THE ROLE OF FINANCIAL INSTITUTIONS IN PROMOTING PRIVATE INVESTMENT *(IN CASE OF MEKOY TOWN)*

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

A RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR B.A DEGREE IN ACCOUNTING AND FINANCE

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DECLARATION

Daniel declares that, this research with the title of: *"The role of financial institutions in promoting private investment in Mekoy Town*, is a result of my own endeavor for the fulfilment of BA in Accounting; and that all sources of materials used for the study have been appropriately acknowledged and references wherein.

To the best of my knowledge, this study has not been submitted for any degree in this University or any other University. It is offered for the partial fulfillment of the Bachelor degree in accounting.

By: Daniel Mamo

Signature: ___________________________

Date: _______________________________

ADVISORS' APPROVAL SHEET

This is to certify that the research entitled "*The role of financial institutions in promoting private investment"* submitted in partial fulfillment of the requirements for the Bachelor Degree in Accounting, of the Department of Accounting and Finance, and has been carried out by under my/our supervision. To the best of my knowledge, it is an original work and not submitted earlier for any degree either at this University or for any other Universities.

Therefore, I recommend that the student has fulfilled the requirements and hence here by can submit the thesis to the department.

Advisor: Tewodros Engida (MSc)

Signature: ________________________

Date: ____________________________

Acknowledgment

First of all, I would like to thank the almighty God for helping me to do this study. Secondly, my best appreciation belongs to my advisor Tewodros Engida (MSc) who put me in the right track of the research proposal and for his continuous and constructive comments with a best approach and endless assistance to write up the final research paper. Finally, I would like to express my gratitude for my best family and friends for their support to me in accomplishing this research paper.

Abstract

This research paper was conducted on the role of financial institutions in promoting private investment case the case of Mekoy town financial institutions and investors. There are specific objectives in the study that have been mentioned. In order to achieve the objectives of the study, descriptive data design has been used. The source and method of data collection in the study were from primary in the form of questionnaires and interview; and a secondary source of the study was considered from published and unpublished material. Census method was applied to collect data from financial institutions and investors in Mekoy town. Data were collected from total 10 financial institutions and 15 investors including managers, officials and employees through questionnaires distribution. The data analysis and presentation was displayed in the form of table sketch which are derived from the questionnaires. According to the finding of the study, financial institutions like banks and micro finances made crucial role in providing deposit (saving) and loan services for investors by medium interest rate and it enabled them to invest more in the town. Finally, after the findings have stood out, the researcher recommended that financial institutions should give better privilege and more chance to private investors in granting loans than an individual's credit users; and it is also recommended for the financial institutions to provide their service in full scale to address more investors coming to the area of investment.

Key Words: Financial Institutions, private Investment/investor

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Investment is a process of exchanging income during one period of time for an asset which is expected to produce earning in future period; or it is defined as the placing of capital on lying out of money in a way intended to secure income or profit its employment (Caroline H. 2003). Financial institutions are involved in the process of increasing the level of investments of various economic sectors, particularly the capital goods needed for raising productivity. It is instructive to note that the banking sector has stood out in the financial sector as of prime importance, because in many developing countries of the world, the sector is virtually the only financial means of attracting private savings on a large scale, (McKinnon, 2007 as cited by Adeniyi, 2006). Efficient and stable investment activities present various opportunities to developing countries. In fact, investment is associated with both economic and social rewards. That is, investment not only plays an important role in job creation but also has a role to play in provision of both infrastructure and social services.

However, finance is required for a nation to reach in a sustainable level of investment. To provide the needed finance, there are varieties of institutions rendering financial services; such institutions are called financial institutions. Banks are among such institutions that render financial services. They are mainly involved in financial intermediation, which involves channeling funds from the surplus unit to the deficit unit of the economy, thus transforming bank deposits into loans or credits, (Harris 2003). Banks have historically been viewed as playing a special role in financial markets for two reasons. One is that they perform a critical role in facilitating payments; the other is that they have long played an important role in channeling credit and loan to households and businesses (Fredrics, Mishkin eta'l, 2006). Financial institution is an institution that provide financial service for its client or member. One of the important financial service is provided by financial institution is acting as financial intermediary most financial institution are regulated by the government for example Commercial Bank of Ethiopia, Development Bank of Ethiopia and so on (Caroline H. 2003).

Generally, financial institutions historically have always played a pivotal role in stimulating economic growth and development. This role stems largely from their basic fundamental function in the 'capitalization' of savings through which surplus funds are mobilized in financing productive investments. With the new Banking and Financial Institutions Act coming into effect on 1st October 1989, the connotation of *"financial institutions"* now includes a whole multitude of institutions ranging from commercial banks, finance companies, merchant banks, discount houses and money market intermediaries to institutions involved in credit, development finance, leasing and factoring (Hunt B. 2005). With regard to this, some researcher studied on the related title to the contribution of financial institution in Dire Dawa town and Addis Ababa. That is the contribution of financial institution in promoting private investment and the role financial institution in promoting growth and economic. However, this study is conducted on the same theme to evaluate the investment problems, and to assess the role of banks in promoting private investment in Mekoy Town.

1.2 Statement of the Problem

Financial institution in Africa promotion is one of the approaches that the government has focused its attention in recent years in pursuit of its long term vision of providing sustainable financial services to majority of Africa population for investment. In Africa, before the current financial and banking restructuring took place, most of financial services for rural and urban investment will offer by the few licensed commercial banks. Economic development is something all countries especially the less developed ones strive for but this processes cannot take place without efficient mobilization and allocation of researches for the production of goods and services in economy. Investors are more interested to invest their money in places where financial institutions are easily accessible. And, provision of finance easily motivates both actual and potential investors. However, According to the investment office of Mekoy town both provision of financial capitals and the presence of financial institutions are very limited; that is also the case in most parts of rural Ethiopia. Especially, in the lower administrative of governments that is in zonal and district levels, provision of finance is really limited.

There are however many areas of investment opportunities in the remote parts of Ethiopia. But, institutions which provide financial start up capitals are few in number and limited in the amounts of money they deliver to investors particularly for local entrepreneurs and investors. Melak Yohannes (2001) conducted a paper on the title of financial institution and investment on Ethiopia. He by using secondary data from national bank of Ethiopia and other related book tried to indicate that financial institutions over the past six and seven years highly encourage investment as well the expansion of investment in other way help the finical institution to stand by two legs because investor are the high profit customer of financial institution. Tesfanesh Yared (2017) assessed the role of financial institutions in employment creation in expanding of investment in case of Addis Ababa by using time series data from 1995 to 2007. Finally, the researcher found that financial institutions served as a leading sector for unemployment reduction. But all of them focused on Addis Ababa. Many other researchers conducted a researches on the significance of financial institutions for investment in Wolkite, Woliso and Emdibir towns.

But, there has not been any research conducted in Mekoy town entailing the role of financial institutions for promoting investment. Taking into account this fact, the researcher tried in this study, to fill a gap that in addressing by indicating the role of financial institutions in promoting private investment in case of Mekoy town. The presence of financial institutions is very vital for attracting investments and growing the economic development. By exploring the capacities and provisions of operating financial institutions in Mekoy, this study was assumed to fill the knowledge gap that is appearing in the responses of such financial institutions. By posing the question of what is the role of financial institutions, and what are the challenges and prospects faced by investors in acquiring investment capital in Mekoy town, the study explores the response of financial providers and investors.

1.3 Research Questions

The research answered the following questions:

1. What is the role of financial institutions in promoting private investment?

2. What are the problems faced by the financial institution in promoting private investment?

3. What are the challenges faced by investors in acquiring investment capital in Mekoy town?

1.4 Objective of the Study

1.4.1 The General Objective

The main objective of the study is to show the role of financial institution in promoting private investment in Mekoy town where the study is conducted.

