



Determinants of Domestic Private Investment in West Gojjam zone (the case of Finoteselam and Bure towns)

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Abstract

This study mainly focused on the determinants of domestic private investment activity in west Gojjam zone (the case of Finoteselam and Bure towns). The major objective of this study is to describe the trend of domestic private investment activity and the determinant factors that influence domestic private investment activity in Finoteselam and Bure towns. Thus, despite the policy reform, Ethiopia has experienced a lot of problems; low level of saving, limiting investment activities and high unemployment rates. In light of this recent expectation of GDP growth rates to have 11% per annum, however IMF alerts that it will be declined to 7% due to restricted access to the private sector investments as compared with a large share of public investments in the economy. Reports in Ethiopia (EIA, 2012) has showed that investment projects are not in the right executed and they delay their operations in all investment sectors. Apart from this, a study conducted by Hussien (2000) also has explained that even if there are many number of projects licensed in indifferent regions of Ethiopia, the real implementation investment rate is very low and more than 50% of investment projects in every project period are not realized. As the researcher obtained data from west Gojjam zone, the domestic private investment has increased at a declining rate from period to period (2001 to 2011 E.C). The researcher has collected primary data by using questionnaire and interview from current investors and employees of investment offices of both towns. From the total population, sample size has been determined by using purposive sampling technique and proportional sampling technique. The researcher also used random sampling technique to draw sample respondents from the population. Descriptive statistics has also used to describe the trend of domestic private investment activity. The researcher also used multiple linear regression model to identify the determinant factors considering the association between dependent and interdependent variables with the help of significance level. The researcher found that access to infrastructure, access to finance and access to land are

problems of domestic private investments in the study areas. The researcher has forwarded recommendations to make easily accessible infrastructure, investment fund and pieces of lands for domestic private investors.

Key word: Domestic, private, investment

1. Introduction

1.1. Background of the study

According to the study conducted by Woldemariam (2018), investment is, without doubt, one of the primary engines of growth in all economies (Khan, 2005). However, its effectiveness rests on strong complementarities with other elements in the growth process, most notably technological progress, skills acquisition and the development of innovative capability. These elements make investment a natural point of departure for Governments seeking to formulate a robust development strategy. The link between investment and these other determinants of growth, however, is not an automatic process. It requires among other things a favorable macro policy environment and specific policies and institutions aimed at encouraging savings and attracting and directing investment to key sectors in the economy thereby enhancing the contributions of investment to skills formation, technological change, competitiveness and economic growth.

Domestic private investment has important roles for developing countries as it enhances economic growth by increasing human capital formation and by stimulating domestic investors and access to local market. Domestic private investment is a device for measuring the level GDP (Sohail, Rehman & Azeem, 2014). In the process of economic growth of countries, investment plays a crucial to raise productivity through encouraging technological progress and promotes new techniques of production (Majeed & Khan, 2008). Furthermore it also plays a great role in the long run capital accumulation since investment increases productive capacity and creates new capital goods. The determinants of domestic private investment have been debated extensively over the years. This debate covers both developed and under developed economies. However a lot more have been put into the study of domestic investment since it seems that a sustainable domestic private investment will reduce wide spread poverty in the economy.

The growth of capital import and GDP are the most important determinants for the private investment (Alsadat, Ghazanfari and Meher, 2014). on the other hand inflation rate, money growth, interest rate and tax rate does not have important on private sector investment but output/ national income, public investment and exchange rate are the critical variables affecting the performance of private investment and others variables such as interest rate, credit, inflation rate, international trade and money supply are also slightly important in explaining the performance of private investment (Muhdin, 2016). Private investment in the long run was influenced by real GDP, real exchange rate, ratio of private sector credit to GDP, private external debt; inflation and trade openness have significant impact on private investment (kadir karagoz, 2010). On the other hand private investment index is affected negatively by real minimum lending rate, real exchange rate volatility and the existence of financial crises; while real GDP capacity utilization rate and real effective exchange rate encourage private investment (Marico Draca, 2013).

Real output, user cost of capital, and level of financial development are significant determinants of domestic investment in Nigeria (Ayodele, 2010).The results from the long run estimation and the impulse responses revealed that a well-structured and stable socio economic environment will boost domestic investment over the long run. Private investment was influenced by economic factors such as real interest rate inflation and exchange rate (seruvatu.elenoa,T.K. Jayaraman, 2001) and khan sajawal, M.A khan , 2007). On the other hand sustainable economic growth is highly determined by the rate of investment which in turn is mainly determined by the national saving level (Solomon, 2008). According to (Indra Suhendra and Cep Jandi Anwar, 2014) government investments, economic growth, credit availability for private investment, and exchange rate have positive and significant impact on private investment.

The fundamental challenge that developing countries are facing with the way to increase investment rates domestically, thus the policy they follow significantly affects the private domestic sector given the limited amount of FDI in the developing regions. Thus, when policy is established it should be conducive to the development of domestic investors (Ghura & Goodwin, 2000).

