ASSESSMENT ON THE ROLE OF FINANCIAL INSTITUTION PROMOTING PRIVAT INVESTMENT IN WOLKITE TOWN

A SENIOR ESSAY SUBMITTED TO DEPARTMENT OF ACCOUNTING AND FINANCE FOR PARTIAL FULFILLMENT OF BACHELOR OF ART BA DEGREE IN ACCOUNTING AND FINACE

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DEPARTMENT OF ACCOUNTING AND FINANCE

BY; ABRHAM WORKNEH

ADVISOR; Mr. DESTA

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DECLARATION

1. Student

"This Research is my original work and has not been presented for a Degree programs in any other university."

Name _____

Signature: _____ Date: _____

2. Advisor

This Research has been submitted for review with our approval as university supervisors.

Advisor's name: _____

Signature: _____ Date: _____

3. Examiner's Name: _____

Signature: _____ Date: _____

ACKNOWLEDGEMENT

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ABSTRACT

The student research paper will be conducted on the role of financial institution in promoting private investment in Wolkite town. There are also specific objectives in the study that will be mentioned. In order to achieve the objectives of the study descriptive data design will be used. The source and method of data collection in the study will from primary in the form of questionnaires; and secondary sources of data will gather from annual report of financial institution, investment office, and available literature from published and unpublished material. Judgmental sampling technique will apply. The data analysis and presentation will in the form of tables and percentages.

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CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Investment is process of exchanging income during one period of time for an asset that's 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 hunter, 2003).Financial institutions are involved in the process of increasing the level of investments of variousconomic 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,l(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 (loan) to households and businesses (Fredrics,mishkinStanleyG.eakins,2006).Financial institution is an institution that provide financial service for it 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 etc.(caroline hunter(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 terry,c,(2005).With regard to this some researcher were 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, so this study would be conducted on this area to evaluate the investment problems, and to assess the role of banks in promoting private investment.

1.2. Statement of the Problem

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

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

services and many other. The financial institutions although regulated, still determine the strategies for allocating funds, thereby playing significant role in determining the type of investment activities, the level of employment generation, and distribution of income (Gross, 2001). According to Athanasios and Anthonios (2010), the development of private sector investment is strongly correlated with development financial sector lending. This implies that financing of private investments through the credit from financial sector portends that investments are associated with levels of credit expansion. Thus, the availability of an optimally functioning financial institution allows the realization of this role which is often essential and significant for the development of an economy and alleviates the external financial constraints that impede credit expansion, and the expansion of firms and industries (Mishkin, 2007). Again, financial institutions provide sources of external financing to firms and so create information that guide the allocation of resources. Greenwood and Smith (1996), show that, large financial institutions can lower the cost of mobilizing savings and hence facilitate investment in most productive technologies. Levine (1991), financial sector increase investors liquidity by providing overdraft which allows investors to withdraw more money than they have in their bank account. In addition he adds, the financial sector will provide guarantee for the private investors on some bid that require financial sector guarantee. This help for the smooth functioning and value creation of private investors.

Though private investment productivity increased along with financial sector development, in wolkite the increase was not commensurate with that of financial sector. There is small amount of literatures that are devoted to identify the role of financial institution in promoting financial sector development. Nevertheless, the bulk of such research tends to concentrate on developed countries; very limited studies have provided such research in Africa. We couldn't get any single research done on the area in our country and this may be the first to identify this situation. This paper will fills this gap in literature.

1.3. Research questions

- How does financial institution in Wolkite town promote private investment?
- What is the investment condition of Wolkite town in the current period?
- What are the investment and related activates performed in Wolkite town?

1.4. Objectives of the study

1.4.1 General objective

The general objective of the study is to assess the role of financial institution in promoting private investment in Wolkite area.

1.4. 2 Specific objectives

- To identify the financial institution investment promotion means and it's activity to promote investment in the current period.
- To assess the current investment condition of Wolkite area.
- To examine investment and investment related activates performed in Wolkite area. .

