

# The Role of Urban Private Investment to Economic Growth in Hosanna Town.

Mamo Esayas Ambe

Lecturer ,Wolaita Sodo University , Department of Economics ,P.O .Box 138

## Abstract

The role of fast dynamic private investment sector is one of the policy instrument via which government of developing as well as developed took into account as, a means of alleviating poverty and promoting capital accumulation and technological progress. The government of Ethiopia after adopting several reforms since 1992 achieved progress in promoting private investment sector growth and took it as engine of achieving accelerated economic growth and development. The private sector has multipurpose role to play in the economic growth via acting as source of innovation and technological growth, source of employment and income, as well as means of promoting resource allocation such human resources as well natural resources. This study is aimed to investigate the role of urban private investment to economic growth in hosanna town by taking into account the data for the time period from 2001 to 2010 E.C. the study would have employed both primary as well as secondary data in order to carry on deep rooted analysis of the role of private investment to economic growth coupled with employing descriptive tool of data analysis such as percentage as well as mean to come up with valid result of analysis. The result of the study indicates that the majority of the investors are male as compared to the female investors. When we see the age category of the respondents the majority of the investors are found in economically active age category followed by having few household members moreover the study found that private investment activities in the study area has been showing progress from time to time due to incentives provided by the government including access to credit from bank as well as working space coupled with provision of training. The study recommends that there should be promotion of economic growth of the city coupled with promoting structural transformation of economy and building appropriate institutional framework. Moreover the study recommends the promotion of access to bank credit ,working place as well as creation of conducive legal as well as institutional climate cable of boosting economic growth and private investment involvement in several activities.

**Keywords:** private investment, economic growth, factor productivity, development

## CHAPTER ONE

### 1.1 Background of the Study

Investment is an instrument, which has a great role in development of an economy especially for less developed countries like Ethiopia. This is because of the importance of investment to bring employment opportunities, effectiveness of domestic resource, large production, specialization, which do not fulfill in developing countries (Befekadu,1994). In Ethiopia both private and public investment are relevant for economic growth, but private investment is more effective than public investment.

The volume and diversity of investment has been on the increasing level since the introduction of liberalization measure in early 1990s. Unlike in the previous governments in which investment activity are mainly carried out by public sector, both domestic and foreign private sector firms have been actively participating in the investment sector of the economy since the reform of early 1990s (Wolday, amah, 2005/2006).

According to w. Rostov, most developing countries are ether in the per-condition or traditional state. All that this society had to take of (to self-sustain growth) was to follow a certain rules of development. Development requires substantial investment through capital mobilization of foreign direct investment and foreign saving in order to generate economic growth.

Investment trend, which prevails in Ethiopia, shows the close interdependence of the level of investment, especially private investment in this case and economic growth has been lower for many years. So investment needs certain circumstance in order to have a contribution for economic growth, such as sufficient source of fund, political stability of a country and existence of effective polices .The source of fund or incomes for investment are Foreign direct investment, domestic saving and foreign aid (Bhagwati and chenery1999) as cited in Todaro,(2000)).

The private investment is the main engine of growth in market economics. It thrives and delivers sustained growth when number of factors combines to produce conducive environment for the private sectors to develop. Private investment is crucial pre-requisite for economic growth because it allows entrepreneurs to set economic activity in motion by bringing resources together to produce goods and services.

Economics growth could be realized through a proper development policy. One of which could be promoting demand countries have shown that growth in the economy have come through increased investment.

Thus, investment plays a vital role for economic growth and development and for improving the welfare of the society. Recent studies (collier Gunning, 1999; Ndikumana, 2000; Herndeze-Cata, 2000) conducted in Africa, Asia and Latin America has established the critical linkage between investment and the rate of economic growth. It also plays multiplier effects through creating employment opportunity, reducing poverty, transferring technology through foreign direct investment (FDI), increasing capital accumulation and Government revenue collected in very essential economic as well as social institution in which the private sectors is not involved (Brihanu & Befikadu, 2003/04).

