, and goats. The specific land use patterns depend on factors such as soil type, climate, and local farming practices. Thus, in this agricultural sector, the opportunities available for private investment includes the urban agriculture which contains animal breeding, dairy, fattening of ox, sheep and goat, poultry, processing and preserving of fruits and vegetable, processing and preventing of meat products. Agro processing is also another part of the agriculture which includes dairy and dairy product processing, abattoir service for processing the flesh of poultry, ox, sheep, and goat intended for export (Gurage zone Investment Office Report, 2022) Private Investment as being a vital engine for economic growth, it is very important to study the opportunities and challenges with the researcher's interest in one of the diverse cultural heritage and landscapes in Ethiopia. As a result, one of the most important determinants in a country's economic growth is investment (OECD, 2004 b: 42). Therefore, this study intends to assess the challenges and opportunity of investment activities in Gurage zone here in this paper, the opportunities and challenges were assessed because of the problem stated below.

## **1.2. Statements of Problem**

According to (Mullins, 2005) investment is the economic equivalent of preparing for the future. And Investment in its sense is a vital engine for a countries economy. According to (Bedri, JUNE, 2021), on their study of investigating the performance of a country, they stated that the key determinant of economic growth is investment. In addition, they stated that those who invest considerable fraction of their GDP grow rapidly and vice versa.

According to the report of the (Oakland institute, 2010) as cited by (Bedri, JUNE, 2021), Ethiopia has created a very attractive investment climate for investors in recent years by offering land incentives, tax holidays, duty free privilege and relatively efficient investment process.

According to the IMF country report No. 16/322 of the October 2016, the key GTP II goal is for Ethiopia to become a lower middle-income country by 2025, through average annual growth of 11% in 2015/16 – 2019/20. Accordingly, as part of the goal, Investment as a share

of GDP is targeted to be 41.3 in 2019/20 as compared to 2014/15 which was 39.3 indicating a higher share as compared to other sectors on the goal (Bedri, JUNE, 2021).

Thus, in order to achieve the GTP II goal, investment plays a very important role to the country's economic growth as well as to the Gurage Zone which shares the same goal.

The opportunities and challenges of private investment in different parts of Ethiopia were conducted by different researchers. (Molla and Ayele, 2019) in East Gojjam Zone, (Singh, 2019) in Mettu town, (Yehuala, 2019) in Addis Ababa Kaliti sub-city specifically on the manufacturing sector, (Abadi, G/Meskel and Engida, 2015) in Tigray region the case of manufacturing sector only. The findings of the researchers differ based on their focus area.

Majority of these works have been done at national level and their emphasis are not to assess performance status of those approved projects and to identify factors that could delay its actual operation. Moreover, those studies which have been undertaken to identify prospects and challenges of private investments have not adequately assessed the performance level of approved projects and major factors contributed for its poor performance. Furthermore studies have not yet been conducted at zonal level where significant number of private investment have been approved as compared to others zone of the country to assess its performance level and to identify challenges that hamper its performance and prospects that would enhance its growth and expansion. Thus, it is difficult to generalize the same result in Gurage Zone. In general, the development of private investment in the zone is limited, the contribution to GDP is also very low the zone, and most of the investor's attention to invest in agribusiness, industry and service sectors is low. Based on this, the researcher designed to analyze the opportunities and challenges of private investment in the zone. Therefore, this study tried to incorporate factors stated by previous studies in different parts of the country and additional factors that suit the Zone. In addition the study will contribute to the existing literature in the topic and study area with aim of achieving the following objectives.

### **1.3. Objective of the Study**

#### **1.3.1. General Objective**

The general objective of the study is to assess the Opportunities and Challenges of private investment in Gurage Zone.

#### **1.3.2. Specific Objectives**

- To investigate the prospects of Private Investment in Gurage zone central Ethiopia

- To identify the opportunities that investment brought to people of Gurage zone.
- To identify and assess the major challenges of effectiveness of private investment in Gurage zone.

#### **1.4 Research Questions**

In line with the above statement of the problems, this research will be also try to answer the following questions.

- What are the challenges of private investment in Gurage zone?
- What are the prospects of private investments in agribusiness, industry and service sectors?
- What are opportunities that investment brought to people of Gurage zone?

#### **1.5. Significance of the Study**

Investors spend more time and money on their investment in an effort to have more customers and beat their competitors, and government put in place infrastructure and programs that can facilitate the future decision of their citizens. Thus, it is necessary to make a study on Opportunities and Challenges of private investment in the study area. Further, it also helps the investment office of the Zone to find a solution for the better future with regard to private investment in the Zone. In addition to these it also helps as a promotion of Gurage Zone investment condition and the opportunities for investors in the Zone. And last but not least, the study helps to fill the literature and knowledge gap which contributed to the scientific and practical research gaps and also used as an input and literature for further study in the topic.

#### **1.6 Scope of the Study**

As indicated in the objective, the aim of this study is to assess the challenges and prospects of private investment in agribusiness, industry and service sectors in the study area by using structure and semi-structure questionnaire. Based on the list of investors licensed in 2022 provided Gurage zone Investment Agency which are found in 9 woredas and 1 town administrations about projects were licensed, Since the Investment department in Zone level is recently recognized itself as one of independent sector. It is rather difficult to limit the time for which the data to be taken. The researcher options to consider Privet investment that are currently licensed and started work in Gurage Zone. Stratified sampling techniques were

employed based on their type of business and investments samples will be selected from total population.

### **1.7 Limitations of the Study**

The following are some of the limitation of the study:-

The study faced limitations like:-

- Lack of well-organized information to provide answer with interest from investors.
- Unwillingness of some investors or their representatives to fill the prepared questionnaires.
- Lack of institutional strength of investment desks at Woreda and city administration level also makes access to comprehensive data difficult.
- Insufficiency of time and money to effectively collect the data on time.

### **1.8 Definition of Terms**

**Agency:** means the Ethiopian Investment Agency established by regulation of council of ministers

**Capital** means local or foreign currency, negotiable instruments, machinery or equipments, buildings, initialworking capital, property rights, patent rights, or other business assents (Ibid).

**Growth and Transformation Plan:** is a national five-year plan created by the Ethiopian government to improve the country's economy

**International Monitoring Fund:** is an international organization created for the purpose of standardizing global financial relations and exchange rates.

**Investment:** refers expenditure of capital by an investor to establish a new enterprise or to expand or upgrade one that already exists (proclamation 280/2002)

**Investor:** means a domestic or foreign investor having invested in Ethiopia(Proclamation 280/2002)

**Private investment:** is concerned with commitments of capital by individuals and/or private firms in agriculture, industry and service sectors in Gurage zone with the anticipation of realizing a future return.

**World Bank:** is an international financial institution that provides loans to developing countries for capital programs.

## **CHAPTER TWO**

### **2. REVIEW OF RELATED LITRATURE**

#### **2.1. Role of Private Investment**

The role of the private sector in driving sustainable and inclusive growth, poverty reduction, and creating jobs in developing countries is indispensable. For instance, a report by the European Commission (EC) revealed that the private sector provides approximately 90% of jobs in developing countries (EC, 2014). The sector is also important in contributing to the growth of gross domestic investment and allocating resources efficiently (Nwakoby and Bernard, 2016). The private sector is, thus, identified as an essential stakeholder in fighting poverty, creating employment opportunities, ensuring long-term economic growth and hence a pathway towards inclusive economic growth and transformation of the economy (Bessie, August 2022).

In Ethiopia, the private sector plays a leading role in the structural transformation process towards industrialization and, hence, has been given much emphasis by the Government of Ethiopia (GoE) over the last two decades. This was noticed in several national policy documents, including the Industrial Development Strategy (IDS) (2002); Sustainable Development and Poverty Reduction Program (SDPRP) (2002/2003-2004/2005); Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (2005/2006-2009/2010); Growth and Transformation Plan I (GTP-I) (2010/2011-2014/2015); and Growth and Transformation Plan II (GTP-II) (2015/2016-2019/2020). In particular, during the GTP-I and II periods, the government recognized the key role of private sector development in the process of economic development of the nation and spurred its engagement in the productive sectors of the economy. In response to this, various administrative, institutional and policy reform measures have been taken to leverage the private sector involvement in the productive sector of the economy, particularly, in the manufacturing sector (MoFED, 2010; PDC, 2016).

In response to the 2018 political reform in the country, the Ethiopian government introduced some restructuring measures to stimulate the performance of major economic sectors and made changes in the institutional arrangements. In connection to this, the government formulated a three-year Home-Grown Economic Reform (HGER) interim plan that emphasized the role of private sector development in sustaining the economic growth

trajectory of the country. HGER serves as a bridge between the GTP–II and the Ten Years’ Development Plan (TYDP) (2021-2030). The TYDP aims to sustain the rapid economic growth achieved during GTP-I and GTP-II by addressing key priority strategic pillars: ensure quality economic growth and shared prosperity, improve productivity and competitiveness; undertake institutional transformation; strengthen the technological capability and digital economy; ensure private sector leadership in the economy; ensure equitable participation of women and children; enhance access to justice and efficient civil services, build a climate resilient green economy; and strengthen regional peace building and economic integration. The plan gives due consideration to private sector development, aiming at strengthening their participation in key productive sectors in the years to come. However, the potential role of the private sector in sustainable development and the structural transformation of the economy were not fully optimized until recently (Bessie, August 2022).

## **2.2. Factors That Affect Private Investment**

Growth rate of real GDP, availability of credit, and public investment among others, have positive impact on private investment (Waktole, D.A, 2020 and Khan, 2007) on their studies on what determines private investment in Pakistan they have divided the factors that affect private investment in to two broad categories as economic factors and noneconomic factors. According to their report on the basis of theoretical and empirical considerations in developing countries, private investment is determined mainly by level of domestic output, real interest rate, public investment, size of the external debt and macroeconomic stability. In developing economies due to the reason that there is underdeveloped capital markets and financial intermediation, the other important factor that affects the private sector investment is credit constraint. Bank loans and external borrowing may be the only sources of credit available for private sector investment financing because of the absence of long-term financing and the futures market in developing countries.

The other important economic factor is the exchange rate. The real costs of buying imported capital goods and the profitability of the private sector is affected by change in currency value and also this change possibly causes investment to change. In addition it may result into change in real income of the economy as a whole, thus changing the production capacity. Due to its impacts on competitiveness and export volumes, the investment through sectors producing internationally traded goods is also affected by the change in exchange rate.

There are also some other non-economic factors that are important for the rapid private sector investment growth in addition to economics factors. These non-economic factors are good governance, quality of institutions and entrepreneurial skills for the private sector to make big investment decisions based on a rational assessment of risks and potential pay-offs.