1.5. Significance of the study

The researcher believes that the study is important for the following points;

- ✓ The main purpose is enable to assess the role of financial institution in promote private investment.
- ✓ It helps as a bench mark for policy makers on financial institutions to play role in private investment and helps to identify the problem of private investor.
- ✓ The study will helps any financial institution to identify private investment promotion means.
- ✓ It also helps the financial institution to correct its weakness from the finding of the study and it used as a reference for other researcher to conduct relative title with this study.

1.6. Scope of the study

Even though, financial institutions play a vital role in promoting private investment in our country, due to the broadness of our country are and lack of experience of the researcher the study is limited to assess the role of financial institutions in promoting private investment in Wolkite town.

1.7. Organization of the paper

This proposal is organized in three chapters. The First chapter is about the core purpose of the study which includes background of the study, statement of the problem, research question, objectives of the study, significance of the study and scope of the study, . The second chapter includes literature review of investment and financial intuitions. The third chapter describe about methodology of the study and data source, research design, methods of data collections, sampling techniques& source of data.

CHAPTER TWO
LITERATURE REVIEW

2.1 An over view of financial institutions in Ethiopia

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

Addis bank. Letter on Addis bank was also merged in to the stated owned bank called commercial bank of Ethiopia since the nationalization of all private banks on January 1, 1975 onwards, the financial sector passed through mono banking and insurance system and guided by the central plan like other sector until 1990-91.(BIRRITU:2007 P:21)

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

2.2 INVESTEMENT AND FINANCIAL INSTITUTION

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

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

Financial institution contributes to the operation and growth of investment through various roles, including that of intermediary and provides of payment settlement facilities and they must also execute these roles faultlessly in order to promote confidence and stability in the system

additionally financial institution contribute to private investors through giving overdraft ,loan ,mortgage ,LC loan and taking deposit.

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

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

The role of financial institutions in the development trajectories at late industrializing, developing countries can't be over emphasized. However as noted above, with financial liberalizations at the neoliberal variety transforming financial structures some countries and doing away with specialized development banking institutions on the grounds that equity and bond market would do the job. This is bound to deal to short fall in finance for long term investments, especially for medium and small enterprise (cp Chandrasekhar, 1997).

Financial institutions are firms that provide financial service to surplus spending units (Lenders) and deficit spending units (borrowers). The most important financial institutions are financial intermediaries-various institutions such as, Banks, saving and loan association and credit unions that serve as go-between to link up surplus spending unit and deficit spending units. Here the linkage between saver and borrower is indirect. For example, an investor might deposit some

surplus fund in a saving account at a bank; the deposit is an asset for the investor and liability for the bank. If the bank, in turn, makes a loan to deficit surplus unit, the loan is an asset for the bank and liability for the deficit spending unit (Burton nasibalombra, 2003).

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

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

The recent development of microfinance has made it possible to expand financial services to reach a large segment at the poverty stricken population. MFOS must usually over come several difficulties in order to successfully provide financial services to the poor .Therefore the role of public policy should be create conditions for the development of sustainable and profitable micro finance organization [M.kabirhassan 2002].

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

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

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

2.3 MAJOR FINANCIAL INSTITUTION

There is different major financial institution but in this paper look some major types of financial institution as follow (O.Edmister, 2nd edition).

2.3.1 COMMERCIAL BANK

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

The roles of commercial bank are;

- accepting money on term deposit,
- Lending money by over draft installment loan or other means, cash management and treasury.
- Safe keeping of documents and other items in safe deposit boxes.
- Sales, distribution or brokerages with or without advise of insurance, unit trust and similar financial products a financial super market

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

Functions of commercial banks are:

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

2.3.1.1 OVERDRAFT

Occur when money is withdrawn from a bank account and the available balance goes below zero. In this situation the account is said to be over drown, if there is a prior agreement with account providing for an overdraft and the amount with drown is within authorized overdraft limit, then interest is normally charged at the agreed rate., if the negative balance exceed the agreed terms, then additional fees may be charged and high interest rate may apply. Over draft occur varieties of reason this may include. Internal short term- loan- the account holders over may occur for variety reason this may include:

Internal Short Term Loan; the account holders find themselves short of money and knowingly make an insufficient fund deposit. They accept the associated fees and cover the over draft with their next deposit.