Since the Ethiopia started a free market economy policy and the investment activity started reviving parallel to the reformed policies of investment (Asmelashe, 2007). Thus, the level of private investment in the country during the last two decades (1975-1994) was fluctuating. In 1994, the share of private investment total investment was 39.5% and it dropped to 11.7% in 1990 and 1991 as the Dergue regime started "reform" early in 1989 and proclaimed a mixed economy in much in much in 1992, the rate of private investment continued to increase substantially through change in market principle of the present government (Workie, 1996).

Investment condition as well as climate in hadiya zone in general and hosanna town in particular is dominated by several activities among which agricultural sector activities, service sector activities such health center, schools, private college as well as manufacturing sector activities such as floor factor, wood and metal work activities coupled with urban farming are among the dominant economic activities that has been taking place in the area and showing progress from time to time.

Thus, the main objective of under taking this study was to show the determinant of urban private investment in the case of hadiya zone, hosanna town. A country with wider and deeper private sector investment domesticates accelerate growth an investment creates more job opportunities, more revenue and increase income of the poor section of the societies.

## 1.2 Statement of the problem

Private investment plays a great role in country's development especially in developing countries whose capital is scarce and their government lacks enough capacity to cover all constraints and bring economic change for development. Investment is a critical determinants of a long-run economics performance which investment involves the formation of capital; fixed (tangible) capital, such as reputation or technical knowledge; human capital such as skills or education (bond and jankinson; 1996).

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

Given the low investment and saving performance the government intended to sustain broad based economic growth, throughout the five year growth and transformation plan. (MOFED, 2010) This is because investment is believed to play a crucial role in economic growth and its aggregate demand function has considerable effect on economic activity on long term economic growth (ibid) 1998)

Although the investment climate has improved greatly in recent years, there are still many aspects of investment promotion where improvements are urgently needed. In other words, even if the situations of investment have improved from the previous period, there is many aspects of the investment promotion where an improvement greatly needed. (ibid).

However private investment is not only determined by the above factors but also it is determined by interest rate, education level, public investment market size are determinants of private investment Green & Villanueva, D. (1991).

To address this gap the study answered the following questions;

- What are the major influencing factors that affect private investment in hosanna town ?
- To show investment trend overtime in hosanna town ?

## 1.3 Objectives of the study

### 1.3.1 General objective

The general objective of this study was to analyze the determinant of urban private investment activity in hosanna town.

### 1.3.2 Specific objective

The specific objective of the study is

- To assess the factors that affect urban private investment in hosanna town.
- To investigate investment trend over time in hosanna town .

## 1.4 Significance of the study

The study was expected to have the following significant roles such as Understanding the determinant of urban

private investment was help to the city to develop favorable investment environment and exploit the benefit of investment that essential to supplement the city economic growth.

To add some to the existing knowledge of other society and it provides a clue for policy makers and researchers as an input for further investigation around investment.

Generally the result of this study would therefore help to provide information about urban private investment in case of hosanna town

#### 1.4 Scope of the study

As indicated in the objective, the aim of this study was to identify an important variable that determines private investment in the study area. In order to identify the important variable at micro level, the survey was conducted at hosanna town by using structured questionnaire. The year was covered from 2001 to 2009.

#### 1.5 Organization of the study

The paper was organized in to four chapters, the first chapter deals with introduction which contains background of the study, research objective, research question, scope of the study, significance of the study and organization of the study. The second chapter is on definition and related literature review. The third chapter focuses on method of data analysis. The final chapter is going to deal with conclusion and recommend.

### CHAPTER TWO

#### 1.2 Determinants of investment in developing countries

The major actor which have an important bearing on the private investments are the quality and quantity of public infrastructure investment, different rate of return to investment in the economy, availability of finance, the real interest rate, fiscal policy, foreign exchange constraints and risks.

**Availability of finance:** comparing to industrial countries the financial constraints are, in general more buildings in developing countries. Self-financing is limited in developing countries due to two main reasons: - many firms in developing countries have limited ability to commutate adequate finance.