These factors play important role with the economic factors.

Political instability is also another non-economic factor that may affect private investment, and here there are two approaches to define political instability. “In the first approach it is defined as instability of the executives i.e. propensity to observe government changes which is associated with policy uncertainty for example threat to property rights. Second approach is based on socio-political unrest that is measured by some index of variables related to such unrest. Both the measures, however, are difficult to construct (Khan, 2007).

According to (Charles and Bradford, 2002), investor’s investment strategy will be affected by five most common and important constraints which are:

**Resource:** It is probably the most obvious constraint because if one cannot have money, he or she cannot invest at all. Beyond that, certain types of investments and investment strategies either explicitly or effectively have minimum requirements.

**Horizon:** the investment horizon refers to the planned life of the investment. Individuals frequently save for retirement where the investment horizon depending on his or her age, can be very long. On the other hand, he or she might be saving to buy a house in the near future, implying a relatively short horizon.

**Liquidity:** for some investors, there is the possibility that an asset will need to be sold quickly. In such cases, the asset’s liquidity is particularly important. An asset with a high degree of liquidity is one that can be sold quickly without a significant price concession.

Such an asset is said to be liquid.

**Taxes:** Different types of investments are taxed very differently. When we talk about the return on an investment, what is really relevant is the after tax return. As a result, taxes are a vital consideration. Higher tax bracket investors will naturally seek investment strategies with favorable tax treatments, while lower tax bracket (or tax – exempt) investors will focus more on pretax returns.

**Special Circumstances:** Beyond the general constraints discussed above, essentially everyone will have some special or unique requirements or opportunities. For example, many companies

will match certain types of investments made by employees on a dollar for- dollar basis (typically up to some maximum per year). In other works, you double your money immediately with complete certainty.

For the above objectives and constraints (Charles and Bradford, 2002) have also put four key areas in formulating an investment strategy or policy; these four key areas that must be addressed are investment management, market timing, asset allocation, and security selection.

**Investment management:** A basic decision that you and every other investor must make is whether you will manage your investments yourself or hire someone else to do it. Often investors partially manage their investments themselves and partially use professional managers. For example, you might divide your money between. Say, four different mutual funds. In this case, you have hired four different money managers.

**Market Timing:** A second basic investment decision you must make is whether you will try to buy and sell in anticipation of the future direction of the overall market. For example, you might move money into the stock market when you thought it was going to rise, and move money out when you thought it was going to fall. This activity is called market timing. Some investors very actively move money around to try to time short-term market movement; others are less active but still try to time longer-term movements. A fully passive strategy is one in which no attempt is made to time the market.

**Asset Allocation:** Another fundamental decision that must be made concerns the distribution of your investment across different types of assets. Different asset types- small stocks, large stocks, and bonds have very different risk and return characteristics. In formulating your investment strategy, you must decide what percentage of your money will be placed in each of these broad categories. This decision called asset allocation.

**Security selection:** Finally after deciding who can manage the investment, where you will try to time the market, and the various assets classes you wish to hold, you must decide which specific securities to buy with in each class. This is termed security selection (Charles and Bradford, 2002).

### **2.3. Factors Affecting Investment in Developing Countries**

Public investment, real GDP, external debt servicing, and access to bank credit have significant positive effect on private investment while lending interest rate and foreign direct investment have significant negative effect on performance of private investments (Fujaw.

W,2018). Output/national income, public investment and exchange rate are the critical variables affecting the performance of private investment (Batu, M., 2016). GDP and public investment are the most powerful factors that affect private investment (Bonga, G. W & Nonie T., 2017).

Determinant factors of investment in developing countries includes financing availability, the role of government investment, external inflows, the size of external debt, market structures, the level of protection, and the degree of price distortions are some of them (Khaled,1993).

**Financing availability:** As compared to developed countries, the financing constraint is somehow more affecting in developing countries. There are two main reasons that self-financing is less available in developing countries, first, many firms in developing countries are undeveloped and new and therefore, they have limited ability to accumulate adequate financing. And secondly, low per capita income is often accompanied by low savings that leads to fewer resources being available to finance investment.

**Foreign capital inflows:** It has an important impact on investment whether they are in the form of debt flows or equities. They can ease the domestic financing constraint, and also they can generate crowding in effects by creating linkages and externalities. Foreign direct investment has required for many reasons such as the introduction of new technologies, upgrading of the capital stock, and enhancement of competitiveness and dynamism in the economy. But this study will not incorporate the foreign direct investment.

**External debt:** “As foreign inflows accumulate, the issue of external debt arises in two respects. First, higher debt servicing involves a larger contractual claim on available resources. This means, *ceteris paribus*, that fewer resources will be available for investment.

Moreover, as concern rises about declining creditworthiness, the cost of new external credit would tend to increase (Mirakhor and Montiel, 1987) and El-Erian, (1992).

The second respect, leading to the "debt overhang effect," relates to investors' perceptions of future returns on investment. Specifically, as debt grows significantly, investors' risk aversion would tend to rise, reflecting concerns about the country's ability to meet future contractual debt servicing without raising effective taxation (Corden, 1988 and Dooley et al, 1990).

**Profitability and market structure:** As incentives to investment and as a source of financing the role of profit was useful. It is fact that everything that affects profitability will also affects the investment in the same direction. In the literature, the impact of taxes on investment has

been given special attention. Market structure is also another important factor that affects profits and therefore it will affect investment. The more the market deviates from its competitive paradigm, the profits are likely to be higher. And therefore, investment is expected to be inversely related to the degree of competition in the market.

**Uncertainty:** Expectations play a crucial role in investment decisions in any country, and therefore economic and political instability and uncertainty can have a harmful effect on investment. Efforts designed at encouraging private investment have to be supported by sound macroeconomic policies and adequate regulatory and supervisory structures in a country which maintain clarity and reasonable stability.

**Government expenditure:** “The final factor that is considered here is that of government expenditure. A priori, government expenditure can have either a positive or a negative impact on private investment. Government expenditure can positively influence private investment by raising effective demand, which can lead to a rise in profitability and investment. Also, if government expenditure is geared toward investment in required infrastructure, it can help relax existing constraints, reducing transaction costs for the private sector, thereby raising expected profitability and encouraging private investment.

Furthermore, government investment can crowd in private investment when it targets activities which have strong linkages with the rest of the economy (TunWai and Wong, 1982) as cited by (Abiote.A,2018)

## **2.4 Investment Opportunities**

USAID (2005) on their publication on Investment Opportunity Assessment for Timor-Leste they have identified that the natural resource of the country, its rich culture, availability of lower labor cost, strong leadership and vision of the government where the head of state is directly involved and stability of the country were among the opportunities identified.

According to the final report of the (Caribbean export development agency, 2004), the investment opportunities in Saint Lucia starts from their openness for foreign investment and their commitments under international agencies such as World trade organization (WTO) and their commitments under Caribbean Community and Common Market and Caribbean Single Market and Economy in trade services. Priority investment areas identified include information technology, hotel and resort development and financial services. (Giwa,2000) in

Nigeria stated that there is a wide range of industries with high investment prospects. Specific industries that have been given priority for private sector investment are the following

Building materials industry including cement, roofing sheets, ceiling materials, ceramics and floor/walls tiles, door locks, carpets, plumbing materials, steel pipes, window and door frames and fittings.

Engineering and transport that includes components for automobile industry, machine tools and plant maintenance industries, metal working, aluminum rolling and extrusion.

Chemical Industry including down-stream petro-chemicals, industrial chemicals, nitrogenous fertilizer manufacture, pharmaceutical products, and films.

Electrical and Electronics as distinct from assembly of components, switches, fuses, switch boards and transformers, scientific instruments; school and medical laboratory equipment.

Other areas of investment opportunities in Nigeria are agricultural and processing of agro allied products, oils and gas with renewed emphasis on gas and solid mineral exploitation precious stone, gold, coal, bauxite and tin, etc. Privatizations, financial management and consultancy services, iron & steel, stone cutting and polishing are among other areas of investment opportunities in Nigeria.

When we come to Ethiopia according to (UNCTAD, 2000) abundant, low-cost, disciplined and trainable labor force, the size of its domestic market and the numerous river basins affording great potential for irrigation and hydropower generation are Ethiopia's comparative advantages. And also for potential investor's key opportunities exist are state privatization programs, agriculture, agribusinesses and processing, mining and resource development, infrastructure development, manufacturing and tourism.

According to the (Ethiopian Investment commission report 2019), Ethiopia has registered a consecutive double digit economic growth for a decade and half. Public investment, particularly in infrastructure, has been the principal driver of its recent economic growth, which helped the country to achieve concrete results in socio-economic development spheres of the nation.

Ethiopia has been attracting high amount of FDI in recent years. According to recent World Bank report, Ethiopia tops east Africa in attracting FDI, with almost half of the inflows to the east African region. The existing suitable development policies, the government's special

attention to the sector, competitive and trainable labor force are among the major factors that enabled the country to become successful in attracting FDI. As one of the largest recipient of FDI in Africa, Ethiopia has attracted several global brands highlighting competitive investment opportunities.

The government of Ethiopia has taken serious measures in liberalizing the economy, removing structural or regulatory constraints for development. The “Home-grown Economic Reform Agenda” launched in September 2019, aimed at unlocking the country’s development potentials, further advances past gains and takes improvements where there were gaps in the country’s development endeavors. This new initiative endeavors to attract private investment in the sectors of agriculture, manufacturing, mining, tourism, and Information and Communication Technology-(ICT). Also the strategic sectors for investment, as identified by the government, are agriculture, textile and apparel, leather and leather products, pharmaceuticals, agro-processing, ICT, power, mining, and tourism( EIC, 2019).

## **2.5 Challenges in Involving On Investment Activities**

### **2.5.1. Plant Capacity and Technology Utilization**

Even if innovation is understood as introduction of a known product, production technology or process that is only new to the local environment, the rate of innovation is low. As (Oyeyinka 2007) points out, although innovation happens in every country, the nature of innovation and innovation processes varies according to a given economy’s stage of development. All countries of SSA are at a development stage where existing innovative activities are focused on minor improvements in products or processes and largely confined to learning by using existing foreign technologies. Very few firms pursue systematic research and development activities (Gamba, 2005). Innovation processes in SSA are thus largely related to diffusion and only rarely to inventions

### **2.5.2. Domestic and Foreign Market policies and challenges**

In the Importance of industrial policy in addressing distortions that constrain structural change, the first distortion relates to the presence of market failures; the second to coordination failures; and the third to technological accumulation and the acquisition of knowledge. The traditional view in economics was that markets are efficient and state

interventions should not influence the allocation of resources across sectors. However, there is a growing consensus <sup>22</sup> that markets do not necessarily lead to efficient or desirable outcomes and the state has a role to play in this regard. One of the well-known market failures that industrial policy can address is information and cost discovery externalities (UNCTAD and UNIDO, 2011).