Failure to Maintain Accurate Account register; the account holder doesn't accurately account for activity on their account and overspends through negligence.

ATM overdraft; Bank or ATMS may allow cash withdrawals despite in sufficient availability of founds. If the ATM is unable to communicate with the card holder's bank, it may automatically authorize a withdrawal based on limits preset by the authorized network.

Temporary deposit Hold: A deposit made to the account can be placed on hold by the bank, this may be due to individual bank policies.

UN expected electronic withdrawals- this could occur in good faith of both parties of electronic with in question is made legally possible by terms of contract such as the initiation of a recurring service following a free trial period.

Merchant error: a merchant may improperly have debit a customer's account due to human error. Charge to merchant: a merchant may improperly debit a customer's account due to human error.

Charge Bank To Merchant; a merchant account could receive a charge back because of making improper credit or debit card charge to customers or a customer's making an authorized credit or debit card charge to same one else's account in order to '' pay'' for goods or service from the merchant

2.3.1.2 LETTER OF CREDIT

This document issued by financial institution, or assuring payment to a seller of goods and / or service provided certain documents have been presented to the bank.

These are documents that provide that the seller has performed the duties under an under an underlying contract (e.g. sales of goods contract) and the goods (or service) have been supplied as agreed.

In return for these documents, the beneficiary receives payment from the financial institution that issued the letter of credit. The letter of credit serves as a guarantee to the seller that it will be paid regardless of whether the buyer ultimately fails to pay. In this way the risk that the buyer will fail to pay is transferred from the seller to the letter of credit issuer. The letter of credit reflected in the better of credit. Documents that can be presented for payments can explore or slipper must present the document required by the letter of credit

2.3.1.3LOAN

An arrangement in which a lender gives money or property to a borrower, and the borrower agrees to return the property or repay the money usually long with interest, at future point in time .Usually there is a pre-determined time for repaying the loan and generally the lender has to bear the risk that borrowers may not repay a loan (through) modern capital market have developed many ways of managing this risk. The terms of standardized loan are formally presented (usually in writing) to this party in the transaction before any money or property changes hands .If a lenders requires collateral ,this will be stipulated In the loan document as well. Most loan also have legal stipulation regarding the ma maximum amount of interest that can be changed, as well as other convenient, such as the length of time before repayment is required .Loan can come from individuals, corporations, financial institution and government they are a way to grow over all money supply in an economy as well as open up competition, introduce new products and expand business operations.

2.3.1.4 BANK DEPOSIT

Money placed into banking institution for safe keeping, bank deposit is made to deposit account at a banking institution, such as savings account, checking account and money market account. The account made has right to withdraw money any deposited funds, as set forth in the terms and conditions of the account .the deposit itself is a liability owed by the bank to the depositor (the

person or entity that made the deposit) and refers to this liability rather than to the actual funds that are deposited. Banks and financial institutions accept many type of deposit each day. Deposits are deferent based on the type of account for which the deposit is intended. Deposits are typically made with cash, checks or the electronic transfer, in to accounts that include savings, checking money market, and certificate of deposit.

2.3.1.4.1 Types of Bank Deposit

A. Saving Account Deposit

Saving accounts are the bank account people; most commonly use save money .Money deposited in to a savings account earns interest from the bank. Saving accounts offered through most financial institution, are insured, by the federal deposit insurance corporations. Money deposited in to saving account can be withdrawn in person or electronically. Money saving account also has the option of ATM card that can be used to withdraw money at any ATM.

B. Money Market Deposit

Money market account is similar to saving account typically pay a higher interest rate. Depositors are allowed only a certain number of withdrawals each month. Many money market accounts are covered through the federal deposit insurance corporation.

C. Checking Account Deposit

Checking account for the flexibility of writing checks against deposited funds. They are generally federal deposit insurance corporation insured money deposit in checking account can be withdrawn by visiting the bank, writing a check or using an ATM or debit card.

D. Certificate Of Deposit

With certificate of deposit, a bank receives a deposit and issues a certificate to the customer. A certificate of deposit is a short or medium term investment tool that pays interest on deposited funds. The interest rate is generally slightly higher than the rate on saving accounts. Money deposited in to certificate deposit must be kept there for a specified period of time. If the certificate deposit is cashed in before the specified date the depositary pay penalty.