1.4.2 Specific Objectives

1. To investigate the role of financial institutions in promoting private investment in Mekoy town.

2. To assess the problems faced by the financial institutions in promoting private investment.

3. To investigate the challenges faced by investors in acquiring investment capital in Mekoy town.

1.5 Significance of the Study

The purpose of this research study was to assess the role of financial institutions in promoting private investment in case of Mekoy town. It has improved the researchers experience on research activity which increased the skill and ability of the researcher as well as it improved the problem solving ability of researchers. The study had great importance to the researcher due to the broad knowledge and understanding that was achieved from the research and led him to attainment of a Bachelor's degree in accounting and finance. To the future researchers, to the researchers with special interest in financial institutions and investment, this study is also very significant because it serves as a good platform of research effort on other issues within the confines of financial institutions. It also helps the financial institution to correct its weakness from the finding of the study; and it helps any financial institution to identify private investment promotion means. And, it helps manager to raise accountability for unit financial and to base decision making and investment allocation heavily on financial criteria. Finally, this study helpful to be used for other researcher as a reference of standing point to conduct on the same topic in future.

1.6 Scope of the Study

The geographic concentration of the study is limited to Amhara region, Semen Shoa Zone, in Mekoy town. The focus of the study is limited to the clear and detail identification of the role of financial institutions in promoting private investment in Mekoy town. The study was therefore conducted on the role of financial institutions in promoting private investment in Mekoy town for the last five years setting on 2008 to the end of 2012 E.C fiscal year.

1.7 Limitation of the Study

When conducting the study, the researcher faced myriad of problems such as obtaining insufficient data and unreliable data from the investor and financial institutions. Also, there were budget constraints in which the researcher was constrained by unavailability of fund, mainly from personal pocket for data collection and analysis of it afterwards. This in turn impaired the researcher in creating shortage of materials and problems of somewhat disorganized report due to inaccessibility of internet service.

1.8 Organization of the Paper

The paper is categorized into five chapters. The first chapter provides general introduction information about the topic of the study. In this part, back ground of the study, statement of the problem and objectives of the study, significance, scope and limitation of the study are explained in detail. The second chapter outlines the related literature reviews from relevant and available data authors about the subject matter under the study. The third chapter describes the methodology which were employed in the processes of the research. The fourth chapter includes mainly the analysis part of the study, analysis of the data collected; and relates them to different aspects in implication. Finally, the fifth chapter sums up all the points that are raised in the paper, draw conclusion and raise sound recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Investments and Financial Institutions

An investment is the current commitments in resources for a given period of time in expectation of receiving future resources or returns committed; the expected rate of inflation and the risk of uncertainty of the future payments remained (K. Relly and A. Norton, 2004, P, 5).

2.1.1 Investment Prospective in Developing Countries

The investment prospective in developing countries might be considered the most positive teachers of the global economy. These countries are expected to grow features than the industrial works for the fore seeable future as they have in recent year the invest climate in sub-saran Africa remains challenging despite some improvement private investment both domestic and foreign is still low. In this content regions have four components; promotion of small business capital market development, financing of projects in manufacturing instruction only and natural resources based industries and advisor services and technical assistance for government and business. (IFC, 1994: p 30).

Limited access to equality or long term debt financing in emerging markets can defer private investment financial institutions plays an important role in promoting private sector firms where it is otherwise not available and reducing the aggregate volatility of capital flows to these firms (IFC, 2002: p 67).

Ethiopia governments comprehensive structural adjustment program designed to transform the instrument of economic management and raise investment particularly but the private sectors will be supported (World Bank 1993 p 115).

The objective of investment promotion was

- ✓ To improve countries image with in the investment community as favorable locations or investment.
- ✓ To generate investment directly.
- ✓ To provide service to prospective and current investors or investment service activity

2.1.2 The role of financial institutions for capital formation

A financial institution is an establishment that conducts financial transactions such as investments, loans and deposits. Almost everyone deals with financial institutions on a regular basis. Everything from depositing money to taking out loans and exchanging currencies must be done through financial institutions.

The term financial institution is broad phrase referring to organizations which act as agents, brokers and intermediaries in financial transactions including commercial bank; saving and loan associations, insurance companies, mutual funds, pension funds and the like financial institution enable a saving surplus units lend and saving deficit unit to borrow in different ways. Financial institutions provide risk reduction through diversification. According to Campbell and Karacu C. (2011 P: 73) stated that financial institution enables to choose of portfolio of investment rather than investing all ones resource in a single assets to individuals can reduce the total risk to which they accept funds with a short maturity and they lend those funds out to borrowers who desire a long maturity. The other important role of financial institutions relies on reduction in the cost contracting.

Campbell and Karacau (2011, p: 74) argue that financial institution by redact the cost of writing and understanding financial contact and costs of monitoring. Another important of financial institution provides is provision of insurance assurance of risks such as hedging natural hazards and accident necessities such method as insurance provisions.

Financial institution assists in transfers funds from surplus to deficit units in the economy. The ensure that the costs and risks are:

- To provide service to prospective and current investors are investment services activity (IBID).
- Financial institutions aim to maximize the return of their investment for a given risk position. Mangers are expected to take reasonable precautions to protect funds under management for instance by spading the financial institutions risks. These time financial institution and public investment the opportunity to raise new funds with a restorable degree of continence provided the can meet the risk return criteria applied by the institutions. The role of financial sectors in the success of controvert system. There are arguments that financial in term diaries are to short term investments objective receive insufficient credit ratings and assets which can be used as a security for loans. There are frequently all equations that financial interim diaries such as person funds invest too much in foreign companies and overseas to determine of domestic economic (Ibid).
- In addition, it is argued that banks and other financial institutions are often more invested in exciting projects offering short term gain, like take over and merges, than investing in future production financial institutions are sometimes accused of only having a short term, fleeting interest and investment companies, merely seeking to maximizes the dividend and capital important allocation efficiency role in the economy, monitoring the progress of companies and reallocating capital to the best forming companies financial institutions are given to opportunities to believe better return than available in domestic investment which intern leads ultimately to a higher spending power and demand for domestic production investments (Ibid).

2.1.3 Problem of Investment in Emerging Markets

There are a number reasons why investment managers in developed countries are reluctant to invest more significant amount of money in emerging markets and why investors are often warned to be want to investment in such markets these reason include:-

1. **Information cost:-** in developed financial markets, most quoted companies are subject to detailed financial analysis and the cost of acquiring good quality information are relatively low. When investing in emerging markets, however, these are language barriers and also for less dissemination of information, which means that the costs of acquiring good quality information are relatively high.
2. **Foreign exchange risk:** - investment in emerging markets any result in capital and income gain measured in the currency of the emerging market economy. However, there investments need to be converted of the develop countries currency for a campaign to mad with domestic investments. The

currency charge may provide gain or low representing an addition list that is not present with domestic investment.

3. **Political risk: -** in developed financial markets governments are relatively stable and the election the opposition to government does not necessary have any significant influence on financial markets. In emerging markets, however, investors faces the risks controls being imposed restricting the out flow of their investment and often faces withholding tax or the threat of imposition of such taxes.
4. **Controls on foreign investment: -** in many emerging market managements can impose costly restriction on son how foreigners can invest have only be allowed a certain proposition of investment in domestic companies or allowed shares that have more limited voting rights than domestic investment.
5. **Higher transaction costs**:- In developed financial market deregulation and greater computations have the effect of greatly reducing brokerage commission .In most emerging markets these cost are significantly higher and there are also additional costs associated with foreign exchange commission and communication for the execution of orders (Frank F. and Frabco M., 2010).

2.1.4 Major Financial Institutions

A financial institution is an establishment that conducts financial transactions such as investments, loans and deposits. Almost everyone deals with financial institutions on a regular basis. Everything from depositing money to taking out loans and exchanging currencies must be done through financial institutions there are a number of institutions that collect and provide funds for the necessary sector or individual. On the other hand, there are several institutions that act as the middleman and join the deficit and surplus units. Investing money on behalf of the client is another of the variety of functions of financial institutions.

Financial institutions can be categorized as follows:

- Deposit Taking Institutions
- Finance and Insurance Institutions
- Investment Institutions
- Pension Providing Institutions
- Risk management institutions

At the same time, there are several governmental financial institutions assigned with regulatory and supervisory functions. These institutions have played a distinct role in fulfilling the financial and management needs of different industries, and have also shaped the national economic scene.