According to (Hausmann and Rodrik 2003), information externalities deter firms from exploring new economic activities, especially in developing countries where property rights are not enforced. This arises because the first firm to invest in cost discovery bears all the costs, while rival firms learn from the outcome of the first entrant. Due to this free riding problem, investment is minimal as no firm is willing to make any effort in the discovery of new products. Industrial policy can thus be used to promote entrepreneurial entry, survival and compensation for innovation through patent rights and copyright laws (Lin and Chang, 2009). Another type of market failure relates to environmental externalities. These arise because firms, motivated by profits, do not incorporate pollution and environmental degradation costs in their investment decisions. Industrial policy can be relied upon to correct this, by supporting the development of green technologies, as well as production processes that are environmentally friendly, resource efficient and low carbon intensive (Hallegatte et al., 2013). The second need for market policy arises due to the presence of coordination failures (Pack and Saggi, 2006). Coordination failures occur because the feasibility and profitability of most economic activities is contingent on the existence of complementary investments. This implies that a firm is unwilling to invest in a particular sector if there are other firms that support its production process. In the absence of such an environment, entrepreneurial and domestic production may be adversely affected. Therefore, the state has a responsibility to promote and coordinate collective investment decisions from independent actors and firms (Altenburg, 2011).

In an analysis of manufacturing firms in Ethiopia, (Gebreeyesus and Mohnen 2013) provide evidence that supports the importance of firm coordination and networks in promoting technological innovation. The authors show that local business relations constitute the key channel through which firms acquire knowledge on market opportunities, new products, competitors and production techniques.

### **2.5.3. Institutional and Industrial policies and challenges**

Besides the need to correct market and coordination failures, industrial policy can address deficits in technological accumulation and learning among firms. In developing countries, domestic firms rely on existing technologies to boost their technological capabilities. Empirical evidence tends to confirm that the income convergence of East Asian countries towards that of developed countries was accelerated by industrial policies that promoted constant learning and knowledge accumulation among firms (Rodrik, 2009). This is in line with firm-level evidence that shows that patent rights have a positive and significant impact on the ability of firms to allocate their investment resources to research geared at developing new production techniques (Allred and Park, 2007). In a case study of the flower sector in Ecuador, (Hernandez et al. 2007) highlight how industrial policy fostered coordination between production on the one hand and the transportation of flowers to foreign markets on the other. The authors highlight the role of the association of flower exporters in convincing the government to increase the number of cargo flights by its national airline in order to promote the production and export of flowers. Empirical evidence from (Teixeira et al. 2014) shows that sub-Saharan Africa fails to ignite industrialization due to the support for production processes that are beyond its human and financial capacities. The authors argue that most countries failed because they promoted capital intensive sectors rather than capitalizing on their comparative advantage in labor and natural resources. (Hornsby, 2012) critically examines Kenya's industrialization history in manufacturing private vehicles in the mid-1980s. (Chang, 2013) examines four common industrial policy challenges argued to be the most binding in the African context. These include structural impediments such as climate, geography, culture and history; the abundance of natural resources; political economy issues; and bureaucratic capabilities. The institutional constraints arise due to interaction of firms with government to comply government regulations (World Bank, 2003). This has effects on the activities of firms like the infrastructure and financial constraints. The influence of institutions on economic development is highly acknowledged. (Rodrik et al. 2002)

### **2.6. Investment Opportunities in Ethiopia**

In Ethiopia there are different investment opportunities which were given more priority. All investment areas may not be successful without considering the important factors significantly

affect the growth of the investment sector of the country. The government of Ethiopia clearly specifies the areas of investment those are conducive to both foreign and domestic investors. Foreign investors are given more priority by establishing different incentives for potential investors who were capable of investing their money in different areas. All the areas were based on careful study and analysis done by different agencies, specifically by EIA and NBE. These areas were discussed below based on the data gathered from different sources.

## **2.7. Private-Sector Development in Ethiopia**

Over the last three decades, the government of Ethiopia has been implementing various policies and strategies. It started with the Industrial Development Strategy (IDS), which has been in practice to date. Subsequently, a five-year Sustainable Development and Poverty Reduction Program (SDPRP) were implemented from 2002/2003-2004/2005. Then, a Plan for Accelerated and Sustained Development to End Poverty (PASDEP) was implemented from 2005/2006 to 2009/2010, which was sequentially followed by the Growth and Transformation Plan-I (GTP-I) (2010/2011 to 2014/2015) and the Growth and Transformation Plan-II (GTP-II) (2015/2016 to 2019/2020). Currently, based on GTP I and GTP II progress evaluation results and the Home-Grown Economic Reforms (HGER) policy direction, the government designed and implemented the Ten-Year Development Plan (TYDP) in 2020/2021 to be implemented until 2029/2030 (Bessie, August 2022).

According to the Ethiopian Investment Commission (EIC, 2021), a total of 113,127 private sector investment projects<sup>4</sup> were registered across all regional states and city administrations between 1991/2002 and mid-2021. Among the projects, the majority of the investment is owned by domestic private investors (94.75%) (107,189 projects), and the remaining 5.25% (5,938 projects) is owned by foreigners. Of the total investment projects registered, 7.87% or 8,901 projects are in the implementation (construction) stage, 43,363 projects, or 38.33%, have launched operations, while the remaining 59,400 projects, or 52.5%, are pre-implementation (licensed investment) projects by mid-2021. This means that less than half (46%) of the total registered private investment projects are converted into actual investments, indicating the slow pace of implementation of private sector investment projects over the past three decades (Bessie, August 2022).

## **2.8. Challenges and Constraints of Private Sector Investment in Ethiopia**

This section examines the main challenges and constraints of private sector development in Ethiopia. A series of economic reforms have burnished and promoted the country's profile among the international private sector keen to tap Ethiopia's competitive labor force, emerging domestic market, and regional trade access (FDRE, 2020). The government aims to expand the role of private sector investment by providing various policies and strategies to support the development of industrial parks to encourage FDI inflow to the country. In response, the country's exports, job opportunities, and transfer of knowledge and technology have been improving over time (WB, 2021). However, the government invested heavily in industrial parks to be transferred to private sector investors and attempted to address various constraints and challenges that would limit both competitiveness and resilience to various shocks in private sector investment. The result of various empirical studies shows that the private sector faces key challenges which prevent it from playing a much greater role in driving economic growth and job creation (Kifle and Atilaw, 2018). In addition, the ongoing COVID-19 pandemic and political unrest, which are causing instability in different parts of the country, are adversely affecting private sector investment, with direct impacts on consumer demand decline, contracted product markets, the blocking of foreign revenue and importing valuable inputs that have access to finance and are vital to private sector development (FDRE, 2020). Therefore, in exploring the contemporary challenges and constraints of private sector investment in Ethiopia, this study explored different datasets, namely: the Enterprise Survey (2015),

## **2.9. Empirical Frame Work**

A number of empirical studies on private investment have been conducted from different perspectives in both developed and developing countries focusing on different variables that determine private investment.

Fiestas and Sinha (2015) who analyzed the empirical studies on the constraints of private Investment in developing countries identified the following barriers: a weak business environment shifts downward the size distribution of firm, poorly developed capital markets limit exit opportunities for equity investment, Poor enforcement of contracts, Inexistent and/or ineffective bankruptcy laws, The weakness of financial and management skills on the part of the entrepreneur.

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.

Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return (GIIN, 2002). Government resources and charitable donations are insufficient to address the world's social problems and so impact investing offers a new alternative for channeling large - scale private capital for social benefit. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market-to-market rate, depending upon the circumstances. Impact investors actively seek to place capital in businesses and funds that can harness the positive power of enterprise (Silby, 2011).

According to the World Bank (2004) assessment on the business environment that faces firms operating in Uganda, Kenya, and Tanzania, both foreign and domestic firms face several constraints that impede their day-to-day operations. Apart from the somewhat predictable complaints about the cost of finance and tax rates, firms complain about macroeconomic instability, the availability of reliable electric power, corruption, tax administration, and crime. A higher proportion of foreign firms complain about corruption in all three countries, suggesting that foreign firms bear a greater burden of non-official payments, or at least are more sensitive to their prevalence.

Looney (1995) concluded that public investment on infrastructure has not played an important role in stimulating private investment. It is the private investment that has stimulated a follow on expansion in infrastructure.

It is now widely accepted that the expansion of private investment should be the main impetus for economic growth, allowing public investment resources gradually to focus on social areas including alleviation of poverty and the upgrading of social capital and services (Chiber and Dailami, 1990).

In addressing the role of private and public investment in the economic growth process for 24 Latin American and Asian countries using a cross section sample, Khan and Reinhart (1990)

found that private investment and public investment have a different effect on the long run rates of economic growth. Furthermore, they identified that private investment plays a much larger and more important role in the growth process than doe's public investment. In contrast, public investment has no statistically significant effect on growth.

Calamitsis, Basu and Ghura (1999) using data for 1981-1997 for Sub-Saharan Africa found that private investment is large and statistically significant compared to government investment in growth analysis. This result underscores the crucial role played by private investment in boosting growth.