The decision to save and decision to invest is typically made by different individuals and groups. Many house hold and firms engage in investment. A different and small group of individuals and firm purchase investment goods to realize investment goals .The saving of the masses must be transferred to investors in capital goods. The key role in financial institution and market is to facilitate the transfer of funds. Banks have developed system to facilitate the transfer of funds. Such that, money can be transferred almost instantaneously and minimal risk (Lloyd B Thomas 2006).

2.3.2 SAVING AND LOAN ASSOCIATION, SAVING BANK AND CREDIT UNION.

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

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

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

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

Credit Union(CU) is saving institution formed around a common association. These over of fund is saving by members which are represented by shares. Funds are invested in loans to members to

generates consumer loans, although real estate loans. Credit union is organized by group of individual such as labor union, universities or member of particular firm occupation. Credit union issue time deposit (share) to members and use the funds chiefly to lend to other members. Loan usually is guaranteed for home improvements or good purchases (cars, furniture). Profit earning by credit union are exempt from federal income taxes, allowing credit unions to offer attractive interest rates relatively to bank and other financial institution (Lloyd b. thomas 2006).

2.3.3 INSURANCE COMPANIES

Insurance companies protect individuals against risk .Life insurance company's functions collecting premium from insured persons and investing the fund until needed for death benefits. Life insurance companies accumulated various amount of reserve under whole life policies but very little with the term life policies. premium are charges made by insurance companies for guaranteeing that benefits are paid to insured's family business association other persons in the event of his or her death. On whole life policies the premium exceeds death benefits in early years so that reserves are accumulated for years when the provides protection for a year or less and becomes more costly as individuals grows order.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

This paper will use a descriptive research. Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. The main characteristic of this method is that the researcher has no control over the variables; he can only report what has happened or what is happening. The study under consideration will apply the descriptive research design and various data collection methods

which are suitable for successful accomplishment of the descriptive research. This study will undertake in financial institution in Wolkite town.

3.2 Source of data

The researcher use both primary and secondary source of data in order to gather necessary data regarding the subject of study from the financial institution & investment office. Primary source of data used to gather necessary data from the respondent for the completion of the study; and secondary source of data used for support the primary source of data in order to fulfill the shortage of data from the respondent.

3.3 Data collection technique

The student researcher was collect primary data through qualitative method of data collection technique in a direct communication with respondents through; questionnaire because it is easy to get data easily and in well-defined way and in short period of time. In addition to the primary data, the researcher use secondary sources using quantitative method of data collection like; annual reports of investment office, annual reports financial institution.to full fill the information which is unavailable from primary data.

3.4 sample size and Sampling technique

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

Primary data were collected through questioners which consist of both open and closed-ended questions to get detail and truthful information for our study. Secondary data were collected from different materials like data from financial institutions in wolkite. The target populations of the study were employees and manager of financial institution. The sample size of the study is 8, among them I toke 6 banks, & 2 micro finance by using judgmental sampling.

3.5 Data analysis and presentation

After the necessary data is collect from the primary source, then these data are coded and tabulated. Data are present using tables and percentage. All these data presenting techniques are implemented based on the nature of the data.

CHAPTER FOUR

4. DATA ANALYSIS AND PRESENTATION

Introduction

The objective of the study is to investigate the role financial institution can play in promoting private sector investment in wolkite town and want to enhance the contribution of those financial institutions to private sector investment. Data were collected from 8 financial institutions with 8 numbers of employees including managers through questionnaire which was conducted with officials and employees. Descriptive analysis was used to interpret the data gathered through questionnaire and the questionnaire has two parts; the first part asks about respondents' characteristics, the second part contains questions about the role of financial institutions in promoting the private investment sector development. In this particular chapter the data is analyzed and interpreted depending on their respective information.