According to Abdishu (2000) domestic Investment refers to investment committed or made by domestic investor. Domestic investor in this study denotes Ethiopian or foreign national permanently residing in Ethiopia having made on investment and Ethiopian born foreign national desiring to be considered as a domestic investor. In November 2010 the Ethiopian parliament approved a five-year growth and transformation plan (GTP). The GTP envisages an annual domestic gross product (GDP) growth base case scenario of 11% and a high case growth scenario 14.9 %. Improving the quality of social service and infra-structure, ensuring macroeconomic stability, enhancing productivity in agriculture and manufacturing are major objectives of the plan. The GTP puts a significant emphasis on developing local production so the country becomes less dependent on imported goods. Hence, Ethiopia continues to encourage investment in the export oriented sectors. As the first GTP evaluation report revealed that, at the beginning of the GTP the contribution of investment for the economy 32.1% but in 2006 was increased to 40.3%. This indicates there is some increment. However still it is below the plan specifically in the Amhara region in general and in West Gojjam Zone in particular in the first GTP. In order to transform the country in general and the zone in particular to middle income level society, investment plays a great role as a result the second GTP puts a significant emphasis on investment. To increase the flow of investment and achieve the second GTP investment plan of the zone, identifying the factors that hinder the flow of domestic investment through research is unquestionable. Therefore, this study will attempt to examine the determinant factors affecting domestic private investment in Bure and Finoteselam towns.

1.2. Statement of the problem

The determinants of domestic private investment in developing countries have been widely investigated by a number of studies. Capital import and GDP are the most important determinants for the private investment and

inflation rate, money growth, interest rate and tax rate do not have important effect on private investment (Majdzadeh, Ghazanfari and Mehr, 2014). In developing countries, among many stakeholders of investment activities, there is no coordination in individual as well as aggregate investment in the economy. This leads to a low economic trap linked with low investment growth rates and goes towards in to a vicious circle. It demands inward looking development strategy and creating a more suitable environment for domestic private investment as an engine of economic growth. For instance, like other developing countries, Ethiopian economy mainly depends on agrarian based system of production and substantial amount of labor force mainly engaged in this sector of the economy. These experiences are the fate of many of the east African countries.

The major determinants of private investment status in the State of Tigray areas, access to credit, infrastructure facilities, the judicial system, corruption, investment incentives and bureaucratic red tape. The econometric result revealed that infrastructure facilities, the judicial system, and investment areas negatively and significantly delayed the entire private investment status. However, interest rates and investment location were positively and significantly supported to continue their status of the entire private investors in the manufacturing sector. Infrastructure facilities, investment incentives, and investment areas were negatively and significantly related to the started group of investors' progress (Gizachew, 2017). According to the study conducted by Abhijeet and Dinesh (2010) (as cited by Waktole, 2018), it was found that investment experience is significantly determine both the investor behavior and investment decision. Additionally, Matwanga (2007), in a study found out that behavior of private investors in Kenya has a positive influence public investment. Abhijeet and Dinesh (2010) found out from the research is that personal experience of the investor significantly determines investment decision and investment growth. According to the research the result, education, marital status, age, personal saving, inflation, investment incentive, raw materials and land are a statistically significant determinant of private investment of Jimma city (Waktole & Bogale, 2018). This study concludes that an increase in the experience of the investor in the activity will be helpful to the investor to achieve investment growth.

According to the study conducted by Abate (2016), Public investment, real GDP, exchange rate and credit have significant positive long run effect on private investment, while interest rate has significant negative long run effect. In the short run, exchange rate has significant positive contribution to private investment, while inflation has significant short run negative effect on private investment after one lags. According to Woldemariam (2018), real GDP, external debt servicing, and access to bank credit have significant positive effect on private investment, while lending interest rate and foreign direct investment have significant negative effect on performance of private investment under the study period. Getachew (1997), as cited in Gebrewubet (2017), found out that the real interest rate did not have a significant impact on private investment in Ethiopia. The study revealed that private investment was positively affected by credit disbursement to the private sector in Ethiopia. It also found that severe constraining factors to private manufacturing investment were market, financial, infrastructure, policy, technology, and input related ones. As first GTP performance report indicated, the service, industry, manufacturing and the agricultural sector are increased by 10.7%, 20%, 13% and 6.6 %

respectively. At the beginning of the first GTP the contribution of investment for the whole economy was 32.1% but on 2007 the contribution was increased to 40.3 %. Even if there is some increasing however, still it is below the plan. As the researcher obtained data from zone, the domestic private investment has increased at a declining rate from period to period (2001 to 2011 E.C).

Therefore, this study has attempted to investigate the determinant factors that influence domestic private investment activity in west Gojjam zone, specifically in Finoteselam and Bure towns.