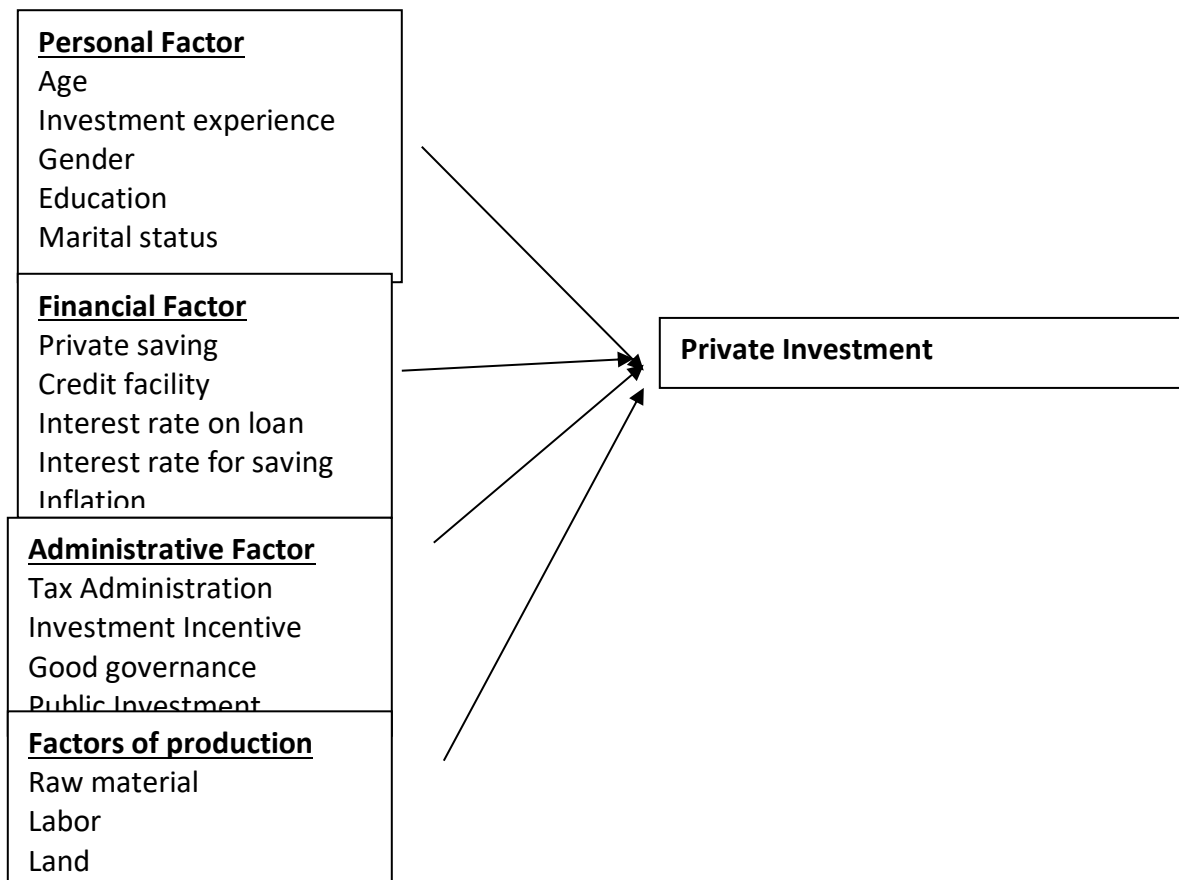
Generally, the above summarized review of the empirical literature on impact of investing and micro level factors affecting private investment revealed that are different factors that connecting large-scale private capital for social benefit and factors affect private investment at different levels by excluding the prospects of PI. Thus, this study attempted to identify factors affecting private investment and its contributions to public infrastructure in the study area.

## 2.10. Conceptual Framework

In order to make the study conceptualized and easily understandable, it was framed and hypothesized based on the factors reviewed from literatures in the following way.

The conceptual framework (Figure 1) reveals the relationship between the personal factors (age, gender, education, marital status and investment experience), financial factors (private saving, credit facility, inflation, interest rate given for saving and interest rate charged on loan), administrative factors (tax administration, investment incentives, good governance and public investment), factors of production (land, labor and raw material) and the private investment. In addition, for the smooth running of the study, the null hypotheses were developed using each of the 17 variables depicted on the conceptual framework.

Independent Variable



**Figure 1.** Conceptual framework.

Source: combined from Literatures

## CHAPTER THREE

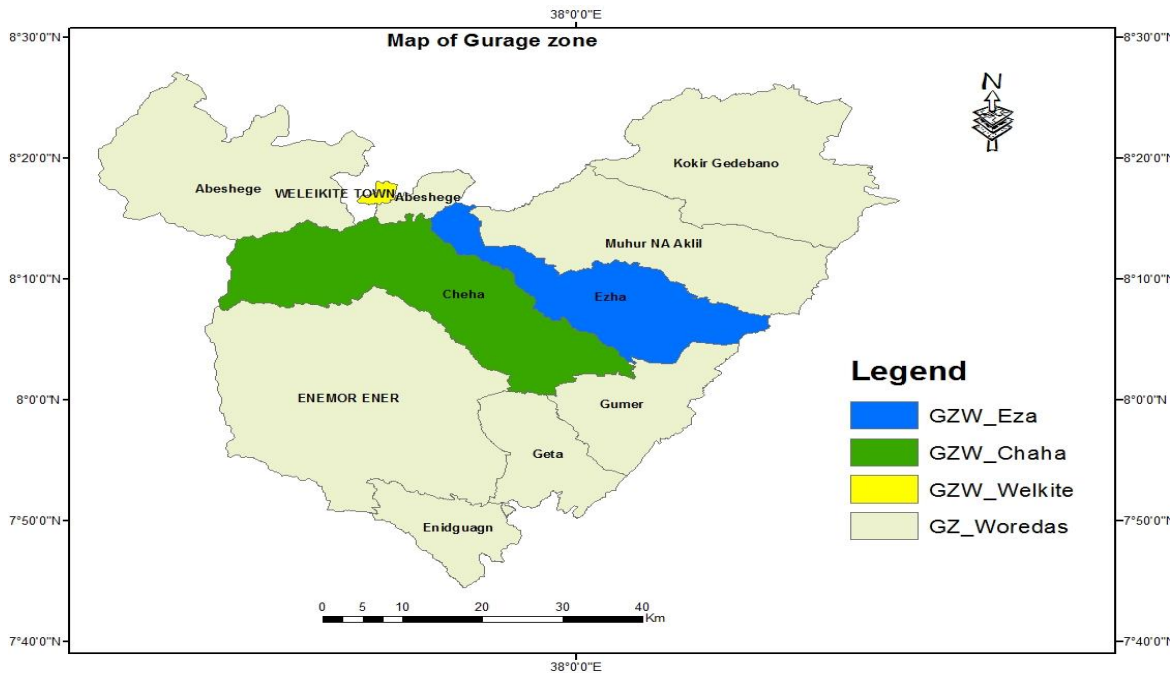
### 3. RESEARCH METHODOLOGY

#### 3.1. Description of the Study Area

Gurage zone is one of the 7 zones of Central Ethiopia region. It is located at 90 km north of the Central Ethiopia region capital (Hosanna) and 155km south of Addis Ababa. Gurage zone is bordered in the North Kebena special woreda, Northwest, Northeast and East by Or Omiya region, in the West by Yem special woredas, in the east East Gurage in the South by Hadiya zone, and in the Southeast by Silte zone. Astronomically, Gurage zone extends from  $7.76^{\circ}$ — $8.45^{\circ}$  north latitude and  $37.45^{\circ}$ — $38.71^{\circ}$  east longitude.

Gurage zone contains 10 woredas and 5 city administrations. According to Gurage zone plane commissions Department statistics 2022 .the total population of Gurage zone is 1,332,164 (Male 637,421 Female 694,743).

The mean annual temperature of Gurage zone varies from  $7.5^{\circ}\text{C}$  in the highland areas to  $25^{\circ}\text{C}$  in lower places. The rainfall ranges from 801mm to 1400mm.



Source: Gurage Zone Administration, 2018.

**Figure 2.**Map of Gurage Zone

Most of the people in the Woredas are Ethio Semitic origin speaking about four Gurage dialects and they are followers of two dominant religions Christianity and Islam (ibid).

According to Zonal investment symposium report (2017), the diverse agro ecological zone provides well environment for cultivation of varied crops and rearing of various species of livestock. 'Enset' is the perpetual staple crop while cereals, legumes, tubers are also widely produced. Cash crops such as red pepper, Chat, Eucalyptus tree and Coffee are produced. Gurage zone Investment Agency that promotes conducive and encouraging environment for investment. Recently the zone is potential of zonal investment in rural and urban areas agribusiness sector, industry and service sectors. From 2014 to the end of 2023 about 231 licenses have been given to private investors.. From the total given licenses 64% are improving their projects and the rest of them are terminated and rejected with different reasons.

### **3.2. Research Design**

Descriptive researches are used to provide quantitative explanations that help us logically simplify large amounts of data in a manageable format. As defined by (<https://research-methodology.net/descriptive-research/>), Descriptive research is used to describe the characteristics and behavior of the sample population. The descriptive design aims to define and identify the characteristics of variables. Therefore, the research result will provide an accurate understanding of the features that will inspire further research. In this design, quantitative data such as frequencies and means become essential (Sekaran and Bougie, 2009).

### **3.3. Research Approach**

The descriptive research design uses both qualitative and quantitative research method, which is mixed-method data analysis. Qualitative research method was applied to explain the challenges and opportunities and to obtain systematic sequence of information to get into the depth of the research problem and quantitative research method was used to provide numerical measurement and analysis of the magnitude and extent of the problem.

### **3.4 Target Population**

According to the Gurage Zone Investment office report of the 2022 the total populations of private investors in the Zone who are registered, licensed and started operation in the

(agribusiness, industry and services) till 2022 are Two hundred thirty one (231) shown 4.2. 1 below.

### 3.4.1 Target Population

Population category	Population size	Percentage
Agribusiness	109	46.5 %
Industry	80	35 %
Services	42	18.5 %
Total	231	100 %

*Source, own survey, 2023*

### 3.5. Sampling Techniques

The study employed stratified sampling technique to select the actual sample size from the total study population. The study population was identified based on different sectors classified by the Zone office that have investment license and started operation which includes service sector, industry and agricultural sectors of the Zone. This is because the populations within the strata are homogeneous with respect to the characteristics on the basis of which it is being stratified.

After the data are stratified, simple random sampling method was used to select the sample respondents because each element in the population will have equal and independent chance of being selected in the sample. The researcher took a total of 70 respondents out of total population of 231 investments in the zone as shown below. The sample size for the study was calculated using the formula recommended by Yamane (1967)  $n = \frac{N}{(1+Ne^2)}$

Where, n is sample size

N is total population

$e^2$  Is probability of error?

Therefore the sample size for this study is:  $n = \frac{231}{(1+231(0.1)^2)}$  n = 70 With N = 231, e = 10% (at least 90 % confidence level), thus the sample size is 70

For qualitative data 12 key informant were interviewed based on their having full (enough) information and experience on investment department.

Since the study is stratified sector wise, the sectorial classification of the total population is shown below in table 3.5

### 3.5 Sectorial Classification of Samples

Sector	Population	Units
Service	42	13
Manufacturing (Industry)	80	24
Agriculture	109	33
Total	231	70

*Source, own survey, 2023*

Therefore, the total no of sample size is 70, out of total 231 target population which is 30.3 %. As stated earlier, to obtain proportional sample size from each strata level, 31 participants from Cheha, 18 from Abeshige 21, from Wolkite were determined to be selected for inclusion in the study by using lottery method.