4.1 PRIMARY DATA

4.1.1 General Information of Respondent

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

Table 1 Personal information

No	Description	No of respondents	Percentage
1	Sex		
	Male	8	100%
	Female	0	
	Total	8	100
2	Education level		
	Diploma		0
	BA Degree	8	100
	MA/MS		

	Certificate	-	
	Other	-	
	Total	8	100
3	Age		
	<20	-	-
	20-30	8	100
	31-40	-	-
	41-50	-	-
	Above 50	-	-
	Total	8	100
4	Working institution		
	Bank	6	75
	Microfinance	2	25
	Other		
	Total	8	100
5	Work experience		
	<2year	-	-
	3-5year	6	75%
	6-10ear	2	25%
	Above 10 year	-	-
	Total	8	100%

Source: computed by the researcher

As shown in the above table, out of the total respondents62.5 % was male and the remaining 37.5are female. This may show that most of workers are male and it indicates that the proportion females' participation in the sampled enterprise is low.

The study also tries to analyze the respondents' maximum education level attained. Accordingly, the table above shows the education levels with maximum attained level. Concerning the education level of the respondents, majority of the respondent (100%) were BA degree holders and 0% had MS degree and 0% had diploma there were no person who, certificate and below. 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.

And also tries to analyze the respondent's age level according to the above table the major age level of the respondent is 20-30 (100%)

Again, the study also tries to analyze the type of financial institution the business is dealing with. This may help the researchers to understand the type of financial institution operating in the town to the largest level. As shown in above table the sample firms were operating indifferent sector of the economy. In this the financial institutions are categorized in to bank, , micro finance and saving loan association. Most of sample firms (62.5%) were from banking institution and 37.5% of the respondents are working in micro finance. 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.

Finally the study tries to analyze the working experience of the respondent in the above table 75% of respondent working experience is 3-5 year & the remaining 25% is 6-10 year so in this analysis the respondent is experienced.

4.1.2The role of financial institution

The role of financial institution is wide and varying. It does not only encompass lending-out of money but includes a range of other financial services. Among the services are extension of credit, promotion of small and medium industries, developmental role, role in corporate recovery, financial and investment advisor. Let us see the current accomplishment of financial institution wolkite branch in the above activity in promoting investment.

Table 4.2 Extension of credit

Questiona	Alternative	frequency	Percentage
Banks accomplishment	Very good	2	25%
	Good	5	62.5%
	Medium	1	12.5%
	Poor	0	0
	Neutral	0	0
	Total	8	100

Source; : questionnaires

The role of banks as supplier of funds for the promotion of investment reflected through in the volume of credit extended to business community. Financial institution in wolkite branch have good accomplishment in the extension of credit about 25% of the respondents say very good and about 62.5% says good and the remaining 12.5%says medium. So the bank gives good credit service in the recent period.

Table 4.3 Promotion of small and medium scale industries

Question	Alternative	frequency	Percentage
Bank accomplishment	Very good	2	25%
	Good	3	37.5%
	Medium	2	25%
	Poor	1	12.5%
	Neutral	0	-
	Total	8	100%

Source; questioner

Consistent with the national socioeconomic objectives of the Government, financial institution lending to certain priority sectors of the economy to ensure their ready access to bank credit at reasonable cost. These special groups include commercial agriculture, agro processing, manufacturing and extractive industries preferably export focused.

The industrialization plans call for a bigger role of the small and medium scale industries in providing the vital supporting ancillary services and to create inter industry linkage to strengthen the industrial base. Based on the above table the promotion of small and medium scale industries by financial institution in wolkite branch is poor about12.5%% 0f the respondents say poor and neutral the remaining 87.5% respond medium and above to clarify this researcher asked respondent orally about this issue they assure medium and small scale industries does not financed in wolkite up to know.

Table 4.4 role in Financial and investment advice

Question	Alternative	Frequency	Percentage
Bank accomplishment	Very good	6	75%
	Good	2	25%
	Medium	0	0%
	Poor	0	0%
	Neutral	0	0%
	Total	8	100%

Source; questioner

The advisory role of banks as "financial doctors" transcends the financial and business fraternity between the community and the Government. On the one hand, the banker acts as corporate adviser to the business community in such areas as corporate restructuring, expansion of business activities and portfolio and investment management, to name but a few. On the other hand, while providing the linkage between businessmen and Government industrial development efforts, banks also provide the supporting advisory role for many Government development programs. Bankers are the ones best suited to 'sniff' out clients, whether in trading or other sectors, whom they feel have the financial and management capability as well as the interest to diversify into new industrial projects. They may be aware of clients with sufficient technical capability but who are in a state of excess capacity. These will be excellent contract manufacturers for foreign industrialists seeking new sources of supply. As investment advisers, bankers can represent their client's overseas and local investment programs and assist in bringing together potential foreign partners and the local investors.