Deposits taking financial organizations are known as commercial banks, mutual savings banks, savings associations, and loan associations and so on. The primary functions of financial institutions of this nature are as follows:

- Accepting Deposits
- Providing Commercial Loans
- Providing Real Estate Loans
- Providing Mortgage Loans
- Issuing Share Certificates

There are different major financial institutions but in this paper look some major types of financial institutions as follow (O. Edmister "*Financial institution markets and management"* 2nd edition).

2.1.4.1 Commercial Banks

A commercial bank is a type of bank that provides services such as accepting deposits, making business loans, and offering basic investment products. Commercial bank can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to individual members of the public. Commercial banks are the most important and most complex financial institution. The statement of condition and income statement of banks provide valuable information concerning its resource and operations. The statement of conditions shows that the principle financial contracts issued by banks are demand deposits, saving deposits and time deposits. Commercial banks compete vigorously for customers, deposit with demand time and negotiable order of with drawl account (now account).

Although banks experience a net loss on demand deposit account services, the bank obtains the users of customer's money. Although customers are not paid interest on their demand deposit balances they do received benefits in the form of checking account service, time and saving account deposits appear in two basic farms pass book savings and certificate of deposits. The certificated may be non-notation of negotiable. The latter case the certificates may represent Tran's farmable banks despots' account, which is among market institution. Another principal source of bank funds in purchase of federal funds and borrowing. These are day of wakened loans from other bank and are transacted through the Federal Reserve. The funds Banks obtain from deposits and the Federal Reserve are invested individual and business loans and securities. The securities are generally limits to state, local and federal government bonds loans made by banks benefit the bank in the form of interest revenue and benefit the community by satisfying commercial consumer and mortgaged needs.

The role of commercial banks;

Commercial banks engage in the following activities:

- Processing payments via telegraphic transfer, internet banking, or other
- Issuing bank drafts and bank cheques
- Accepting money on term deposit
- Lending money by overdraft, installment loan, or other
- Providing documentary credit, guarantees, performance bonds securities underwriting commitments and other forms of off-balance sheet exposure.
- Cash management and treasury
- merchant banking and private equity financing

Traditionally, large commercial banks also underwrite bonds, and make markets in currency, interest rates, and credit-related securities.

Functions of commercial bank

Commercial banks perform many functions. They satisfy the financial needs of the sectors such as agriculture, industry, trade, communication, so they play very significant role in a process of economic social needs. The functions performed by banks, since recently, are becoming customer-centred and are widening their functions. Generally, the functions of commercial banks are divided into two categories: primary functions and the secondary functions.

Commercial banks perform various functions:

- Commercial banks accept various types of deposits from public especially from its clients, including saving account deposits, recurring account deposits, and fixed deposits. These deposits are payable after a certain time period.
- Commercial banks provide loans and advances of various forms, including an overdraft facility, cash credit, bill discounting, money at call etc. They also give demand and demand and term loans to all types of clients against proper security.
- Credit creation is most significant function of commercial banks. While sanctioning a loan to a customer, they do not provide cash to the borrower. Instead, they open a deposit account from which the borrower can withdraw. In other words, while sanctioning a loan, they automatically create deposits, known as a credit creation from commercial banks. Along with primary functions, commercial banks perform several secondary functions, including many agency functions or general utility functions. The secondary functions of commercial banks can be divided into agency functions and utility functions.

Agency functions include:

- To collect and clear checks, dividends and interest warrant.
- To make payments of rent, insurance premium, etc.
- To deal in foreign exchange transactions.
- To purchase and sell securities.
- To act as trustee, attorney, correspondent and executor.
- To accept tax proceeds and tax returns (Source: Albuquerque, Martim (1855). Notes and Quires. London: George B. p, 431- 434).

2.1.4.2 Savings and Loan Association, Saving Banks and Credit Unions

Three financial institutions specialize in consumer saving instruments saving and loan associations, mutual savings banks and credit unions saving and loan associations obtain funds in the terms of middle incomes servers and land these funds to preachers of real estate. Innovative lending and saving polices, such as early entry in to government lending programs, hear promotional efforts and attractive facilities have appealed to the general public. Until the 1980's saving and loans invested primarily in conventional, home mortgages. In the past decade, however saving and loans have selectively entered veteran ant administration and or home loan bank insured mortgage loan volume available in these markets. Mortgage interests in the principle source of income of saving and loans and correspondingly in interest paid on saving is the major disposition of this comes.

Mutual saving banks (MSBs) are a regional phenomenon existing is one's country. Mutual saving banks do not make extensive use of money market borrowing for liquidity and have no capital stock. An innovative deposit medium adopted by mutual saving banks was negotiable orderly with drawl account no account), an interest bearing checking account. In additional real estate mortgages. Investments of mutual saving banks include corporate bonds, federal funds open market paper and short term marketable securities. Credits unions are saving institutions are formed around a common association such as membership in a church, resided in a neigh boor hood, employment by common employers. These over of funds is saving by members, which are represented by share. Funds are invested in loans to members generates consumer loans although real estate loans may be made credit unions are restricted in the in the amounts that may be lent on secured in the amounts and unsecured loans as well as the term of loans and interest rates that may be charged (Lloyed and Thomas, 2006).

2.1.4.3 Finance Companies

Fiancé companies are significant factor in the consumer and commercial credit financial market. Financial companies serve as financial intermediaries by purchasing whole sales quantities at retail prices. The growth of these financial institutions can directly tie to change in life styles preference for private home ownership and the related emends for consumer durables. There are three principal types fiancé companies are sales, finance companies, personal fiancé companies and business fiancé companies sales fiancé companies cater to the loan needs of retailers and their customers by maintaining a close relationship with the dealer sales fiancé companies may make loans to the dealers customers on one of three bases. Full recourse or repurchase, depending up in weather the dealer or the fiancé company assumes the risk in case of default. Fiancé companies that are subsidiaries of is dealers or manufactures are called captive fiancé companies in additional to providing financing to customers of the dealers' inventory of flow stock.

Personal fiancé companies provide customer with small, short-term direct loans which may be secured by collateral or unsecured. These loans are repaid from customer's discretionary income. Business fiancé companies serve commercial loans needs by providing secured loans on inventory, receivables and fixed assets or by factoring account relievable financing is also provided in the form of long term lease agreement on fixed a assets (O. Edmister, 2nd edition).

2.1.4.4 Insurance Companies

Insurance companies pool risk by collecting premiums from a large group of people who want to protect themselves and/or their loved ones against a particular loss, such as a fire, car accident, illness, lawsuit, disability or death. . Insurance companies protect individual against risk life insurance companies, functions of the financial intermediaries collecting premiums form insured persons and investing the funds unit needed for death benefits. Premium are the charges made by insurance companies for guaranteeing that benefits are pied to insured's family, business association other person in the event of this or her death whole life polices the premium to years when the provides protection for a year or less and becomes more costly as the individuals grows older. Life insurance companies accumulate enormous amount of reserved under whole life polices but very little with term life policies. Insurance helps individuals and companies manage risk and preserve wealth. By insuring a large number of people, insurance companies can operate profitably and at the same time pay for claims that may arise. Insurance companies use statistical analysis to project what their actual losses will be within a given class. They know that not all insured individuals will suffer losses at the same time or at all. Insurance companies protect individual against risk life insurance companies, function financial intermediaries collecting premiums form insured persons and investing the funds unit needed for death benefits (*Ibid*).

2.1.4.5 Investment Companies

Investment companies are financial intermediaries that attract large amount of money from many individual investors which may be polled on invested in diversities portfolio securities. Investment companies seek varying objectives in their investment a reflected by their varying I investment techniques. Those seeking capital growth invest primarily in common stocks.

There are three fundamental types of investment companies: unit investment trust (UITs), face amount certificate companies and managed investment companies. All three types have the following things in common:

- An undivided interest in the fund proportional to the number of shares held
- Diversification in a large number of securities

- Professional management
- Specific investment objectives
- Let’s look each type of Investment Company.

A. Unit Investment Trusts (UITs)

- Unit investment trusts sell a fixed number of shares to unit holders, who receive a proportionate share of net income from the underlying trust.
- The unit investment trust security is redeemable and represents an undivided interest in a specific portfolio of securities. The portfolio is merely supervised, not managed, as it remains fixed for the life of the trust. In other words, there is no day-to-day management of the portfolio.