Random sampling techniques were employed to select the participants of the study through applying a simple random sampling method from the identified list of target population in Gurage Zone. .

### 3.5. Data Sources and Data Types

The study has used both primary and secondary data source. The primary data were collected from selected investors in Gurage Zone by using survey questionnaire and an interview with the Zone investment office. Secondary data was collected from different reports of the Gurage Zone investment office, which are relevant to the study.

### 3.6. Data Collection Tools

The study has made use of survey questionnaire adopted from (Molla and Ayele (2019), Yehula (2019)) and modified by the researcher in the context of Gurage Zone. The questions include in the questionnaire are both open and close ended. The open ended questions were mainly to gather information on the opportunities of private investment and close ended

questions were used for the demographic structure of investors and to identify the challenging factors.

The survey instrument employed in this study was a three page questionnaire distributed to the different investment sectors in the Zone. A total of 33 questions were included in the questionnaire by dividing them in to two parts. The first part of the questionnaire contains 11 questions which includes general information about individual investors, what attracted them to invest in the region and necessary improvements required by the investment office of the Zone. And the second part of the questionnaire will grouped into two categories base on previous information and challenging factors having a total of 33 questions. A Total of 70 questionnaires was distributed and out of these 68 questionnaires was collected representing a response rate of 97% percent. From the collected questionnaires some open ended questions were incomplete

### **3.7. Methods of data analysis**

#### **3.7.1 Quantitative data analysis**

Data were analyzed using descriptive statistics with the tool, Statistical Package for Social Science (SPSS Version 26) computer program mainly to run the questionnaire. The respondents' scores were summarized and analyzed using both simple statistical techniques such as tables and percentages, and descriptive statistics like mean were used. Other source such as journal articles, previous studies of researchers, reports of the investment office and other Internet sources were used to analyze the data. Finally, based on the results and outputs of the descriptive analysis, the study was interpreted and concluded by looking both the problem and objective of the study to show the meaning and explanation of the research and by answering the research questions as well.

#### **3.7.2 Qualitative data analysis**

The qualitative data collected from different sources was summarized, categorized and code to go with for analysis. On the other hand, the data that was obtained from interviews and document analysis would be analyzed qualitatively by transcribing respondent's ideas and views through narrations, descriptions and discussions.

### **3.7.3 Validating data gathering instruments**

Validity is the degree to which a test measures what it declares to measure (Creswell, 2009:190-92). Validity defined as the accuracy and meaningfulness of the inferences which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represents the phenomena under study. It contends that the validity of the questionnaire data depends on a crucial way the ability and willingness of the respondents to provide the information requested.

A pilot study was conducted to refine the methodology and test instrument such as a questionnaire before administering the final phase. The survey instruments were initially developed based on the existing literature and designed questionnaires in English. The English version was later translated into Amharic language. The translation was made because of the need to ensure the easy understanding of the questions addressed. Questionnaires was tested on potential respondents to make the data collecting instruments objective, relevant, suitable to the problem and reliable as recommended by John Adams *et al.* (2007:136). Issues raised by respondents were corrected and questionnaires were refined. Besides, proper detection by an advisor was also taken to ensure validity of the instruments. Finally, the improved version of the questionnaires were printed, duplicated and dispatched.

The instruments selected can help to show factors affecting private investment and its contributions to public infrastructure. It can clearly address prospects and challenges of private investment. The relevant data was collected; the structured and unstructured interviews can also validate the measurement.

### **3.7.4 Instrument Reliability**

The reliability of instruments measures the consistency of instruments. Creswell (2009:190-92) considers the reliability of the instruments as the degree of consistency that the instruments or procedure demonstrates. The reliability of a standardize test is usually express as a correlation coefficient, which measures the strength of association between variables. Such coefficients vary between -1.00 and +1.00 with the former showing that there is a perfect negative reliability and the latter shows that there is perfect positive reliability.

In this study each statement rated on a 5 point liker response scale which includes strongly agree, agree, undecided, disagree and strongly disagree. Based on this an internal consistency

reliability test was conducted in Gurage zone with a sample of 11 private investors and the Cronbach's alpha coefficient for the instrument was found as 0.728 which is highly reliable. Typically an alpha value of 0.728 or higher is taken as a good indication of reliability, although others suggest that it is acceptable if it is 0.67 or above (Cohen et al., 2007:506). Since, instruments were developed based on research questions and objectives; it is possible to collect necessary data from respondents. Then, instruments are consistent with the objectives of the study.

### **3.8 Ethical considerations**

Throughout the work of the study the researcher would be tried to keep ethical issues in which any research is expected to consider. Therefore the researcher would be tried to produce reliable data collection instruments and used relevant source of information for the study.

In addition the researcher would be tried to create smooth relation with the respondents and gave full freedom to say anything they feel. Moreover confidentiality of the information gather would be kept, that is the private information such as attitudes and opinion was not exposed to others to keep the privacy of respondents and participants and would not use for any other purpose except the intended academic aim.

Ethical clearance was obtained from Wolkite University College of social science and humanities. Permission letters was received from Gurage zone investment department and formal letter was written to different concerned bodies.

## CHAPTER FOUR

### Result and Discussion

This chapter presents the findings and interpretations of the findings of the study on the prospects and challenges of private investment in Gurage zone. The discussion of result was analyzed in connection with the objectives of the study. Interview and document review had been conducted to get support and fill the gap where the questionnaires didn't encompass.

#### 4.1. Response rate (Response to research instruments)

For the purpose of this study, the researcher distributed 70 questionnaires to employee respondents assuming to collect all of them filled. However, 2 questionnaires were not returned. The remaining 68 valid questionnaires were sufficient with a response rate of 97.1%.

#### 4.2. GENERAL BACKGROUND OF RESPONDENTS

##### 4.2.1 Socio-demographic Background of Respondents

The group of questions contained in the questionnaire, items 1 through 5, described the demographics of the study participants pursuant to gender, age, level of education, experience and nationality of private investors. Table 4.2.1 is a descriptive analysis of the respondents by gender, education, and age and also nationality level.

##### 4.2. 1.Respondent background information in private investment in Gurage zone

Variables	Category	Frequency (N=68)	Percent
Year of establishment of the organization	less than 5 years	11	16.2
	5-10years	38	55.9
	above 10 years	19	27.9
	Total	68	100.0
Sex	Male	52	76.5
	Female	16	23.5
	Total	68	100
Education	primary school	2	2.9
	secondary school	16	23.5
	college diploma	18	26.5

	degree and above	32	47.1
	Total	68	100
Age	21-30	7	10.3
	31-40	17	25.0
	41-50	21	30.8
	above 50	23	33.9
	Total	68	100
Nationality	Ethiopian	68	100
	Foreigner	0	0
	Total	68	100
Responsibility	Owner	44	64.7
	Employed manager	24	35.3
	Total	68	100

*Source, own survey, 2023*

The study revealed 55.9% of investor's organization year of establishment is between five to ten years and 27.9% are above 10 years. This indicate that majority of the organization are within the developmental stage of their organizational life cycle where by having an opportunity to grow. In terms of sex 76.5% of respondents are male and 23.5% female. This indicates that males have highest number of participation than females so improvements are needed for the female engagement in private investment activities. In terms of the educational background of the study participantsthirty two (47.1 %) respondents reported having a degree and above educational status and eighteen respondents (26.5 %) reported had earned diploma. Sixteen respondents (23.5%) reported having secondary school. As seen from the above table regarding educational level, most of the respondents (73.6%) diploma and above higher education.

In addition the age groups of the respondents, majority of them which are approximately 95% are between 25-54 years. According to <http://Indexmundi.com>, the age structure of Ethiopia

from 25 to 54 is stated as a prime working age. Therefore, the zone has investors who have the ability work and excel in their field of business which is a great opportunity for the zone. Regarding to nationality all of the investors were Ethiopian. This implies that the investment activity in the zone is dominated fully by domestic investors and there is no foreign investors in the zone it also show that strong work on attraction of foreign investment

### 4.3 Investors Perception With Regards To Domestic Private Investment

Table 4.3 Investors’ perception with regard to domestic private investment

Perception with regard to attractiveness of the region for investment	Frequency	Percentage
Very Attractive	15	22
Attractive	35	51.5
Neutral	10	14.71
Less Attractive	8	11.8
Not attractive	0	0
Total	68	100

*Source, own survey, 2023*

Here investors were asked on their perception on the attractiveness of the zone with regards to investment by putting a scale ranging from very attractive to not attractive. Accordingly the majority of the respondents 51.5 % stated that the zone is attractive for investment, 22% very attractive, 14.71% neutral, and 11.8% less attractive as stated in table 4.2 (5) above. Therefore we can infer that zone is attractive for investment.

According to the report of the Gurage zone investment office report of 2023, the zone gives tax incentive as well as duty free privilege with collaboration with the federal government which gives initiative for investors to invest. Also, with the interview conducted with the investment office representative who stated that many of the investors who invest were initiated by the tax holiday and duty free privileges offered by the government. Therefore, the data above can be further affirmed that the zone for investment.

## 4.4 Opportunity of private investment in Gurage zone

### 4.4.1 Investment opportunity that attracted private investors in the study area

Private investment needs its own environment and it under considers as good opportunities for the investing. It depends on the environment such as; Access to Infrastructures and Financial institutions, Skilled and cheap labor, good governance and Access to Natural resources. Observation of most opportunities of private investment in the zone sample private investors rating in the following manner.

Table 4.4.1. Rate of most investment /business/ prospects observed in the zone

Variables	Yes	No
Infrastructure	35(51.4%)	33(48.6%)
cheap labor	31(45.8%)	37(54.2%)
Good governance	24(35.3%)	44(64.7%)
Access to Natural resource	51(75%)	17(25%)
Not opportunities at all	0	0

*Source, own survey, 2023*

According to the respondents rating the investment opportunity of the zone Accessibility of natural resource (75%), followed by infrastructure (51.4%), next cheap labor (45.8%), and good governance (35.3%). As indicated the survey cheap labor, good governance rate the least from the alternatives. This shows constraints are found related to these variables.

According to the interviewed officials response there are several opportunities to investment in the zone but Investors' weaknesses are late to start operation or construction, change of sector after obtaining of license, financial incapability, they do not use modern technology, lack of experience, they do not hire professionals, wage rate is very low, inefficient utilization of natural resources, they use the given land for contribute rent and they expand their investment land illegally.