Table 4.4 shows the financial institution have good Accomplishment about 75% of the respondents says very good so as we understand that the bank is public to provide linkage between governmental programs and business man it provides supporting advisory role for many government projects effectively.

4.1.3 Recent changes in the participation of investors from the service of the bank

The data that were collected from respondents shows the change clearly that all of them respond yes, in addition they describe the change by writing the recent policy and strategies of the financial institution to provide only for priority area by laying down the past other service sector. The bank give service for the construction of hotel and minimarket, construction of real estate and construction of elementary school, but now the financial institution does not provide to this service

sector rather it provides only area of focus to facilitate the developmental strategy of government. Agriculture, agro processing manufacturing and extractive industries preferably export focused were the government prioritized area but Aksum branch give service only for agriculture and agro processing. As the bank changes its loan policy some investors change their project to agriculture and agro processing. The financial institution gives service of loan for domestic and international trade by carefully selected.

4.1.4 Comparison of area of focus and other sectors accomplishment

Respondents compare priority area and other sector and financial institutions engagement by writing the advantage of priority area over others sector. Priority area has high technology transfer, high employment opportunity and foreign currency generation than other sectors of the economy. By understand this financial institution give service for priority area and other service sector (non priority area) previously but know it engage only in propriety area (manufacturing, agro processing, extraction or mining sector). In that period the accomplishment of non-priority sector over other is good. Currently the bank promotes more agricultural and manufacturing sector which is available in investor's participation. The current government attention sector agro processing has low due to lake of investor's engagement.

Table 4.5 banks accomplishment in priority area and non-priority area

Item	Banks accomplishment				
	Very good	Good	Medium	Poor	Neutral
Priority sector (area of focus	37.5%	50%	12.5%		
Other sector	-	62.5%	25%	-	12.5%

Source; questioner

The above table shows financial institution accomplishment in providing service (financing) priority area. The financial institution has good accomplishment that 87.5%% say very good & good by taking service sector accomplishment. The remaining 12.5% says medium .For non-priority area respondents have given different answers 62.5%% and 25% of the respondents say good and medium respectively by writing the previous accomplishment write in case the present service where as 12.5% of the respondents neutral.

The institution provides loans for Commercial, Agriculture, Agro-Processing, Manufacturing and Extractive Industries, preferably export focused. The economic sub-sectors for which the loan able

financial resource will be availed are: investors who participate in the area below gain service from financial institution in wolkite.

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4.2 Secondary data analysis and interpretation

The following data organized from short guide to access financial institution loan for its clients

4.2.1 Credit service

The financial institution extends loan service to applicants after undertaking appraisal studies in reliable methods to ascertain the viability of the proposed projects.

The bank extends credit to credit worthy borrowers and projects that have through appraisal and found to be financed and economically viable and socially desirable in terms of environment protection, employment generation capacity and other social benefit that may be included in the frame work of development regulation act of government. Although financial institution extends credit mainly for medium and long term loans, it also avails short term working capital loans to its clients, the term of loan is, however to be determined based on specific needs and requirements of the projects. The term of loan explained below:-

Long term loan: The maximum length of the time the bank advance long term loan is fixed at 20 years including any grace period. Any additional loan or rescheduling must also fall within 20 years. Permanent working capital also considered as part of long term investment loan of a project that will be recovered 5-15 loan repayment period. long term loan is mainly use for the purpose of construction of building, acquisition of machinery and equipment, irrigation, plantation of crops, vehicles and communication equipment and for any other infrastructure related with project to be financed.

Medium term loan: This type of loan is a loan repayable within three or five years including any grace period. Such loan is mainly used for the purpose of building construction, machinery and equipment, furniture and vehicle.