**The real interest rate:** neoclassical model leads to conclusion that the private investment rate should be negatively related to real interest rare as a measure of user cost of capital. User cost of capital is an important factor in any investment decision by private sector. On the other hand in countries where there are high deposit rates the level of private investment is higher which suggest a positive relationship between investment interest rate because of represent financial market in developing countries.

Low per capital is often accompanied by low level of saving and led to fewer resources being available

**Financial (government) deficit:** over the expansion of public sector resulted in the higher deficit in many countries. The way this deficit is financed has immediate long term effects on private investment. Domestic financing of fiscal financing direct reduce the availability of credit to private over the expansion of public sector has resulted in higher deficit in many countries.

**Foreign exchange constraint:** access to international market is one of the key factors that determine the private investment. In most developing countries, the real price of foreign exchange and availability affects private investment consequently there is real limit on import capacity resulting from foreign exchange short falls. Which one in turn called by inelastic export supply exogenous rise in export price external debt rationing (limiting the purpose for which credit granted by international financial institution.

**Devaluation:** to reduce external imbalance structural adjustment program use a combination of expenditure reducing and expenditure switching policies. A real devaluation of a countries currency (i.e. a fixed exchange rate system) is usually included in switching policies. This generally had negative effect on investment in the short run. Devaluation may also reduce investment by depressing aggregate demand. More over if investment has significant import content. The expansion of output is likely to be necessary condition to expand investment (N. Gregory Mankiw 2007).

**Risk and Uncertainty:** since expectation plays critical role in investment decision, economic and political instability and uncertainty can have a harmful impact. Indeed it can be argued that the later factors as bring partially responsible the incompatibility of neoclassical accelerator models in developing countries. Effect aimed at encouraging private need to be supported by sands macroeconomic policies and adequate regulatory and supervisory structures.

#### Growth link to investment

In past century in the world there was enjoyed substantial economic growth. It has allowed people to consume more quantity of goods and services. Many countries followed different models to achieve economic growth through capital formation (Solomano, 1993).

There are three stage of investment process of capital formation that needs to be successfully completed if countries need to achieve a desired level of investment and its fruits. These are:-

**The stage of saving:** the stage which resources might be for consumption are put a side.

**The stage of resource mobilization:** a stage where saving secured in the first stage are assembled and are ready by investors.

**The final stage of investment:** the stage which resources that are utilized for the production of capital goods. An economy can have problem of resource mobilization because of failure of any one of this stages (Ibid) Todaro and Smith also assured that the mobilization of resources domestic and foreign saving to generate sufficient investment to accelerate economic growth is one of the principal tricks of development necessary for any takeoff. As it has formerly mentioned Sub-Saharan Africa countries has made important progress in building up of human capital. The capital accumulation explains that significant part of the economic growth.

### 1.3 Ethiopian investment policies and trends of private investment

Situation of private investment in Ethiopia has been following different investment policies and forms of the last many years; the investment level in the country has showed changes in fact in deterioration position. the contribution of private investment is still insignificant in the economy and the economy the country remain s one of the least developed nations. post of the populations lives under poverty line with a very low per-capita income

These all facts are mainly explained by inefficient economic policies, which accounted to the low income, saving and investment pictures in the economy. Investment in any sectors of the economy particularly in a private investment is made for profit. This profit is obtained by providing the goods and services produced to the market. But if there is no market or market is limited for the goods and services produced the progress of investment in accounting will be lower. In Ethiopia investors are always complains the poor performance of the sectors is all factors that investors have been complaining about such shortage of demand and ability to complaining about such shortage demand and ability to compute with cheap imports (economic focus, 1999).

The state of private investment in Ethiopia begins in the imperial era. At that time where polices issued by the government to encourage private investors and investment, particularly private sectors' investment. in this period the entire economy is expected to work not according to what economic loans dictate, but rather in the socialist ideological frame work ,which gave a dominant role of public sectors by discriminating the private sector' investment.