B *Face Amount Certificates*

A face amount certificate company**:** issues debt certificates at a predetermined rate of interest. Additional characteristics include:

- Certificate holders may redeem their certificates for a fixed amount on a specified date, or for a specific surrender value, before maturity.
- Certificates can be purchased either in periodic installments or all at once with a lump-sum payment.
- Face amount certificate companies are almost nonexistent today.

C Management Investment Companies

The most common type of Investment Company is the management investment company which actively manages a portfolio of securities to achieve its investment objective. There are two types of management investment company: closed-end and Open-end. The primary differences between the two come down to where investors buy and sell their shares - in the primary or secondary markets - and the type of securities the investment company sells.

- **Close end investment companies**

A closed-end investment company issues shares in a one-time public offering. It does not continually offer new shares, nor does it redeem its shares like an open-end investment company. Once shares are issued, an investor may purchase them on the open market and sell them in the same way. The market value of the closed-end fund's shares will be based on supply and demand, much like other securities. Instead of selling at net asset value, the shares can sell at a premium or at a discount to the net asset value.

- **Open end investment companies'**

Open-end investment companies, also known as mutual fund continuously issue new shares. These shares may only be purchased from the investment company and sold back to the investment company. Mutual funds are discussed in more detail in the Variable Contracts section. (Albuquerque, Martim (1855). Notes and Quires, London and George p. 431-434).

2.2 Empirical review of the study

The study made by Joseph Keti Nkuah and John Asante of the related title an assessment of the role of financial institution in financing and small and medium scale enterprise in Ghana, in most jurisdiction financial institution as the group are the main source of external finance for small and medium small scale enterprise, the finding show that the challenges that faces small and medium scale enterprise, how the small and medium scale enterprise assess loan from banks, ad adequacy of loan to small and medium scale enterprise, the challenge face by small and medium scale enterprise when securing loan, alternative way of financing small and medium scale enterprise, future plan of small and medium scale enterprise, based on the findings they concluded were the higher the interest rate, the lower the demand for the loan by small and medium scale enterprise, majority of small and medium scale enterprise have obtained one type bank credit or other, the loan were in sufficient to the small and medium scale enterprise owner as the result of in adequate collateral security and poor financial management of the business, the researcher also observed that most small and medium scale enterprise lack collateral security and guaranty to help them access loan from the bank. The previous study by Mesahi (2004) has highlighted the limited access to the financial resources available to smaller enterprise compared to larger organization and consequences for their growth and development.

Abore and Biekge (2006) in Ghana cite similar evidence of about 95% of the respondents depended on solely on personal resources and loan from relative and friends. Study on the role of financial institution in promoting entrepreneurship in small and medium scale enterprise with reference to Bangalore done by Ms. J. Sagaya Theamorhi of commerce, Kama Taka, India, financial institution plays an important role in financing and developing small and medium scale enterprise financial institution is not only providing loan but also provide other facility like management advice, training employees, managing administration etc. In order to help small and medium scale enterprise, regarding to this they work on performance of financial institution, impact of financial institution on demand for credit and investment by small and medium scale enterprise existence and financial problem small and medium scale enterprise and the dependency on financial institution the evidence from this study clearly indicate that after 2000 financial sector have led increase in financial saving. On the other researcher topic, the role of finance to enhance development Rubens Ricupero (2002) stated that the number of leading bank demonstrate in providing finance to small and medium scale enterprise which can be turned in to highly profitable business.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Methodology and Research Design

For undertaking this research descriptive research design was employed because descriptive research design is a method of describing of the state of affairs as it exists at present and can only report what has happened or what is happening. The researcher selected this method to describe, explain, summarize, present and interpret the data. The data presented on descriptive bases by using tables and percentage that can facilitate interpretations which are focused on results that are relevant to the study.

Basically, there are three type of research approaches qualitative, quantitative and mixed approach (Creswell, 2003). The choices of these methods are dependent of several factors, including researcher's interest and experience, nature of the study, etc. This paper has used both qualitative and quantitative techniques. The study attempted to quantify some of the key issues regarding each role of financial institution in promoting private sector investment in Mekoy town. The research also used qualitative approach because of the research focused more on assessment of the role of financial institutions in promoting private investment with respect to investor's attitudes and opinions that were described thematically.

3.2 Source of Data

For this research purpose, both primary data and secondary data were used from the respondents under the study, i.e. investors and financial institutions (banks and micro finances) located in Mekoy town. Primary data was collected through questionnaires from financial institutions and investors from the town. Secondary data was collected from Mekoy Town investment authority annual report, commercial bank of Ethiopia annual reports, books magazine, document etc.

3.3. Target Population and Sampling Method

The target population of this study was financial institutions (commercial banks and micro finances) who do have a direct role in promoting private investment in mekoy town and those investors who deployed their money in investment with the expectation of positive reward in mekoy town.

Thus there are 10 financial institutions currently operating in mekoy town under these 25 employees have a direct relationship with investment loan service. In addition, a total of 20 investors who invest in different investment sector in mekoy town were considered.

Since, the total number of employees who do have a direct relationship in investment loan service and CEO's from the investing organizations are small the study used census method that means all population used in the study.

This method was used by the researcher due to the fact that the method provides more accurate and exact information as no units are left out and also for the fact that the target populations are small in size.

3.4 Method of Data Collection

Primary data was collected through questionnaires, which consisted of both open and closed-ended questions to get detail and reliable information for the study. Secondary data was collected from different materials like data from financial institutions in Mekoy, books, published articles, internet feedbacks, which greatly assisted for successful and fruitful completion of the study. The target populations of the study had employees and manager of financial institution.

3.5 Data Analysis and Presentation

The researcher has attempted to analyze the data by using qualitative and quantitative method. The qualitative data was analyzed by using content analysis; that is items and themes were identified, categorized and grouped. Based on its group, the data was interpreted accordingly. The quantitative data analytical tool was also employed to support by using frequency and percentage techniques. The final results of the study has been presented using tables and percentages.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATIONS

4.1 INTRODUCTION

The objective of the study is to investigate the role of financial institutions they can play in promoting private sector investment in Mekoy town; and it attempted to describe the contribution of those financial institutions to private sector investment. Descriptive analysis was used to interpret the data gathered through questionnaires. The questionnaires has two parts: the first part explored respondents' characteristics; and the second part contained questions about the role of financial institutions in promoting the private investment sectors and banks. In this particular chapter, the data is analyzed, and interpreted depending on their respective information as follow.

4.2 PRIMARY DATA

4.2.1 General Information of Respondent of the Financial Institutions

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

Table 1: Personal Information

No	Description	No of respondents	Percentage
1	Sex		
	Male	18	72%
	Female	7	28%
	Total	25	100%

Source: computed by the researcher

As shown in the table above, out of the total respondents 18 respondents that is 72% were male and the remaining seven respondents that is 28% were female. This personal information shows that most of respondents are still males which is the reflection of our patriarchal society in which most of outdoor activities are relegated to males in the culture. However, the numbers of female are yet increasing as the market are opening for them now a days despite the fact that proportion female's participation in the sampled enterprise is still low at 28%.

Table 2: Educational Level of Respondents

No 2	Education level	No of respondent	Percentage%
	Diploma	3	12%
	BA Degree	18	72%
	MA/MS	4	16%
	Certificate	0	0
	Other	0	0
	Total	25	100%

Source: computed by the researcher

The study also tried to analyze the respondents maximum education level attained. Accordingly, the table above shows the education levels with maximum attained level. Concerning the education level of the respondents, majority of the respondent 72% were BA degree holders, 12% have college diploma and 16% has got MA/MSc degree and there were no person who mentioned certificate and below. The finding implies that most of the respondents are well educated and they knew how to manage their tasks as expected. Not only in Ethiopia but also in international case the workers of financial institutions are expected to know the basic concept of accounting. That is why most of the workers in those financial institutions are first-degree holders. The finding of this research is also in line with the general implication listed above which says most of the workers should at least have same basic knowledge of Accounting concepts and principles.

Again, the study also tries to analyze the type of financial institution the business is dealing with. This may help the researchers to understand the type of financial institution operating in the town to the largest level.