Working capital: In addition to the permanent working capital that is part of the project cost working capital loan service serves as abridge finance and is availed on the base of the cash flow

of project itself. The purpose of working capital finance is for extension of inventory cycle, increased capacity utilization and to cover the occasional short term cash flow problems of existing customers.

4.2.2 Loan buys out

The financial institution may buys out loan extended by local banks; however the loan purchased under the loan buy out loan facility should be viable going concern and priority sector projects.

4.3 Investment and investment related activates in wolkite area

Table 4.6 the four year activity of investment in wolkite town

	Types of activates	Year				
		2015	2016	2017	2018	Total
1	New investment license	25	11	20	8	64
2	Renewed investment	150	111	58	46	425
3	Total	175	122	78	54	429
4	Changed project	7	4	0	2	13
5	Money collected	36500	33000	31600	1900	12100
6	Followed project	140	132	99	85	456
7	Assisted project	70	197	47	30	191
8	Rural land	4125.015	256.33	1011.15	800	6192.493
9	Urban land	0.5	6	0.2	0	6.7
10	Total	4125.515	262.33	1015.15	800	6199.193
11	Warned investor	25	0	11		36
12	Capital accumulation	107.2	147.215	702.4	51.6	2308.4215
13	Provide investment related question & give answer	18	20	27	8	73
14	Crating permanent job opportunity	100	118	90	12	320

15	Crating temporary job opportunity	450	571	425	380	1826
15	Total	550	689	515	42	1796

Source; annual report of wolkite town investment commission for the year ended 2015 -2019 half

Since the period 2015- 2017and 2019 half wolkite town investment commission has given licensed to 429 investment projects which had an aggregate capital of 2308421500 birr.

During the period from 429 projects 14.9% (64) of them are new projects where as the rest 85 %(365) processing and service. Are renewed license projects. In terms of capital all 100% covered by domestic private and cooperative investors. The investment has classified in to three sectors namely agriculture, agro processing and service.

Out of the total licensed projects about 65% were given to agriculture sector, 31 % of the total project given to service sector and the remaining 4% of the total project given to agro processing. In this period 15 projects changed to other sector. 26.7% changed to agriculture sector whereas 33% changed to service sector but the recent government focus agro processing have low percentage amounting 4% only. The project crates job opportunity for 1796 workers about 320 permanent and 1820 temporary. In the period 120100 birr collected from licensed permission, whereas 456 projects followed by the commission. In this period the commission assisted 191 projects. The commission Proved investment related question and give solution for 73 projects.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5. Introduction

In this section attempt is made to summarize the major finding of the study focusing on the role of financial institution promoting private investment in wolkite town, finally recommendation forwarded for those problems identified.

5.1 CONCLUSION

On the base of, questioner, self-review, , document and annual report data organized from assessing this study come up with the following conclusion.

1. Investment activates in wolkite includes three sub sector agriculture, agro processing, and service sector of the economy. Investors have high interest in service sector. Service has good accomplishment while agriculture & agro processing sector have some ups and downs. The resource availability of the zone can much with investor's capability and interest. Problems related to investment include infrastructure, financial service, delay of project, and illegal way to expand project and cheating separation of licensee and loan provision.
2. Financial institution in wolkite branch played great role in counseling and technical service for its clients and customers without fees and direct new events and polices in registered email and also communicates with registered phone no with investor. The relation of the financial institution limited to investors and the central government which is directed by wolkite distract.
3. Financial institution in wolkite have played great role in the economic development of wolkite town. activates done by the institution includes extension of credit, financial and investment advice, and reorientation in lending in good accomplishment where as corporate recovery, and promotion of small and medium scale enterprise in poor accomplishment. Beyond this the bank provides special investment service such as giving medium and long term loan in lower interest rate. The long term loan covers 15-20 year, counseling and technical service and higher debt equity ratio in comparing other financial institutions. The bank also provides banking service credit service loan boys out service to its clients and new entrants.
4. Nationally the financial institution have been taken loan amendment such as calculate penalty interest rate only in bad debt, decrease three Performa invoice in to one and increase debt equity ratio for investor for projects which exported 60% of the total product or service. Priority area by the institution has good accomplishment in the period. Both Numbers of prospective and permanent investors decrease continuously, because of most prospective investor's interest only on service sector which is continuously renewed by permanent investors. The commission makes some

activates to promote investment such as: proved investment related questions and give solution, followed and assist projects and give command for investors to begin and finish in the appropriate period.