#### 1.3.1 Private investment in the Dergue period

The common economic policy and the Dergue regime which was centered on socialist economic system, gave a dominant role to the public sectors by limiting the role of foreign and domestic investment. The policy of the military of government had started to be implemented by the nationalizing different private property and instituted central planning as a means of allocating resources. This was possible by using proclamation notice and declaring 1975, Dergue's policy of nationality action was enacted as a proclamation no 26/1975. according this proclamation, the military government nationalized a number of industries, commercial forms, financial intuitions ,financial institution, houses, land and restricted private portions to a few lines of activities and imposing capita selling on them

In the Dergue regime, saving rate has shown decline from 13% to 4% by the end of 1980, which was the lowest saving in the world. Such decline of saving rate was the reflection of dramatic increase in the government consumption, which was increased in military expenditure and expanded government bureaucracy, parallel with the rise in the government consumption, there has been a decline in private consumption from 79.8% of GDP during 1974-1978 to 70.8% during 1988-1990 (Eshetu and Mekonen, year).

#### 1.3.2 Private investment in the post reform period

After the military empire, transitional government of Ethiopia issued a liberalizing market oriented economic policy, which basically aimed at encouraging the participation of private investments in the economy the main features of the policy include: limiting the role of the state to the building of essential infrastructure facing preparation of sound macroeconomic and spectral polices that create favorable condition for attracting and mobilizing foreign capital and encouragement of widely participation of the private sectors in the economy (yobeo kellow 1992)

Under broad policy frame work of a market oriented economic system, the rational government of Ethiopia issued proclamation (proc. No 15, 1992), to provide encouragement of investment is a vital to spending up the economic social department endeavors of the country, in the creasing the supply of goods and services and thereby to advancing the benefits of the country of the investors (federal Negarit Gazeta).

The proclamation created an enabling the environment for the active participation of both domestic and private capital in various investment activity without any limitation of capital ceiling ,foreign investors are encouraged to participate widely and constructively in the rehabilitation and reconstruction efforts of the country's domestic private investment .

In 1988, new investment proclamation, that is proclamation number 116/1998, amendment of the exited code 37/1996 was issued to ensure the participation of private investors in the key strategic sectors such as telecommunications services and defense industries in collaboration with the government. According to the

amendment domestic investors means as foreign nationals permanently residing in Ethiopia having made an investment and including the government public enterprise as well as foreign national ,Ethiopian by birth and designing to be considered as detesting investors and enjoy the opportunities to participate in the area that are sole reserved for local investors(federal negarit gazeta,1998)

Since the former regimes had an international interest in discouraging private investment, particularly foreign direct investment, the new government had made numerous proclamations locating its interest to attract private investment, particularly foreign direct investment .for the last many years it has revised its investment codes in order to make it more attractive for foreign direct investors to invest in Ethiopia. Proclamation no 280/2002 is one of the proclamations that are issued mainly to give incentive to private investors and to enlarge areas that foreign private investors can participate with a view to enhance the country’s investment area (federal negarit gazeta)

Latest investment proclamation, pro, No 375/2003 is issued mainly to take the s\system of administration of investment transparent and efficient accordingly the Ethiopian investment authority hat has been re-establish under proclamation no 280/2002 is renamed as Ethiopian investment commission. The proclamation gives more incentive that any proclamation before to private investor in order to enhance private investment of the country (federal negarit gazeta, 2003)

## CHAPTER THREE

### Methodology of the study

#### 3.1 Data Types and Sources

In this study, both secondary and primary data was collected from the respondent. The primary data was gathered from investment bureau of hosanna town who face the problem of investment. Whereas secondary data was collected from investment bureau reports, books manual document, magazines, newspaper, internet and the like.