Table 3: Types of Financial Institution

	Working institutions	No of respondent	Percentage%
	Banks	20	80%
	Insurance	0	0 %
	Micro finance	5	20%
	Other	0	0%
	Total	25	100%

Source: computed by the researcher

As shown above in the table, the sample firms were operating indifferent sector of the economy. As such, the financial institutions are categorized in to banks, insurance, micro finance and saving loan association. Most of sample firms i.e. 80% were from banks and 20% of the respondents are working in micro-finance institutions. The finding implies that banks are strengthened and are well expanding into the district levels compared to small scale micro finances. There are no insurance firms in Mekoy city. This division of financial institutions by sector type was believed to be helpful to study critical problems that affect the performance of those financial institutions and what is the contribution of each sector to investment. Because, the performance and contribution of each sectors are different due to difference in business type they are engaged in. This is because firms in different sectors of economy face different type of problems and contribute differently to private investment.

4.2.2 The role of financial institution in promoting private investment

4.2.2.1 Provision of deposit service and level of interest rate

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

Table 4: Provision of Deposit Service

No	Statement	No of respondent	Percent
1	Does your institution give service regarding with deposit (saving) money to investors?		
	Yes	25	100%
	No	0	0%
	Total	25	100%

Source Compute by the researcher

Financial institutions can play a crucial role in the establishment and development of private investors through various kinds of assistances. Individual investors can be constrained by various external factors; however, this in part can be resolved with the help of financial institutions. Supports from financial institutions are one kind of opportunity for investors. Deposit service is one of the major functions of financial institutions services. Accordingly, the respondents were asked whether their financial institutions are providing a deposit support for investors. According to the above table all of the respondents (100%) said that their financial institution gave deposit service to the investors. This expresses that financial institution like banks and micro finance institutions makes crucial role in giving deposit (saving) service for investors.

Another questions raised here is what is the level of their interest rate on their deposit? The role of financial institutions on capital formation includes that an increase in real interest rates has a positive effect on the volume and on the quality of investment in financially repressed economies like our country. The former effect is seen because self-finance is important and investment is lumpy. Then, the economic agents must accumulate resources before any investment project is executed. An increase in real interest rates thus stimulates both total and financial savings and, consequently, investment. The latter effect, improvement in the quality of investment, occurs because a higher interest rate will rule out investment projects with low productivity.

Table 5: Level of Interest Rate for Deposit

No	Statement	No of respondent	Percent
2	If your answer for the above table is yes what is your opinion about the interest rate for depositors?		
	Agree	10	40%
	Strongly agree	4	16%

	Neutral	3	12%
	Disagree	8	32%
	Strongly disagree	0	0%
	Total	25	100%

Source: computed by the researcher

Considering the above table, large percentage of the respondents (40%) agreed or satisfied with the interest rate of the financial institutions which they provided for their saving (depositors) to customers or investors; while about (16%) of the respondent are strongly agreed with the interest rate their institution derivate to depositors. However, a dozen percentage of respondents i.e. (12%) remained neutral about the interest rate, while the rest (32%) of the respondent are disagreed about the interest rate of the financial institutions to depositors. No one is strongly disagreed for this question. This implies that large percentage of financial institutions respondents (56%) either agreed or strongly agreed that their financial institution provided a good interest rate for the depositors/investors.

4.2.2.2 Provision of loan or credit

Businesses can use internal funds or external sources to finance their investments. A firm can use one of these two financing sources only or, as is more often the case in practice, a mixture of them. Traditionally, internal funding, i.e. personal savings, retained profit and sales of assets, is an important means of financing only for small businesses and cover only the smallest part of private investment in large companies. Whereas, external sources include loans from banks, microfinance or NGOs assistance are the major source of funds for private investments. Accordingly, respondents were asked to identify whether their institution are providing loan service for private investors. The provision of loan service to investors is presented in tabular form in the table below.

Table 6: Provision of adequate loan or credit

No	Statement	No of respondent	Percent
3	Does your institution provide adequate loan or credit service to investors?		
	Yes	22	88%
	No	3	12%
	Total	25	100%

Source: compute by researcher

As the above table shows, all of the respondents from all type of financial institutions say that their institutions will provide loan service for investors. The table shows (88%) of the responds confirm that their institution gives adequate loan or credit service to the investors and the remaining 12% of the respondent mentioned that their financial institution do not provide adequate loan or credit for investors. Since the financial institutions are established to support the country's economy by contributing loan that increase private investors capital, significant numbers of banks and micro finances provide capital for investors.

But, some of the institutions depend on some other reasons for not lending money of capital for investors. As personal saving is not enough to make investment especially in developing countries like Ethiopia, it is a must for the investors to get finance from financial institutions to make their investment and get profit. This implies that most of financial institutions currently operating in Mekoy are providing adequate credit service, which is the main contribution of their value. The implication of this is that, they are having a major role in making private investment possible with some restrictions for additional investments because 12% of respondents mentioned that they are not providing loan.

4.2.2.3 Level of interest rate for loan

There is a negative relationship between investment and interest rate means that as interest rate fall investment raises and the opposite is true when interest rate rises. Interest rate is used to determine the level of investment in an economy. When interest rate is high borrowing would became more expensive for the investors so they make less real investment. The high interest rate makes it difficult to cover their expenditure because their products become less competitive in both domestic and international market. On the other hand if the interest rate is low, more and more investment take place in the economy which result in more production, more employment opportunities and increase in the potential GDP. Thus, the interest rate through their effect on investment improves growth and future living standard of a nation.

Table 7: Level of interest rate for loan

No	Statement	No of respondent	Percent
4	If your answer on the above table is yes, what is your opinion about interest rate investor pay for the loan they borrow?		
	Agree	15	60%
	Strongly Agree	3	12%
	Neutral	2	8%
	Disagree	5	20%
	Strongly disagree	0	0%
	Total	25	100%

Source: compute by researcher

As shown in the above table, about (60%) of the institution respondents said that they agree with the interest rate investor pay for the loan they borrow; whereas (12%) of the respondent are strongly agreed, (8%) of the respondent are neutral and (20%) of the respondent are disagreed on interest rate investor pay for the loan they borrow and no respondents said that strongly disagree. This implies that most of the financial institutions are satisfied with the interest rate the investors pay for the loan they borrow. So to increase the number of investor that take loan, financial institution should lower their interest rate as much as possible for them.

4.2.2.4 Provision of Money Transfer

Table 8: Provision of money transfer

No	Statement	No of respondent	Percentage
5	Does your institution transfer money from one place to another place.		
	Yes	23	92%
	No	2	8%
	Total	25	100%

Source: compute by researcher

As shown above in the table, (92%) of the respondent of the bank said that, they transfer money from one place to another place; and only a handful of respondents (8%) responded that they do not transfer money from one place to another place. Financial institutions' giving of this service of transferring of money from one place to another place is a better means for customers and investors that would enable them to invest more comfortably.

4.2.2.5 Consultancy Service and Private Investors

The breadth of resources at financial institutions enables them to combine industry expertise with investment knowledge and transaction execution expertise when such specialized skill set is critical to a transactions outcome. Their capabilities provide them a competitive edge to understand and to convey to potential buyers, sellers and financing sources company's key business drivers. This will provide private investors with a Better ability to identify the most suitable acquirers, targets and funding sources, less upfront time needed to understand and articulate company's key business drivers and Keen insight into company valuation/fundamentals for each potential buyer/seller/lender, which often translates into a better price/term. In addition, the senior-level relationships they have in each of industry verticals provide them unique access to key decision makers at prospective buyers, financing sources and related parties to facilitate transaction closings. Those financial institutions deal with many businesses in different industry. This will provide them insight knowledge of each industry they are currently leaving in and dealing with. Their depth knowledge of industry, breadth of resources and strong senior-level relationships provide the basis for their services to private investors, whether in analysis of strategic alternatives or in execution of a merger, acquisition, divestiture or capital placement, as well as for fairness opinions.