From the books reviewed and read the Furage zone investment Department report 2023, It can be seen that there are many favorable opportunities for investment in gurage zone , which there was a wide supply of land ,there is a large number of unemployed young people ,suitable weather and convenient terrain , the zone is close to addis ababa, the presence of surface and

underground water from the wabe river flowing from kirmt to bega shows that the zone has a potential for investment.

Variations in private sector investments are linked with the situation of economic infrastructure, good governance and investment climate. The investment climate literature posits that good access to infrastructure enables enterprises to be productive, reduce costs and expand their businesses. Unreliable and inadequate electric power supply significantly reduces investment in productive capacity by firms and that if the costs incurred for regulation and licensing are unnecessarily high, the poor licensing and regulation will lead to low business entry and lower firm growth (World Bank, 2005). The results of this study are consistent with the investment climate literature. The finding is consistent with and replicates the studies by (Getu (2014) in Mekele and by Ephrem, *et al* 2015).

#### 4.4.2 Incentives given for investment in the zone

The formal private sector operates within the socio-political environment. The private sector investment is guided by the policy and strategic context of the country. The investment policy introduces a package of incentives so in order to tap information the type of incentives available in the zone participants were asked to indicate the kind of incentives they received. Among the study participants only 35.3% of investors think that the tax they are paying is appropriate. And investors perceived

**Table 4.4.2.** Incentives given for private investors in Gurage zone

Type of incentive	Frequency	%
Only Tax exemption	8	11.8
Only free machineries	3	4.4
Tax exemption & free machineries	13	19.1
Reward certificate	10	13.2
None of them are provided	38	51.5

*Source, own survey, 2023*

The proclamation number 15/1992 removed restriction on private investment and allowed for wide participation of private sectors. Several investment incentives were provided under article 130 of the proclamation. The proclamation provides that domestic and foreign investment should be exempted from import and export taxes and duty to income taxes holidays. Investment

designated priority regions and sector of investment should enjoy income taxes holiday for five years (Nigatu and Aklilu, 2006).

Private Investors sampled for this study rated the incentives currently provided by the government is Tax exemption (11.8%), due to free machineries (4.4%), both Tax and due to free Machineries (19.1%), Reward certificate (13.2%) and 51.5% of the respondent did not provide any incentives. To sum up about 48.5% of the respondents were benefited from the investment incentive, where as 51.5% of the sample respondents not benefited from the investment incentive. This shows that the above listed incentives are not effectively implemented and it appears in the study that there are no clear incentive packages for each and every investment sector. It appears that the authority does not have clearly identified incentives to private investors. So that investment incentive was the main factors that affect the expansion of private investment in study area.

#### **4.4.3 Investments allocated budget and created job opportunities**

According to this study the private investments allocated huge annual budget cumulatively about 1Bilion, 19 Million Ethiopian birr to run their business. Among the investments majority 36.1% of investors allocated annual budget greater than 10 million,34.7% of investors 1upto 5 million and the rest 29.2% of investors allocated 5 up to 10 million birr respectively. Totally in all 70 investment projects job opportunity were created for total of 3813 (2313 males and 1500 females) employed as permanent and temporary level.

Table 4.4.3. Annual allocated budget by investment projects in Gurage zone, 2023

Budget	Frequency	Percent	Valid Percent	Cumulative Percent
Budget 1 to 5 million	23	33.8	33.8	33.8
budget 5 to 10 million	20	29.4	29.4	63.2
Valid budget greater than 10 million	25	36.8	36.8	100.0
Total	68	100.0	100.0	

#### 4.5 THE contribution of private investment in public infrastructure

As described earlier in the review of related literature section while government resources and charitable donations are insufficient to address the world’s social problems impact investment can be considered as an alternative form for channeling large -scale private capital for social benefit (GIIN, undated). Impact investments can be made in both emerging and developed markets, and target a range of returns from below market-to-market rate, depending upon the circumstances. Impact investors actively seek to place capital in businesses and funds that can harness the positive power of enterprise (Silby, 2011). THE contribution of private investment in public infrastructure include road construction, electricity, health service, education service, clean water supply and job opportunity. Observation of most THE contribution of private investment in the zone sample private investors rating in the following manner.

Table 4.5 the contribution of private investment in public infrastructure in the zone

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	road construction	8	11.8	11.8	11.8
	Electricity	2	2.9	2.9	14.7
	health service	3	4.4	4.4	19.1
	education service	17	25	25	44.1
	clean water supply	14	20.6	20.6	64.7
	job opportunity	24	35.3	35.3	100.0
	Total	68	100.0	100.0	
Total		68	100.0		

*Source, own survey, 2023*

According to the respondents rating the investment **contribution** of the zone job opportunity (35.3%) followed by education service (25%), clean water supply (20.6%), Road construction (11.8%), health service (4.4%), and electricity (2.9%). According to the interviewed officials response there are several opportunities to investment in the zone.

#### 4.6. FACTORS considered pre-investing in Gurage Zone

The literature on private investment identifies that private investment behavior is (Wes) primarily influenced by profit motive and always characterized by risk and uncertainty (Weirich 1983). It is assumed that an investor takes various factors in to in making investment decisions. In order to know some of the factors that the investors had taken in to account the study participant were asked questions to indicate how much they agree or disagree for each statement that had influence on their investment decisions. Each item is rated on a five-point Likert-scale response. Presented in table below is the summary of the participants' responses relative to the questions addressed.

**Table 4.6.** factors considered pre-investing by investors in the study area, 2022

Variable	Measurement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Political stability	Frequency	3	2	5	42	16
	%	4.4	2.9	7.4	61.8	23.5
Market potential	Frequency	2	8	25	27	6
	%	2.8	2.9	11.8	36.8	39.7
Labor	Frequency	2	21	19	22	4
	%	2.9	30.9	27.9	32.4	5.9
Infrastructures	Frequency	2	11	9	43	3
	%	2.9	16.18	13.2	63.2	4.4
Access to Land	Frequency	3	13	28	24	-
	%	4.4	19.12	41.18	35.3	-
Image of the zone	Frequency	1	3	5	51	8
	%	1.5	4.4	7.35	75	11.75

*Source, own survey, 2023*

As can be seen in the table the majority of the respondent (85%) either agreed or strongly agreed that the Political stability was an important factor in their investment decisions. two respondents disagreed (2.9%) and three respondents strongly disagreed. Market potential one of the considerations of the investors from business sectors of service giving and industry. The

analysis reveals that about 39.7% of the respondents positively agreed that market potential of the people had influence in their investment decisions.

The analysis of major factors that influenced investors to make their investment decisions further indicates that 38.3 % the respondents indicated that they positively agreed that they started the investment activity because of the availability of Labor and in relation to labor cost the study data indicates that nearly half of the investors that is about 32.4% of the respondents agreed that availability of cheap labor cost had influenced their investment decision.

In other side 35.3 % the respondents indicated that availability of natural resource in the study area positively influenced they to start investment activity While 75 % of the respondents agreed that they were influenced by Image of the zone 5.9 % either disagreed or strongly disagreed they were not influenced by image of the zone.

As the study showed that there were different opportunities for investors to be initiated for participating in private investment activities in the study area. Indeed, the reasons are different from sector to sector and woreda to woreda. Meanwhile, to reveal what motivated them to invest in each sector, the study has identified some of the following reasons. For the majority of respondents, the common factors to invest includes political stability, the intention of investors to contribute for local economy, availability of high potential resources, good image of the zone, market potential and purchasing power of the people, cheap labor force etc. particularly, many investors look for investment areas which are new with low competition for skimming the market and increasing profit. Some other investors have invested intentionally to create job opportunity and benefit local communities through contribution for local economy.

In addition to the above reasons; Interest of investors for gaining experience in the each sector, Government policy/ Conducive investment policy attracts investors to invest in the three sector and direct invitation by government to invest in the area, Favorable environmental condition for investment in the three sector, Initiated by other successful investors, and an intention to introduce new technology are among the reasons.

Although these are among factors to invest, the above mentioned opportunities are not really sufficiently available in some parts of the study area and some factors like level of infrastructure and shortage of skilled manpower and market problem for some sectors are still existing and dissatisfying.

#### 4.7 Major factors that motivated /influenced for investment decisions

This section provides the factors that were found to motivate on investment decision within Gurage Zone. It also describes the factors being taken into consideration investor’s decision. Reasons for the investors to make their investment data on investment decision made in zone has been collected through the study. Table 7 below depicts frequency distribution of reasons cited for motivated reasons to investment decisions in the Gurage zone.

Table 4.7 Frequency Distributions of Reasons Mentioned for investment decisions

	Variables	Response	Frequency	Percentage
1	Friends' success story	Yes	30	44.12
		No	38	55.88
2	Because of good investment environment	Yes	61	89.7
		No	7	10.3
3	Because of accessed finance	Yes	47	69.12
		No	21	30.88
4	Potential investment opportunity	Yes	39	57.4
		No	29	42.6
5	Due to good infrastructure in the zone	Yes	14	20.6
		No	54	79.4
6	Due to good governance structure	Yes	18	26.5
		No	50	73.5

*Source, own survey, 2023*

Good investment environment is the most commonly cited reasons for make the investment in zone as the result showed the percentage figure is as many as 89.7% of the investors motivated by good investment environment .The next most commonly cite d reason for the study sample for the investment was that the accessed finance for investment project (69.12%) and the existence of potential investment opportunity in the zone (57.4%) followed. But due to good government structure is no significant portion of the respondents (26.5%) who reported when asked which of the reasons applied to them in the survey and due to good infrastructure in the zone accounts (20.6%). So from the survey purchasing power of the people, feasibility of the investment project, existence of good infrastructure and good government structure are found

to be factors negatively contributed to the private investment activities and those economic factors have the important role in the investment decision.

## 4.8 Challenges that affect the achievement of private investment

### 4.8.1 Investment policy of Ethiopia

The Ethiopian investment policy has been created, since in the beginning of the existing government. The present regulatory regime governing the private investment has under gone significant changes in case of Gurage zone investment department. Table below shows the satisfaction of private investors in the Ethiopian investment policy.

**Table 4.8.1** Satisfaction of private investors with investment policy in case of Gurage zone

Types of response	Frequency	Percent (%)
Fully satisfied	33	48.53
Partially satisfied	12	17.65
Totally unsatisfied	23	33.82

*Source, own survey, 2023*

According to (Dinhet *al.* 2012), with policy reforms that have been successfully applied elsewhere, Ethiopia could expand its export potential by orders of magnitude in several light manufacturing subsectors. Amendment of the policy has been done several times by the councils of ministers in order to solve problems related to investment. This study also shows that there is weak organizational structure to solve the constraints of private investment.