#### 3.2 Sample size and sample techniques

The simple random sampling method was employed to acquire the primary data. This is because simple random sampling techniques give equal chance for target population, to reduce bias and make research task easy. There are many private investors with their activity. Some are participate in service sectors such as lemma International Hotel, shambalala International Hotel, canal café, tinsae café and restaurant etc. and others participating in production sector from these the research select the hossana Flour factor by using simple random sampling techniques. The study used 60 investors as target population from 152 to total numbers of investors.

#### Sample size

$$n = \frac{N}{1 + N(e)^2}$$

where n is sample size

$$n = \frac{n}{1 + n(0.1)^2}$$

N = number of population

$$n = \frac{152}{1 + n152(0.1)^2}$$

e = disturbance error term

$$n = \frac{152}{2.52}$$

n = 60

#### 3.2 Method of Data Collection

The study was conducted by using primary and secondary data. Primary data was collected through questionnaire. The questionnaire was distributed to the private sector investor.

#### Method of Data Analysis

The data was analyzed by descriptive statistics such as tables, frequency and percentage was used to carry on deep rooted analysis.

## CHAPTER FOUR

### DATA ANALYSIS AND DISCUSSIONS

#### 4.1.1 Personal information of the respondents

The following table 1, 2.3 and 4 describes the personal background of the respondents:

Table 4.1 sex distribution of the respondents

Variable	Frequency	Percentage
Male	32	64
Female	18	36
Total	50	100

Source : own survey ,2018

As it can be observed from the table 4.1 sex distribution of total sample respondents is 32(64%) of male, 18(36%) female. This means, males have the highest number of participation than in the female in private investment activities in the study area.

Table 4.2 marital status of the respondents

As it seen the above table, out of total respondents 42(84%) are married, 3(6%) are divorced and 5(10%) are single

Variable	Frequency	Percentage
Married	42	84
Single	5	10
Divorced	3	6
Total	50	100

Source :own survey ,2018

As I can be seen from the above table the majority of respondents are married whereas small portion of respondents are single as well as divorced. The result is the indication of the majority of respondents are married implying that they can employ their household labour and capital as well as they have sense of responsibility to manage their business to became competitive and grow fast.

Age: Economically active age group population is contribute to the development of growth domestic product of the country as well as towards the achievement of the strategy of agricultural development led industrialization as stated in macro-economic performance of Ethiopia by Berhanu and Seid (1998) articles.

Table 4-1 Age information of the respondents

Age	Frequency	Percentage
<30	10	20.00%
31-40	20	40.00%
41-50	11	22.00%
>50	9	18.00%
Total	50	100.00%

Source: own survey , 2018

The result of the study shows that the majority of the age respondents are found in interval 31-41 which accounts 20(40%). This indicate that majority of the respondents are found in economically active age group which can contribute to the growth of output of not only the hosanna town but also the development of growth domestic products of the country. Furthermore, as table show about 10(20%) of the respondents fall between <30 age interval which also founding the active group categorized and able to contribute to the economy. Also respondents which are found between 41-50 age groups which are 11(22%) and respondents which found in the age interval of greater than 50 which are 9(18%) have also significant role. So this indicates the active population age have significant impact on private investment in study area.

Educational level: Education or human capital development is considered as the basic instrument in fighting poverty. Any policy that aimed to improve nation education of man power such as development of skill, knowledge, invention, research and development etc. are expected to bring about long run sustainable economic development.

Table 4-2 information about educational level of investors

Respondent education level	Frequency	Percentage
Illiterate	1	2%
Primary(1-8)	10	35%
Secondary	10	35%
Diploma	4	18%
Degree and above	5	10%
Total	30	100.0%

Source: own survey , 2018

Educational level distribution of respondents show that majority of them, which is, 20(42%) are primary educated, 15(30%) of them are secondary educated, 9(18%) of them have diploma, 1(2%) of them are illiterate and 5(10%) of them are higher educated. Therefore education was the main factors that affect the growth of private investment in the study area

Table 4-3 family size of investor's respondents

No	Frequency	Percentage
Family size		
1-3	25	50%
3-5	14	28%
6-10	8	16%
>10	3	6%
TOTAL	50	100%