Table 9: Consultancy Service

No	Statement	No of respondent	Percent
6	Does your institution have advice or consultancy service to Economic sector?		
	Yes	19	76%
	No	7	24%

	Total	25	100%

Source: computed by the researcher

As depicted above in table 7, about (76%) of the respondents said they advise or give consultancy service to economic sector and investors borrowing capital from their instruction. However, 24% of financial institutions have not a scheduled and continuous consultancy services apart from one time session of advice they hold while approving the money lent. Financial institutions should play a crucial role in consultancy service for private investors in which they direct the private investors to the best direction. Private investors have industry specific expertise on the area that make them to have an in depth knowledge of the area. So this will contribute a lot to private investors in which they get all the advices from those peoples who have a direct knowledge of the area under consideration.

Table 10: The need of money for private investors

No	Statement	No of respondent	Percentage
7	Does your institution give enough amount of money that private investors require (need)?		
	Yes	15	60%
	No	12	40%
	Total	25	100%

Source: computed by the researcher

According to the above table, about (60%) of respondent mentioned that their institution provide enough amount of capital cash that private investors required while the rest (40%) of respondent replied as the institution did not afford enough amount of money that private investors required. The reason of the respondents whose answer is “NO” is that the institutions provide loans for investors as per the amount of collateral the investors pledged to the banks. In addition to this, economic activities of the investors and rules and regulation of the institution matter as to what amount of money are being released for investor in this area.

4.2.2.6 Promotion of Private Investors by Financial Institutions

Within an overarching strategy for improving the investment environment, investment promotion and facilitation can help to increase both domestic and foreign investment and to enhance their contribution to national economic development. Success in promoting investment requires a careful calculation of how to employ resources most effectively and how to organize investment promotion activities within the financial sector so that the overriding goal of economic development through improvements in the investment climate remains at the forefront of policymaking. This will assist private investors in incorporating international best practices into their own investment promotion efforts.

Table 11: Promotion of private investors by financial institutions

No	Statement	No of respondent	Percentage
8	Is there any problem faced by financial institution in promoting private investment?		
	Yes	17	68%
	No	8	32%
	Total	25	100%

Source: computed by the researcher

As depicted in the table above, (68%) of the respondents replied that there is problem faced by financial institution in promoting private investors; while the a little lower than a half (32%) of respondents responded that there is no problem faced by financial institution in promoting private investment. According to 68% of the respondent, the first problem faced by financial institution is mentioned to be because of financial institutions fear of uncollectible loans from those sectors. The second problem is that since there are deficit of foreign currency in banks and investors required huge capital, it created problem in promoting private investment to limit the number of loan requirements. Third, many investors have lack of awareness regarding rule and regulation of the loan, less collateral, high requirement of loan, to fulfill the criteria of gaining loan from bank i.e. evidence of owner and unable to pay return the amount they are borrowed.

The measures to be taken by the financial institutions to solve challenges are promoting saving mobilization from the public; banks should provide new banking products for foreign currency deposits; banks should provide loan for those sectors with adequate collateral, and educating and persuading the community in awareness creation platforms about banking and capital lending.

4.2.2.7 Bank Overdraft to Private Investors

An overdraft is a loan arrangement between the borrower and the bank whereby the bank extends the credit to a maximum amount against which the customer can write cheques or make withdrawals. It refers to the amount of money borrowed that exceeds the deposits. In other ward, an overdraft occurs when money is withdrawn from a bank account and the available balance goes below zero. In this situation, the account is said to be "overdrawn". If there is a prior agreement with the account provider for an overdraft, and the amount overdrawn is within the authorized overdraft limit, then interest is normally charged at the agreed rate. If the negative balance exceeds the agreed terms, then additional fees may be charged and higher interest rates may apply.

An overdraft allows the individual to continue withdrawing money even if the account has no funds in it. The bank allows people to borrow a set amount of money. If you have an overdraft account, your bank will cover checks, which would otherwise bounce. As with any loan, you pay interest on the outstanding balance of an overdraft loan. Often the interest on the loan is lower than credit cards.

Table 12: Provision of bank overdraft to private investors

No	Statement	No of respondent	Percent
9	Does your institution give an overdraft service for the investors?		
	Yes	19	76%
	No	6	24%
	Total	25	100%

Source: compute by researcher

The study result showed that there is over draft services opportunities available for private investors in Mekoy town. As you can easily grasp from the above table, some of the financial institutions in Mekoy provide overdraft service for private investors and some of them do not. Those investors with the availability of overdraft service and others cannot be equal due to financial constrains for those who lack over draft. Considering this table, 76% of financial institution such as banks provide overdraft service for investors and the remaining 24% of the respondent said that their institution do not give overdraft which are mainly from micro finance and saving institutions.

Mostly, overdraft is given to governmental organizations. However, sometimes customers are required to have a checking current account. Some banks stated that they study customers' background, history and characteristics and type of collateral as guarantee to approve overdraft. And, they assess customers' business transaction, cash management and capacity. Similarly, overdraft users are required to fulfill trade license, TIN numbers, and collaterals outstanding amount. After all, the requirement to get overdraft is that everybody who require getting overdraft should have integrity and honesty quality for the institutions, respecting the rule and regulation of the institutions, identify the reason they want overdraft with legal form and have collateral material.

4.2.2.8 Financial Institutions and Letter of Credit (L/C)

A written commitment to pay, by a buyer's or importer's bank (called the issuing bank) to the seller's or exporter's bank (called the accepting bank, negotiating bank, or paying bank). A letter of credit guarantees payment of a specified sum in a specified currency, provided the seller meets precisely-defined conditions and submits the prescribed documents within a fixed timeframe. These documents usually include a clean bill of lading or air waybill, commercial invoice, and certificate of origin. To establish a letter of credit in favor of the seller or exporter (called the beneficiary) the buyer (called the applicant or account party) either pays the specified sum (plus service charges) up front to the issuing bank, or negotiates credit. Letters of credit are formal trade instruments and are used usually where the seller is unwilling to extend credit to the buyer. In effect, a letter of credit substitutes the creditworthiness of a bank for the creditworthiness of the buyer. Thus, the international banking system acts as an intermediary between far-flung exporters and importers. However, the banking system does not take on any responsibility for the quality of goods, genuineness of documents, or any other provision in the contract of sale

Table 13: Provision of letter of credit

No	Statement	No of respondent	Percent
10	Does your institution give LC service for the investors?		
	Yes	15	60%
	No	14	40%
	Total	25	100%

Source: compute by researcher

The study has identified the possible level of institutions that provide letter of credit to investors in

Mekoy. Accordingly, the study has found that there exist a large number of financial institutions who are providing letter of credit for private investors. As shown in the table above, 60% of the respondents claimed that their institution gives LC service for the investors whereas about 40% of the respondent responded as they do not give the LC service for the investors. As indicated in the table above 60% of the respondent, which said “YES” are from banks and 40% of the respondent, which said “NO” are from micro finance and credit and saving associations. Banks approve LC services when investors especially on competitive bidding required it.

4.2.2.9 Mortgage Service and Private Investors

Mortgage is debt instrument, secured by the collateral of specified real estate property that the borrower is obliged to pay back with a predetermined set of payments. Individuals and businesses to make large real estate purchases without paying the entire value of the purchase up front use mortgages. Over a period of many years, the borrower repays the loan, plus interest, until he/she eventually owns the property free and clear. Mortgages are also known as "liens against property" or "claims on property." If the borrower stops paying the mortgage, the bank can foreclose. In a residential mortgage, a homebuyer pledges his or her house to the bank. The bank has a claim on the house should the homebuyer default on paying the mortgage. In the case of a foreclosure, the bank may evict the home's tenants and sell the house, using the income from the sale to clear the mortgage debt. Mortgages come in many forms. With a fixed-rate mortgage, the borrower pays the same interest rate for the life of the loan. Her monthly principal and interest payment never change from the first mortgage payment to the last. Most fixed-rate mortgages have a 15 to 30 years term. If market interest rates rise, the borrowers’ payment does not change. If market interest rates drop significantly, the borrower may be able to secure that lower rate by refinancing the mortgage. A fixed-rate mortgage is also called a “traditional" mortgage.

Table14: Mortgage Services

No	Statement	No of respondent	Percent
11	Does your institution give a loan in mortgage?		