As per the information from the respondents fully satisfied (48.53%) of private investors and greater than half (51.47%) are not fully satisfied by the investment policy. As in-depth interviewee respondent, identified some of the investors in this category explained that the policy lacks implementation strategy. The other stated that it lacks well organizational structure to implement the policy effectively and underline the policy had forgotten the organizational structures which help the implementation of the policy under the ground.

### 4.8.2. The pre investment climate of the zone

The following table presents the post investment climate of the zone, of course after the investors got through the bureaucracy of the different governmental organizations working in the area of private investment. The participants were also asked to state the institution and the problems they had faced in an open ended format. The major themes identified from the

content of the responses listed below.

The Ethiopian investment agency rule states that the time it takes for a new investment license is only 4 hours and the officials of Gurage zone told on their interview to provide an investment license within 20 minutes but the response of sampled private investors in table below clearly shows that only (8.8%) of investors were provided the license within the specified time. The rest (91.2%) of the respondents' had spent more time to provide license.

Article 36 of the 1996 investment proclamation states that where regional government receives applications for the allocation of land for an approved investment, it shall be on the basis of federal and its own laws deliver the required land to the investor within a short period of time. The interview from Gurage zone investment officials told that currently the office has put in place a new system of giving land which has five steps. The first step is to check the investment license and the project to be implemented. Then land request form was filled by the investors which contain detailed questions about the land and the investor's status. Secondly, land for investment will be prepared, if possible by fulfilling the preferences of the investors. Thirdly, a board consisting of committee members will conduct a meeting so as to approve or suggest further considerations on the issuance of the land. Fourthly, legal lease holding contract of agreement be signed between the two parties, of course the necessary payments are made by the investor. Lastly, land holding certificate will be issued after an agreed amount of solid cash is put in blocked account as a proof that the investor has the financial capability for the other necessary constructions. It was pointed out that the money kept in blocked account will be immediately released after 10% of the construction is completed

**Table 4.8.1** the quality of service provisions by government officials to private investors

Variables	Less than 5days		6-10 days		11-15 days		Above 15 days	
	Freq	%	Freq	%	Freq	%	Freq	%
Investment license	2	2.9	3	4.4	8	11.7	55	80.9
Obtains land	1	1.5	1	1.5	5	7.3	61	89.7

Starting business	2	2.9	2	2.9	3	4.4	61	89.7
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*Source, own survey, 2023*

As can be seen in the table the overall rating for the quality of service received from land administration is 2.9% and some the respondents from town administrations respond that even after they are given land, they had to deal with kebeles officials so as to help them remove illegal settlers from their land. In addition though they paid lease price for the land they possess. According to in-depth interview, the necessary infrastructures were not put in place. Due to this, they were not put in place. Due to this, they were to incur extra costs for the provision of the infrastructural facilities. To sum up mean rating for the service obtained in investment offices which fall under the category of unsatisfactory. The analyses indicate that participants have unfavorable perception for the service of land administration. In fact, government officials also admit that investors may encounter the above mentioned problems for getting land but according to them, problems are not as severe as the views of investors. Since, investors expect fully problem free service provision and they don't consider the local reality. For example, investors are interested to get land without bidding. But according the government policy, land reserved for industrial zone can only be given without bidding. Therefore, the procedure of land provision or the policy of government is considered as a challenge. Since, the investors don't clearly understand where the weakness of government service. This indicates that government should consider these issues as inputs of policy formulation and give awareness for investors about the regulations and policies of investment to deduce their confusion.

The last one is about starting their business which is majority (89.7%) of the respondents' started their business after 15 days of provision of the investment license. The fact that private investors have many contact governmental organizations to start their investment may lengthen the duration of time to begin the actual business operation unless these institutions are efficient and effective in handling the issues of private investors. Contrary to the fact those less bureaucratic institutions are demanded by private investment owners, institutional bureaucracy is highly severe which was confirmed by the majority the respondents. From this it can be inferred that there is institutional bureaucracy that challenges the effectiveness of private investment in the previous period of time.

The analysis showed that the survey participants had unfavorable opinion on the quality of the service rendered by governmental institutions. Whether it is perceived or real the responses of sample investors suggest the challenge aspect of private sector investment in the zone. The (World Bank's, 2005) viewed from doing business and enterprise survey perspective private investment is either positively or negatively affected by the quality of the regulatory environment. The result of the study some elements seem to reflect .the quality of the regulatory environment is operational zed with two items to identify the challenge in the private investment in the zone. However the information obtained only from the perspective of the investors with few items is covered of this study further research may be conducted to see the quality of regulatory in relation to private investment in the zone. But nonetheless the study identifies prospects and challenges of private investment in the zone.

#### **4.9 Major Challenges of Private investment**

The literature identifies that while the availability of suitable conditions for private investment provides opportunities and incentives for firms to invest profitably, create jobs and expand output, thereby increasing private investment and growth private investment is constrained by a number of factors linked with the situation of economic infrastructure, good governance and investments climates, shortage of skilled labor, limited access to finance, business environment barriers relating to tax, and low private sector capacity in terms of business management skills (World Bank, 2005).

The first objective of the study sought to identify the major challenges of private investment in Gurage zone. To achieve this, the respondents read a series questions concerning challenges in Private investment in zone and were asked to indicate for each item how much serious in operating their investment in the zone in a five point scale.

Table 4.9.1 Means and Standard Deviations challenges in Private investment

<b>VARIABLES</b> <b>N=68</b>	<b>MEAN</b>	<b>SD</b>	<b>RANK</b>
Insufficient Supply of raw materials (quantity or quality)	2.96	.885	8 <sup>th</sup>
Difficulty in Sale of products-lack of customers	3.08	.982	5 <sup>th</sup>
Limited cost-cutting measures available	3.00	.930	7 <sup>th</sup>

Too much control, taxes	3.09	1.188	4 <sup>th</sup>
Too little revenue	3.06	.876	6 <sup>th</sup>
Insufficient production capacity due to lack of facilities	2.85	.995	9 <sup>th</sup>
Increase in procurement costs	2.83	.862	10 <sup>th</sup>
Difficulty in local procurement of parts and raw materials	2.56	.906	11 <sup>th</sup>
Poor road network	3.52	.790	1 <sup>ST</sup>
Difficulty in getting ICT service	3.17	.926	2 <sup>nd</sup>
Insufficient Skilled man power	3.10	.958	3 <sup>rd</sup>

*Source, own survey, 2023*

As Table 4.9.1 indicates, Poor road network was rated highest (M=3.52). Difficulty in getting ICT service was given the second highest rating (M =3.17). Followed by responses on insufficient skilled man power (M= 3.10). Too much control, taxes was rated the fourth highest challenge faced by the investors (M=3.09). Difficulty in Sale of products-lack of customers (M=3.08) was indicated being serious challenges for the investors. Too little revenue (M=3.06) was given slightly higher than the midpoint. Limited cost-cutting measures available (M=3.00) appeared seventh. Means for Insufficient Supply of raw materials (quantity or quality) and difficulty in local procurement of parts and raw materials were below the midpoint (M=2.96&2.85) respectively suggesting less challenging for the investors. Increase in procurement costs (M=2.83) and difficulty in local procurement of parts and raw materials (M=2.56) were also with a mean lower than the midpoint. From the data the rate of challenges different from one another for example insufficient supply of materials is one of the location advantages considered by private investors. In line with this intention the researcher aimed to assess if shortage of materials to be taken as a challenge to PI in the zone. Considering the problem of raw materials to be unimportant and some respondents replied shortage of raw materials is of low severity. Hence it can be concluded that raw materials availability in Gurage zone is not more taken as a challenging factors. In contrast to this lack of skilled manpower is one of the important factors that constrain the investment activities particularly in developing economies. In there is availability of cheap labor however the question lies whether the available labor fits the business requirement interms of skill and know how. From

the total sample respondents rated mean of 3.10 replied that skilled manpower is highly challenging factor so it can be analyzed that PI in Gurage zone face the problem of skilled man power that fit the context of each investment sectors.

According to reviewing the reports and pamphlets of the investment department of Gurage zone there are shortage and interruptions of electric power decrease production capacity, under zone institution there is no office of investment institution lead to the challenge, preparation of land for investment not fulfil infrastructure are existing challenge.

**4.9.2. Other challenges faced running of investment in the zone**

As investors responded that they faced different types of challenges at beginning 49 (72.06%) of the investors face obstacle (challenge), only 35.3% of private investors satisfied by their tax payment, whereas 44 (64.7%) of respondent were unsatisfied, 45 (66.2%) of respondent were unsatisfied by Zone support the service as bad and unsatisfactory they gate at government offices and because of such challenges 33.8% of private investors have plan to shut down their investment projects.

**Table 4.9.2** other challenges faced at running of investment in Gurage zone

Variables	Yes	No
Do you face obstacles (challenges) from governmental institution	49 (72.06%)	19 (27.94%)
Is there any support provided for you from Gurage zone investment office	23 (33.8%)	45 (66.2%)
Do you think that the tax you are paying is appropriate	24 (35.3%)	44 (64.7%)
Do you have plan for shutting down your investment	23 (33.8%)	45 (66.2%)
Do you believe that there is future government actions needed	66 (97.05%)	2(2.95%)

*Source, own survey, 2023*

## **5. Summary of major findings, conclusion and recommendation**

### **5.1. Summary of major findings**

The main objective of this research was to assess the opportunities and challenges of private investment in Gurage zone. Thus, based on the findings the following recommendations were forwarded by the researcher.

- According to the survey data discussed above Investors considered various factors in making investment decisions, including political stability, market potential, labor availability, infrastructure, access to land, and the image of the zone. Political stability was identified as a key factor influencing investment decisions, with 85% of respondents agreeing on its importance. Market potential, labor availability, and access to natural resources were also significant factors influencing investment decisions.
  - Private investors in Gurage zone allocated a significant annual budget for their businesses and created job opportunities for both males and females. The study also highlighted the contribution of private investment to public infrastructure, including road construction, electricity, health services, education services, clean water supply, and job creation.
- Challenges Affecting Private Investment:
- The study identified several challenges faced by private investors in the zone, including insufficient supply of raw materials, difficulty in sales, limited cost-cutting measures, tax burdens, and inadequate revenue. Poor road networks, lack of skilled manpower, and challenges in getting ICT services were also significant obstacles for investors.
  - The study found that only a portion of investors benefited from incentives provided by the government, such as tax exemptions, free machinery, and reward certificates. However, a significant percentage of respondents did not receive any incentives, indicating a need for clearer and more effective incentive packages for private investors in the Gurage zone.
  - Overall, the study highlighted the opportunities and challenges of private investment in the Gurage zone, emphasizing the importance of factors such as political stability,

market potential, infrastructure, and skilled manpower in attracting and sustaining private investment activities in the region.