Source: own survey , 2018

As the surveys shows, that 25(50%) of respondents their family size ranged between 1-3 person per households, 14(28%) respondents whose family size ranged between 3-5 person per households, 8(16%) of the respondents whose family size ranged between 6-10 person per households and 3(6%) of the respondents whose family size ranged between or above 10 person per households. As we observe from the table the majority of the respondents holding few families have more investment as compared to families who have large size

Access to credit: Recall that the financial problems facing households is how best to investment their funds. The relative smallness of most households makes direct investment intrinsically difficult. A sol investor obviously cannot advertise in local newspaper his/her willingness to finance investment. Instead, financial intermediaries such as bank, investment companies or crudities unions naturally evolve to bring (bodie Kane Marcus).

Table 4-4 sample investor's perception about Access of credit

No	Item	Frequency	Percentage
respondent	access credit	32	64%
	No access of credit	18	36%
	Total	50	100%

Source: own survey , 2018

As seen from the above table 32(64%) of the total sample respondents have access to credit, 18(36%) of the total sample respondents did not have access to credit. therefore the majority of respondents said to have access to credit. As we observe from table the difference between the groups within the sample regarding to access to credit was means that access to infrastructure was the main factors that affect the growth of private investment in the study area.

Investment incentives: The proclamation number 15/1992 removed restriction on private investment and allowed for wide participation of private sectors several investment incentives were provide under article 130 of the proclamation. The proclamation provide that domestic and foreign investment should be exemption of important and export taxes and duty to income taxes holiday s and to some other benefits the duration of income tax holiday was two and three years for existing enterprise and newly ,enterprise established, respectively from the data of commitment of orientation. Investment designated priority regions and sector of investment should enjoy income taxes holiday for five years (Niatu, Aklilu 2006

Table 4-5 Respondent perceptions on investment incentive

Investment incentive	Frequency	Percentage
Benefited	31	62%
Not benefited	19	38%
Total	50	100%

Source: own survey , 2018

As we can read from the table bout 31(62%) of the respondents were benefited from the investment incentive, whereas 19(36%) of the sample respondents not benefited from the investment incentive. So investment incentive was the main factors that affect the growth of private investment in study area.

Infrastructure facilities: For country to accelerator economic growth and to attract private investment there is no question to the need for social and economic infrastructural facilities; such as telecommunications, road, electric power supply, health and education, bank insurance .However, the existing infrastructure facilities, which is important to bring about economic development to attract private investment in this is concentrated in the center particularly the capital goods. Investors asked to evaluate infrastructure facilities that have direct or indirect impact on their operational activities or in the absence of such facilities the activity will be strongly challenged.

Table 4-6 sample investor's perception about access of infrastructure

service	very good		good		poor		total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Road	24	48%	23	46%	3	6%	50	100%
Telephone	26	52%	17	34%	7	14%	50	100%
Power supply	22	44%	22	44%	6	12%	50	100%
Water supply	15	30%	25	50%	10	20%	50	100%
Posta	28	56%	18	36%	4	8%	50	100%
Health	18	36%	25	50%	7	14%	50	100%
Education	26	52%	26	52%	4	8%	50	100%

Source Owen survey ,2018

According to the above table, among the total sampled investors 23(46%) respond very good and 24(48%) of the respondents respond that road infrastructural facility is good. The remaining respondents, which is 3(6%) responds the facility is poor. While telephone and power supply is good by accounting 25(50%) and 22(44%) respectively. The sample respondents respond of that infrastructure very poor regarding telephone, power supply is given by investors, which consists 7(14%) and 6(12%) of respondents given as very poor respectively. So infrastructures were the main factors that affect growth of the growth of private investment activity.

Initial capital: According to the questionnaire results, difference source of capital were used for the investment. To mention some of them: source of capital used: in addition to owing capital, loan from different sources among those we show below the table.