	Yes	24	96%
	No	1	4%
	Total	25	100%

Source: compute by the researcher

As displayed in the table above, large percentage of the respondent 96% responded as the institution gives a mortgage loan for investors which are from banks. The rest 4% of the respondent responded that their institution does not give mortgage loan those from one particular micro finance. As this table indicated, almost all of the financial institutions provided mortgage loan to private investors in Mekoy town with exception of one micro finance. Mortgage loan is critical motivator for investors who come into investment sectors as private cash is limited and inadequate.

4.2.2.10 Loan to Small Business Enterprises and Financial Institutions

Financial capital may help young firms to overcome their initial disadvantages and mistakes. Most of the funding of young firms came from entrepreneurs own savings or money borrowed from relatives and friends. However, the amount of cash needed to sustain or accelerate growth processes usually exceeds these personal sources. Many growing firms relay on external sources of finance to accelerate their growth perspectives. Therefore, some positive relationship between the use of external sources of finance (banks, governments and venture capitalists) and business growth is expected. Additionally, it was pointed out that there might be a sort of self-selection process where firms that had experienced higher growth rates or those projects with more likelihood to experience this kind of growth are precisely the ones that obtain external finance. Likewise, respondents were asked to point out whether they provide any loan to small business investors or not.

Table15: Loan to small business enterprise

No	Statement	No of respondent	Percent
12	Does your institution give loan service for small enterprise?		
	Yes	20	80%
	No	5	20%
	Total	25	100%

Source: Computed by researcher from questionnaires

As well depicted in the table above, 80% of the total respondents answered that their financial institution provide loan for the small enterprise; whereas a fewer higher than one quarter i.e. 30% of the respondents said that they do not provide loan for small enterprises. The reasons for those who responded “NO” mentioned that the absence of collateral in small enterprises, lack of enough machinery, vehicle, urban land and villa that the institution required from them. The government could better intervene into the financial systems to buttress the loan borrowing capacity of them which they provide for small enterprises.

4.3.1 Financial Institutions and Payroll

Payroll is a recurring set of business activities and related data processing operations associated with effectively managing employee workforce. Financial institutions offer payroll solutions for all investors. The employee salary will be deposited in bank and financial institutions will process all activities related with payment. This will improve the efficiency and reduce the costs of payroll processing. Not only this it will also save employers by eliminating the cost of purchasing, processing and distributing paper checks, not to mention reducing bank fees and postage. This method of payment through bank will replace the payment of wages by cheques and cash.

Table 16: Payrolls

No	Statement	No of respondent	Percent
13	Do your institution make payroll for private investors employee?		
	Yes	22	88%
	No	3	12%
	Total	25	100%

Source: computed by the researcher

As shown in the above table, large percent of the institutions 88% answered that they are making payroll for private investors' employee in a set agreement. The remaining 12% of the respondents said that their institution do not have a system of paying payroll for private investors' employee. Those who responded 'NO' are from the micro finance category. However, these activities is believed to provide them with many opportunities that benefit not only the employee but also the investor cost of processing payroll to be reduced and time efficient.

4.3.3 General Information of Respondent From Investors

Table 17: Personal information of Investors

No		Information	Response	
			In number	In percent

	Sex	Male	15	75%
		Female	5	25%
		Total	20	100%

Source: computed by the researcher

Table 15 above shows that the percentage distribution of sex are 75% of respondents are male, and the rest 25% are females. As clearly depicted, the majority are males and female investors are fewer in number. That is also the case in other similar parts when it comes to investment and economic endeavors.

Table 18: The Age Category of Investors

	Age	21-30	4	20%
		31-39	8	40%
		40-49	5	25%
		50 and above	3	15%
		Total	20	100%

Source: As computed by the researcher

The above table shows that the age of respondents are categorized into four classes. As displayed above, the majority of respondents i.e. 40% fell between 31-39 age category; while the smallest age category (i.e. 50 and above) holds only 15% of respondents. The remaining 20% and 25% of the respondents are between the age category of 21-30 and 40-49 ages category respectively.

Table 19: The Education Level of Investors

	Academic qualification	10^{th} Complete and below	6	30%
		12^{th} Complete	7	35%
		Diploma	3	15%
		Degree	3	15%
		Above degree	1	5%
		Total	20	100%

Source: As computed by the researcher

The above table shows academic qualifications of the respondents. From the total of 20 respondents, about 30% are achieved grade 10^{th} complete and below. The majority respondents of 35% have completed grade 12. About 30% of the respondents have achieved either diploma or degree level education equally. The remaining 5% of the respondents has education level of above university degree.

Table 20: Types of Activities Investors Engaged in

4	Types of investor engaged	Agriculture	8	40%
		Agro processing	0	0%
		Hotel and Restaurants	6	30%
		Services	6	30%

		Total	20	100%

Source: As computed by the researcher

As the table depict above, most of the investors (eight in number) are deployed in agriculture activities with a percentage of 40. Hotel and restaurants and services delivery holds 12 investors i.e. 60% of the respondents together.

4.3.4 Background of Investor and Their Investment Trade

From the questionnaires, all of the investments have greater than five years of information and most of the investors opted to engage in agriculture sector. When we look the main reasons of investors' preference of investment choices, investors consider the profitability of the investment and the high growing demand for their agriculture products in Mekoy and surrounding towns which created market chains in nearby cities. Also, the area are comfortable and productive for agricultural activities. In contrast to the agricultural sector, some investors have opted to invest in hotel and restaurants due to high demand of food services and lodging for the growing population and city expansion. Some also engaged in service delivery such transportation and private schools due to lack of infrastructures built by the government. Therefore, they have exploited this service delivery sector for high investment returns.

4.3.5 Investor and their Connection to Different Agencies

To engage in business activity, government license permission were the primary requirement. So investors pass through this requirement before they enter into the business of their preference. All of the respondents claimed that the process of license permission was satisfactory; that means all investors do not face outstanding challenges to get license from Mekoy town investment office. All of the respondents (investors) were engaged in medium and large business activity so they need super amount of money and others needed advise for action from Ethiopian Development Bank as this institution serve as the main source of money to lend for the investors. The action of the banks do not only end by giving loan rather advising or consulting service to make the operation of the investment suitable and congruent to the changing economic condition of the country as well.

4.3.6 Development Banks and Investors

The development bank of Ethiopia is one of financial institution engaged in providing medium and long-term development credits. Development bank of Ethiopia distinguishing features is its project based lending tradition. Project financed by the bank are carefully selected and prepared thoroughly appraised closely, supervised and systematically evaluated. The investors that engaged in different economic activity get support from development bank in two ways. The first one finance related especially loan service and the second one is counseling service. The bank extends loan service to applicants after undertaking appraisal studies in reliable methods to certain the viability of the proposed project. The main economic sector that financed by the bank are commercial agriculture, agro processing manufacturing and extractive industries preferably export focused. The bank favor loan giving for investment in commercial agriculture and industrial sector instead of services sector, loan giving for the service sectors.

The bank as well provides counseling and technical services to new applicants and its clients for free. Additionally, consulting about the fluctuating market inflation and other related factor that can affect the investment of the investor are given by the bank without any payment to the investor at any time, even the bank gives so many things to the investor if change interest rate for the loan service and the respondent facing on the interest rate is medium or moderate one as well even the bank put pre condition to give loan for investor. Most investors' response that the bank gives sufficient loan for their investment. Additionally, with consulting and loan service the financial institution gives the following service. Firstly, it serves as on agent for investor by searching market, for their product in foreign market and as well by engage in transaction on the behalf of the investor.

As an institution development bank through time it take some changes in their working condition like interest rate fluctuation and other actions like prohibition of loan for service sector their action directly or indirectly affect the operation of investors especially when the bank change the interest rate and prohibit loan for shorter period in order to bring stability in the economic, those action can affect the investors and most respondent response also reflect this that it reduce the purchasing power, production capacity reduction and other related too. Finally, even same action and policy changes of the development bank can affect the investment of the investors the benefit that the investors gain from the bank exceeded it even we can say that it is difficult to survive for investor in their investment area without bank.

4.3.7 Current Problem of Investors in Their Investment

From the questionnaire most investors that have already engaged in investment faces the problem of cost to their input due to recurrent and high inflation rate but in some extent this inflation also benefits them, when price go up at some time when input cost increase latter the price does not decrease when input cost decreases so he benefits for investor increase next to that turnover of labor or worker existed due to searching of better wage earning job than the. Current job even other worker can easily substitute but the problem in it is the new worker capacity is too low for the job when it compared with the experienced one.