## **5.2 CONCLUSION**

The purpose of this study is to assess the opportunities and challenges of private investment in Gurage zone aiming to provide valuable information on the investment environment for potential investors and the zonal investment office.

From the finding the opportunities in the zone include good investment environment, the feasibility of the investment project, the existence of potential investment opportunity in the zone and good infrastructure are significant variables that had positive contribution to the private investment activities of the zone. This is confirmed by responses of the majority of the sampled private investors. The finding of the study also indicates that the availability of labor supply is an important factor for making investment decision in the Zone and that these contributing factors are some of the prospects of private investment in the zone. Accordingly again from the findings we can conclude that Gurage zone is attractive for private investment.

On the other hand challenging factors with regard to infrastructural related factors, interruption of electric and water supply were considered as the major obstacle by majority of the private investors in the region. Other factors such as lack of appropriate IT infrastructure, market accessibility were considered less challenging as compared to the factors mentioned above.

Political factors such as political instability of the zone significantly noted as a challenging factor to investment in Gurage zone. In contrary to this, government intervention with direct government involvement in some investment area was considered as a less challenging factor for the investment in the zone.

## **5.3 RECOMMENDATIONS**

The overall objective of the research was to assess the opportunities and challenges of private investment in Gurage zone. Thus, based on the findings the following recommendations were forwarded by the researcher.

- According to the result of the study, there were many opportunities available for private investment in the zone in different sectors that are classified under the factors that encourage investor to start a business in this zone and factors that made them continue operation in good condition. But, promotional works done by the zone was very low. These can be seen by the majority of the investors being a domicile of the zone. Thus, the investment office is required to promote the necessary investment policies and give regular update to investors.
- Infrastructures such as water and electricity are one of the main challenges for investors in the zone. The zonal government must find permanent solution to alleviate the problem by considering establishment of private investment where all the infrastructural facilities can be constructed in one area for a wide range of investors and create job opportunity for thousands of people in the zone.
- The other main problem facing investors in the zone are political factors as well as socio-cultural factors such as political instability because of ethnical conflict among dwellers of the zone. Since the region is home to different ethnic groups with different religious beliefs, conflicts arise now and then which discourages Investment. Therefore the zonal government must create platforms to create common understands among the different ethnic groups such as panel discussions, dialogues among ethnic leaders and religious leaders.
- The other challenging factors faced by investors with regard to administrative factors were poor tax administration and level of awareness of the investment office employees on investment laws. Here the government must work on capacity building with regard to its tax authority and investment office by giving regular training to employees as well as to the investors with regard to tax and investment laws and regulation.
- In general the government as well as the investment office must work together with investors to exploit these potential markets to the advantage of the investors as well as to the zone.
- As a further study recommendation, other researchers' can consider constructing their own questionnaire where by other challenging variables can be added for further analysis. Also while analyzing, factor analysis or regression analysis can be used. In

addition the scope of the study can be widened by including Foreign Direct Investment in the zone

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## **7. Appendix**

### **WOLKITE UNIVERSITY**

#### **COLLEGE OF SOCIAL SCIENCES AND HUMANITIES DEPARTMENT OF GOVERNANCE AND DEVELOPMENT STUDIES**

#### **Questionnaires to be filled by licensed private investors of the selected areas of Gurage zone**

Dear respondents, the objective of this questionnaire is to gather information on private investment challenges and prospects in Gurage zone. The study is required for the partial fulfillment of master's degree in development studies (developmental planning and management). Dear respondents, you are expected to provide genuine, and reliable information with respect to private investment contributions to the development of Gurage Zone and the challenges in the course of private investment implementation your genuine information is highly decisive to the success of this study. Therefore, the researcher assures you that the information you provide is very confidential and only serves for academic purpose. Thank you in advance for your cooperation.

#### **INSTRUCTIONS TO THE RESPONDENT**

- No need of writing your name
- Read each statements carefully
- Put mark circle (©) with appropriate answer in the given chosen.
- Please make sure that you do not omit a question or skip any page
- Please return it, as soon as possible

#### **Part 1- Basic information**

1. Year of establishment of your organization \_\_\_\_\_
2. Focus of this investment: - 1.Agribusiness, 2.Industry 3.Services 4.other/specify-----
3. Your responsibility in the project 1.Owner 2. Employed managers 3. Relative delegated
4. Others

4. Sex of respondent: - 1. Male 2. Female
5. Age of respondent: - 1. 21-30 2.31-40 3.41-50 4.above 50
6. Education: - 1.unable to read and write 2. Primary school 3.secondary school  
4. College Diploma 5. Degree and Above
7. Nationality: 1. Ethiopian 2. Foreigner
8. Location of the business.....
9. How attractive is Gurage zone for Investment?  
1) Very Attractive 2) Attractive 3) Neutral 4) Less Attractive 5) Not Attractive
10. From the list below, what are the factors that attracted you start your business in this region? You can choose more than one factor.
- Land incentive by the region
  - Tax incentives by the region
  - Availability of sufficient infrastructure
  - Availability of sufficient raw materials
11. How many annual budgets allocated for this investment -----birr

**Part II Previous information**

1. Depending upon the nature of your business. The challenge of that considered before you invest in Gurage zone. Please give your answer using the response scale below:-

1. Strongly disagree 2. Disagree 3.Neutral 4.Agree 5.Strongly agree

Factors considered before investing in Gurage zone	Scale				
	strongly disagree	Disagree	neutral	Agree	Strongly agree
1.1. Political stability of the Area					
1.2.Security for investors and investments					
1.3.Economic stability of the area					

1.4. Market potential and purchasing power of the people						
1.5. Labor	Type and Quality labor availability					
	Labor regulation availability					
	Cost					
1.6. Infrastructures	Road availability					
	Electric supply					
	Telecommunication					
	Health facility					
	Schools					
	Financial institutions					
	Incentives availability					
1.7. Land	Natural resource					
	Access to land					
	Cost of land					
1.8. Corruption						
1.9. Image of the zone						

2. Major motivated/ influenced you to make the investment (multiple answer can be given)

- |  |       |      |
|--|-------|------|
| 2.1. Because of friends' success story       | 1.yes | 2.no |
| 2. 2. Because of good investment environment | 1.yes | 2.no |
| 2.3. Because of accessed finance             | 1.yes | 2.no |
| 2. 4. Potential investment opportunity       | 1.yes | 2.no |
| 2.5. Due to good infrastructure in the zone  | 1.yes | 2.no |
| 2. 6. Due to good government structure       | 1.yes | 2.no |

**Part III challenges and opportunity in the current private investment**

- Do you have adequate knowledge about the investment policy before invested in Gurage zone?      1. Yes      2.No
- Do you satisfied with the investment policy?      1. Yes      2.No



20. Do you find the general investment climate of the zone to be conducive?

1. Yes                      2. No

21. If your answer Q. 22 is yes; what are they? -----

22. If your answer Q. 22 is no; why? -----

23. Do you observe investment opportunities in the Gurage zone at?

23.1 Access of infrastructures and financial institutions    1. Yes    2. No

23.2 Available skilled and cheap labor    1.Yes    2.No

23.3 Good governance and political stability    1. Yes    2. No

23.4 Access to natural resources    1.Yes    2.No

23.5 Not opportunities at all    1.Yes    2.No

24. Do you have plan for shutting down your investment? 1. Yes    2. No

25. If your answer Q.24 is yes, why? -----

26. Do you believe that your investment contributes to the public of study area?

1. Yes                      2. No

27. If your answer Q.26 yes, what type of contribution?

1. Road construction            2. Electric supply            3. Health service  
4. Education service            5. Clean water supply        6. Job opportunity 7.others/specify-----

28. The following questions ask which issues in each of the following categories you perceive as particular investment challenges for operating your investment in the zone. Answer by applying scale for each category:

1. Very low            2.Low                      3.Medium                      4.Good                      5.Very good

	Investment challenges	Scale				
		Very low	Low	Medium	Good	Very good
28.1	Shortage of supply of raw materials					
28.2	For sale of products lack of customers and too much competition					
28.3	Limited cost-cutting measures available					
28.4	Organization, management difficulty					
28.5	Too strong taxes control available					

28.6	Too little revenue					
28.7	Insufficient production capacity due to lack of facilities					
28.8	Increase in procurement costs					
28.9	Difficulty in local procurement of parts and raw materials					
28.10	Inadequate logistics infrastructure					
28.11	Cultural shock					
28.12	Lack of skilled man power					
28.13	Physiological and social adjustment to a new environment					

29. Where do you observe coordination failures among the stakeholders?

1. Gurage zone investment agency
2. Gurage zone administration
3. Woredas/town land administration
4. Others/specify-----

30. Do you believe that there is future government actions needed to be improved to motivate private investment?                    1. Yes                    2.No

31. If your answer Q.33 is yes, what action? -----

## ***Appendix II***

### **INTERVIEW GUIDE QUESTIONS**

#### **WOLKITE UNIVERSITY COLLEGE OF SOCIAL SCIENCES AND HUMANITIES**

#### **DEPARTMENT OF GOVERNANCE AND DEVELOPMENT STUDIES**

**Dear respondents,** the objective of this interview is to gather information or on private investment challenges and prospects in Gurage zone. The study is required for the partial fulfillment of master’s degree in development planning and management. Dear respondents,

you are expected to provide genuine, and reliable information with respect to private investment contributions to the development of Gurage Zone and the challenges in the course of private investment implementation. Your genuine information is highly decisive to the success of this study. Therefore, the researcher assures you that the information you provide is very confidential and only serves for academic purpose. Thank you in advance for your cooperation.

1. How many working days does it take for private investors to get investment license? -----
2. Do you try to collect the opinion of the private investors about your service in standardized manner? 1. Yes 2. No  
If No, why? -----  
If yes, how did they rate the service? -----
3. What activities did your Department/ bureau/ perform to enable private investors develops positive attitude towards Gurage zone investment atmosphere? -----
4. Does the flow of private investors show increment or decreasing (why? Probe) -----
5. How do you try to attract private investors? -----
6. What business opportunities do you prepare for private investors? -----
7. What are challenges (obstacles) for private investment activity in the study area?
8. Do you believe that a private investment contributes for the community in study area? (What type of contribution?) List it -----
9. Do you believe further government actions needed to be taken to attract the Private Investment in the study area? Explain -----