Table 4-7 source of capital for the investment

Source of capital for investment	Frequency	Percentage
Owen saving	14	28%
Partner contribution	8	16%
Borrowing from bank	19	36%
Other (Family )	9	18%
Total	50	100%
Have a problem of bank		
Yes	18	40%
No	32	60%
Total	50	100.0%

Source: own survey, 2018

The survey shown that about 14(28%) of the respondents initial investment from own contribution, 8(16%) of the respondents from the partnership contribution, 19(36%) of the sample respondents their initial investment of capital from the bank, 9(18%) of the respondents their initial investment capital comes from family. As we observe from the table 7 the majority of initial investment capital comes from bank. Most of the sample respondents revealed no which account around 32(64%), the other 18(36%) of sample respondents revealed yes. As we observed from the table the majority of the respondents to finance their investment from bank and most of the respondents revealed there is no problem to gate lend from banks.

Interest rate: The demand for investment depends up on the level of interest rate because interest rate is a measure of cost of finance for financing investment. When the interest rate is high, the cost financing projects is high, as this time the level of demand for investment coming to down (Mankiw, 2000).

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

Table 4-8 sample investor's perception about interest rate

Item	Respondent	
Interest	Frequency	Percentage
High	31	62%
medium	24	48%
Low	2	4%
Total	50	100%

Source: own survey , 2018



As it can see from the table, 31(62%) of the sample respondents said that interest rate of the loan was high, 24(48%) of the sample respondents revealed interest rate of the loan was medium, 2(4%)are respond low . so as we observe from the table the interest rate is not affect the private investment in study area. However as we seen from the table, the difference between groups within sample indicates that interest was negative determinant of investment. So the interest rate was the main factors that affect the growth of private investment.

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

Table 4-9 sample investor's perception about license

No	Respondent	
	Frequency	Percentage
Do you faced license problem		
Yes	18	36%
No	32	64%

Source: own survey , 2018

Regarding to get license for investors 18(36%) of the sample respondents said that license have problem, 32 ( 64%) of the respondents said no. So the majority of the sample respondents said that did not have any problem to gate license for their investment. As we seen the above table however, the difference between groups with sample that license was statistically insignificantly. It means that license was not the main factors that affect the growth of private investment in study area.

Potential trend of private investment over time in hosanna town

Table 4-102 trend of private investment over time

Year	Number of project		Capital invested in "ooo" birr		Employment opportunity unit	
	No	Share in %	Capital	Share in %	No employed	Share in %
2001	34	2.89	440,902,7	1.35	3704	3.47
2002	56	4.75	321.381.7	0.9	4076	3.91
2003	120	10.20	726,434	2.22	7168	6.71
2004	100	8.5	2624837	8.02	11492	10.75
2005	154	13.08	1682642	5.14	19660	18.39
2006	101	8.58	1067280.6	3.26	11706	10.95
2007	25	2.12	522345	1.60	3135	2.93
2008	117	9.94	3226522	9.86	18736	17.53
2009	142	12.06	16103929.6	49.23	3557	3.33
2010	318	27.87	5995301.9	18.33	23643	22.17
Total	1177	100	32,711576.8	100	1068877	100

Source hadiya zone investment office 2018

As you look from the above table 4.1 investment shows an increasing trend from 2000-2009, due to several investment incentives provided by the governments to enhance the participation.

As it can be seen from the above table the number of investment activities in the study area has been increasing from time to time as well as their respective share in total output contribution is getting higher and higher .the amount of capital investment in the study period has been increasing cross the study period which is the result of government attention towards promoting private investment in the study area in particular and the country large .

The table also revealed the role of private investment in promoting employment opportunities to growing number of skilled, unskilled as well as semiskilled labour force in the study area .

## CHAPTER FIVE

### 5.1 CONCLUSION AND RECOMMENDATION

In this study, a determinant that determines the growth of private investment at city level was analyzed. The survey was conducted at hosanna town through structured question. The sample investors were taken from licensed investors in 1996-2005. This study employed stratified random sampling and purposive sampling method, because of heterogeneity among the sample units, stratification needed based on their project sectors. In this study descriptive analyses were used for analytical purpose.