For the new entrant investor, the main problem is market related problem to their new product and forced to pay large amount of money for advertisement, lack of strategic place for production and sale; this occur due to the factor that most important place of production and marketing have already taken away by former investors. Finally, the new entrant firms face shortage of capital to begin their new investment even their investment area is profitable because development bank before give loan it studies the profitability of the investment and need 30% of the required capital for the investment from the investment owner, so until this two condition fulfill the investor face shortage of capital to start his or her investment.

CHAPTER FIVE

Summary, Conclusion and Recommendations

5.1 Summary

The study aimed at investigating the role of financial institutions in promoting private investment in Mekoy Town. The main objective of the research was to explore the role of financial institutions in promoting private investment in the aforementioned town. To meet this grand objective, specific objectives were listed in the study; and included among others investigating the role of financial institutions in promoting private investment; assessing the problems faced by the financial institutions in promoting private investment; and finally exploring the challenges faced by investors in acquiring investment capital in Mekoy town. To address these objectives, a descriptive research approach was employed and primary data was collected through survey questionnaires from employees and managers of the financial intuitions located in the town and from private investment actors. Frequencies and percentage were used to analyze the responses of respondents. Similarly thematic approach was used to identify and analyze the qualitative data gained.

As the questionnaires unfolded, the respondents from financial intuitions have described that their organization have a well-established means of promotion of private investment in Mekoy town. This action of financial institutions in promoting private investment sector and the provision of loan is helping the town to be a center of growing investment. Similarly, large numbers of investors are drawing near to the town to engage in different investment sectors. Some institutions, however, have been observed to be reluctant in promoting private investments due to many reasons ranging from fear of uncollectible loan, lack of awareness of investors to return the lend money on time, lack of adequate collaterals were highly stated by the respondents. Many of the respondents mentioned that the interest rate of their institution is good for the borrowing investors, while some of the workers disagreed that the interest rate is too much costly for borrowing large amount of money in capital investment. Most of the banks lend money via collateral in the banks, whereas micro finances sometimes refrain from borrowing money on small collaterals due to fear particularly for small scale enterprises such as government sponsored micro enterprises and youths' firm.

The investors preferred agricultural activities for investing in most of the time due to fertile and productive land presence in the town. Now a days, the service and hotel investment is observed to be growing as the population is growing and transitioning to modernity. Also, the researcher has observed that the number of investors are growing from year to year as the documents revealed both from Small and Micro-Enterprises and Trade and Industry offices in Mekoy.

5.2. Conclusion and Recommendations

5.2.1. Conclusions

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

According to the finding of the study, financial institutions like banks and micro finances made crucial role in giving deposit (saving) and loan service for investor by medium interest rate and it makes them to invest more. According to the finding, banks provided services regarding with transfer of money from one place to another place. Financial institution played a crucial role by providing consultancy service for investors in which they direct the private investor into the best direction. Many of the financial institutions do not give enough amount of money that the investor need. The reasons are the institutions focused on public sector rather than private investor; there is lack of adequate money and investors require high amount of money from financial institution without knowing the value of their collateral.

Based on the findings, banks provide overdraft service to investors. The requirement to get overdraft is respecting the rule and regulation of the institution and identify the reason they want over draft with the legal form and have collateral material. Banks give LC service to the investors when they require for competitive bidding and they give mortgage service. Banks pay payroll for private investors employees this activity will decrease investors cost of processing payroll. Some of financial institutions do not give loan for small enterprise the reason for those respondents is absence of collateral in small enterprise.

Financial institutions provide services regarding with insurance this made the individual investors to be free to make investment. According to many of the respondents, the problem faced by financial institution is inflation which is generate increment of price in all over the country. There is also a problem faced by investors such as lack of awareness regarding rule and regulation of the loan.
Generally, financial institutions are the backbone for the country's socio-economic development. Since the private investors have significant roles in the economy of the country, financial institutions provide service as the linkage that facilitate the way for private investors. Financial institutions also made the private investors to be efficient and effective in the activity they undertake to increase the income of private investors that lead them from low level living standard to the medium as well as high level living standard.

5.2.2. Recommendations

After the findings have stood out, the researcher recommends that financial institutions should give better privilege and more chance to private investors in granting loans than an individual's credit users; and it is also recommended for the financial institutions to provide their service in full scale to address more investors coming to the area of investment. According to the finding, many of the financial institution are said to be paying medium interest rate for the deposit money and loan of investors. If they increase interest rate of deposit money and decrease interest rate of loan, it is believed to enhance private savings and loan for private investment.

The awareness problem was mentioned frequently in this study. Therefore, financial institutions should raise awareness for the community at large and for the investors and small enterprises about returning loan money on time efficiently. In order to provide enough amount of money for private investors, financial institutions should try to solve the problem of money shortage in collaboration with higher level government and policy makers regarding the financial system in Ethiopia.

There have been problems as mentioned by respondents for the small scale enterprises. Thus, in order to provide a loan service for small enterprises, the financial institutions should ask the appropriate collateral for the loan of small scale enterprises in collaboration with district government in order for the government to buttress the burden of small scale enterprises in sharing the amount of collateral mortgage. Governments' financial policy, regulations and reviews should focus on improving the policy environment particularly for the development of private investment and the obstacles around it. Also, government should provide special support and encourage those investors to function regularly and bring change for the whole economy as a country.

5.3 For Further Study Indicating Research

This study was aimed at showing how the role of financial institutions is maintained and functioned in promoting private investment in Mekoy Town. It also attempted to investigate the challenges which impaired the role of financial institutions such as commercial and private banks including micro finances in Ethiopia. The study described these financial institutions by exploring their roles in promotion of private investors.

However, the limitation to the reliability and validity of this study is the fact that it has not included all private investment sectors. The study simply measured and explored the role of financial institutions in promoting private investment by taking and considering only those banks and micro finances found in Mekoy town. Having taken into account this predicament, the study does not necessarily indicate the role of all financial institutions in promoting private investment. Further studies are therefore recommended to be conducted which address the limitation of this study.

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APPENDEX

WOLKITE UNIVERSITY COLLAGE OF BUSINESS AND ECONOMICS DEPARTEMENT OF ACCOUNTING AND FINANCE

This study is, conducted under title the role of financial institution in promoting private investment in case of mekoy town. Dear respondent, we would like to express our gratitude in advance for corporation. You will show completing the questioner please put in the box, your choice

Personal Information

1. Sex

   Male ☐ Female ☐
2. Your academic qualification

   12th complete ☐ Diploma ☐ Certificate ☐

   Degree ☐ MA/MS ☐ Other speci ☐
3. Your working institution

   Bank ☐ Saving and loan association ☐ Other specify ☐

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

   Yes ☐ No ☐ I do not know ☐
5. If your answer for number ''4'' yes what is your opinion about the interest for depositors?

   Agree ☐ strongly Agree ☐ neutral ☐ disagree ☐ strongly disagree ☐
6. Does your institution give loan or credit services to investors?

   Yes ☐ No ☐ I don't know ☐
7. If your answer for number ''6'' yes what is your opinion about interest rate investor pay for the loan they borrow?

Agree strongly Agree neutral disagree strongly disagree

8. Does your institution transfer money from one *place* to another place?

Yes I don't kn

9. Does your institution give services regarding with insurance?

Yes No I don't know

10. If your answer for number ''9'' yes what type of service?

Life insurance Health insuranc

Property liability insurance Other specify

11. Does your institution have consultant or advice service to economic sector?

Yes N I don't k

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

Yes N I don't k

13. If no could you express the reason?

____

____

____

14. Is there any problem faced by financial intuition in promoting private investment?

Yes N

15. If yes what is the problem?

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____

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

17. Does your institution give an overdraft service for the investors?

Yes ☐ No ☐

18. What are the requirements to get overdraft?

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

Yes ☐ No ☐

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

Yes ☐ No ☐

21. Does your institution give a loan service for small enterprises?

Yes ☐ No ☐

22. If no could you express the reason?

23. Does your institution pay payroll for private investor employees?

Yes ☐ No ☐