5. The service sectors have high approval, collection and disbursement greater than 98% of the total sector. The other less than one present share by agro processing and agricultural sector.
6. The institution disburse loan for private and cooperative area of investment only. Private investment held's the lion's share which includes service agro processing and agriculture, sector with higher proportion of loan amounting greater than 98% share. Remaining less than one percent shared by cooperative area of investment which includes only service sector only. This shows the advantage of private participation over other area for economic and investment development for a given country.

5.2 RECOMMENDATION

Private Investment promotion by financial institution increase the computation of investment this causes increase the wealth of nation which improve the living standard of the society, so financial institution in wolkite have to take the following action to promote private investment also the investment commission take part to promote investment.

- Even the Investment commission advice investors to participate in other economic sub sector it is not enough. So the commission could advice prospective and permanent investors to get loan from financial institution in normal interest rate and long repayment period.

- Even the institution focus on communication, counseling and technical service it is not enough, so the institution could prepare annual meeting after conducting research with investor and related authorities to announce them about profitable and risky projects, supply and demand condition of products or service of each project, and new policy and strategy of investors.

- The institution would create linkage with investment commission and other related parties to know investors willingness to invest and their investment related problem using investment commission and other parties as intermediary between investor and the institution.

- As much as possible the institution try to amend its weakness in corporate recovery (financing projects in recession after appraisal study) and promoting small and medium enterprise.

- Even extension of credit by the institution increase from year to year number of prospective and permanent investors decrease continuously, because of investors focuses only in service sector that is withhold by permanent investors. Measure take by institution as much as possible in cooperation

with investment commission during submission of license to advice investors to participate in manufacturing, small and medium scale enterprise, agro processing and extractive industries to alleviate this problem. also the institution advise the pubic to invest in cooperation with private investor in agro processing, manufacturing, and extractive industries to increase capacity of investor.

- The financial institution by itself try to announce investors who participate in service sector previously to change their project to priority area or to begin new project in case the bank finance their project again rather collect the previous loan continuously from investors.

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Appendix

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

This questionnaire is prepared to gather relevant data for the study entitled the role of financial institution in promoting private investment in Wolkite town.

You are kindly requested to give your genuine response for each of the forth coming questions so that will be in opposition to draw conclusion and recommendation accordingly. More ever the output of the study may be used by policy maker as an input.

Additionally, I promise the confidentiality of the data you are going to proceed. i.e. not release to any third party without your permission and notice.

INSTRACTION

1. Dear respondent you are not required to write your name to give you freedom, to respond confidently and to keep our secret safely.

2. Please put mark in the place provide for you in box for open and close questions.

THANK INADVANCE FOR YOUR COOPERATION.

Part1 Personal information

1. Sex Male ☐ Female ☐
2. *Age* < 20 yea☐ 20-☐ 31-☐ 41☐ above 5☐
3. 2 .Your academic qualification

12th complete ☐certificate ☐iploma ☐

Degree ☐ MA ☐ Other specify------

4. your working institution Bank ☐ saving and loan association ☐

Insurance ☐ Micro finance institution ☐ other specify _

5. *Work experience* :< 2 years ☐3-5 year ☐- 10 year ☐ 10 years ☐

part two: bank service related questions for employees of financial institution

- 1. Please put “x ” in the box for your choice

Bank activity to promote private investment	Rank them in order of their accomplishment			
	Very Good	Good	Medium	Poor
Extension of credit				
Financial and investment advice(counseling service)				
promotion of medium and small scale industries				

2. How does you compare banks area of focus (priority list) and investors participation in economic sector to invest?----------
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3. is there any change existed from the past in investor’s participated area?

Yes ☐ No ☐

4.If you say yes fore question no 3write the change ----------
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