The study identifies the main determinants that determine investor's decision on investment activities to be: educational level, access to credit, access to infrastructure facilities and investment incentives are significantly affected the investment activities and intensity of capital allocation. The other variables such as gender, interest rate were not significantly related to the dependent variable.

The finding of this study could be used to recommendation for future intervention that can boost private investment in city, which is one of the specific objectives of the study.

Well implication of policies the participants of investors in the study area, it is also important to improve investment climate in the town or region and finally to increase the volume of private investment in our country, Ethiopia. Policy and strategies formulated at national level should also be implemented at regional or city level. National development policy and strategies could give the desired outcome only if it supported by appropriate regional policies and strategies for effective investment activities. Therefore, implementation of development plans and strategies in city would be taken in to account the determinants (factors) that are directly and indirectly related with private investment. a clear message from this research is that having well formulated national policies and strategies by itself is not enough to attract investors in our economy. It needs properly regional and city level implementation strategies to change the investment climate that increases the participation of private investors up on investment.

## 5.2 Recommendation

Based on the result of the study, the following recommendation are suggested to be considered for future intervention strategies by regional government and city administration which are aimed for promotion of private investment in the city. The finding indicates that educational level, access to credit, access to infrastructure and investment incentive were the most determining factor affecting the growth of private investment and intensity of capital allocation this reflecting the importance of improving the functioning of government institution while provides different services for different private sectors. The results found that access to credit was an important factor for increasing private investment. Therefore, the federal as well as the regional government should give attention up on supplying adequate credit for active investors as well as potential investors that helps running investment activities. Besides this, the needed fund should be provided on the time needed. Over requirement of collateral asset may retreat the participation of investors rather the government can control them by the following their day to day investment activities.

The analysis also revealed that the availability of infrastructure was important factors in promoting private investment. therefore, regional government as well as city administration should invest on infrastructure such as road, power supply, telecommunication and water supply etc. so as to increase the participation of investors on investment activity in city. Thus, the regional investment should construct a better infrastructure facility that encourages activities as well as potential investor's to participate investment activities.

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

Last but not least, there should be structural change in the conducive investment climate creation in order to create job opportunities as well as to enhance the development of the city in particular and the nation at large.

## REFERENCE

- Akpalu .w (1997), determinants of private investment in Ghana . An Msc thesis presented to the school of graduated of Adiss Ababa univerty
- Asmelash,B. (2007) opportunities and service delivery investment in Tigray, MSc thesis of Adis Ababa university.
- Brehanu, N & Befikadu U,d.(2003/2004). Annual report on Ethiopia economy. Vol.3 .Ethiopia economic association press, Adiss Ababa Ethiopia .
- Befekadu , D. and Birhanu , N. (1999/2000) annual report on Ethiopian economy: EEA, A.A Ethiopia
- BefekaduDegefu , (1994) strategic economic police for the development of private Addis Ababa.
- Beljer, M,khan , M.S.(2004). Government policy and private investment developing country. IMF working papers, Washington D.C.
- Bond & Jnkison 1996, Assessment of investment performance and policy, oxford. Bulletin of Ethiopia economic association, (1999) focus ( article).
- Coiller, P, & Gunning J.W (1999) explain Amharic American economic performance. Journal of economic literature, 37, 64-111.
- Dornbusch, R. & Fishers, S. (1994). Microeconomic (6<sup>th</sup> edition). New York: mc Graw-hill.
- Green. Villanueva, D. (1991). Private investment in developing countries; an empirical analysis. IMF staff papers 38(1), 33-58.
- Heranandez- Cata ,E (2000) Raising growth of private investment in sub Saharan Africa; what can be done? Policy discussion paper of international money fund, Washington DC .
- Husain. I (1993) .trade, aid and investment in sub -Saharan Africa. Policy research working paper 1224.world bank
- Jorgenson (1967) and hall (1971) investment behavior and micro economic adjustment, a survey research observer vol, 7(1);98.th