1.3. Research question

1. What is the trend of domestic private investment activity from 2007 to 2011 E.C in the study areas?
2. What are the determinant factors that influence domestic private investment activity in the study areas?

1.4. Objectives of the study

1.4.1. General Objectives

The general objective of this study is to describe the trend of domestic private investment activity and the determinant factors that influence domestic private investment activity in Finoteselam and Bure towns.

1.4.2. Specific Objectives

The followings are specific objectives that the researcher will address in this study.

1. To assess the trend of domestic private investment activity from 2007 to 2011 E.C in Finoteselam and Bure towns.
2. To identify determinant factors affecting private domestic investment activity in Finoteselam and Bure towns.

1.5. Research Hypothesis

The following hypotheses have been developed based on the contradictory results of variables in different literatures as reviewed in this study. As explained, each of the independent variables is represented by its own sub variables. Based on the independent variables and dependent variable identified from literatures and included in the problem statement, the following hypotheses have been developed and written in the null form.

Hypothesis 1: Access to land has no significant effect on domestic private investment activity.

Hypothesis 2: Investment incentives have no significant effect on domestic private investment activity.

Hypothesis 3: Access to finance has no significant effect on domestic private investment activity.

Hypothesis 4: Access to Market has no significant effect on domestic private investment activity.

Hypothesis 5: Access to Infrastructure has no significant effect on domestic private investment activity.

Hypothesis 6: Interest rate has no significant effect on domestic private investment activity.

Hypothesis 7: Tax rate has no significant effect on domestic private investment activity.

1.7. Scopes of the study

The study is delimited only on the determinants of domestic private investment activity from 2007 to 2011 E.C. The researcher focused only on domestic private investment activity of Bure and Finoteselam town investors in west Gojjam zone because these towns are priority areas for industry expansion. For the purpose of this study, the investors to be included as respondents are only those private investors who were registered (licensed). The study did not include public investment, non-governmental organizations (NGO) or foreign direct investment (FDI). The researcher has tried to investigate which variable is the determinant factor that influences domestic private investments activity. Variables included are only listed variables in hypothesis above. The data were collected from private investors and concerned employees of investment offices in each town.

2. Literature review

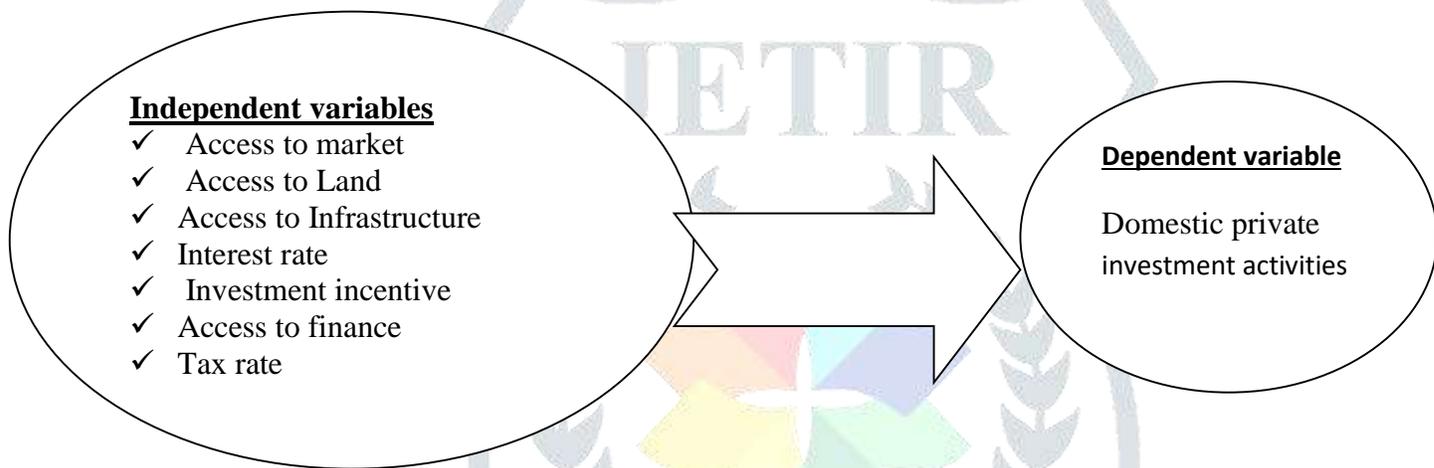
Majeed & Khan (2008) argued that countries with high participation of private investment succeeded in higher economic growth. In the region of east Africa, where effort needs to increase domestic private investment rates, realizing its significant impact to achieve robust economic growth. Moreover, there is ongoing policy debate on the performance of private sector in the region following liberalization policy starting in the 1980s/1990s; accordingly, this analysis contributes input for designing appropriate policy on the development of domestic private sectors through identifying potential factors that correlates with it. According to OECD (2006), to help developing countries improve their investment climate, development agencies should support interventions that contribute towards achieving intermediate and mutually reinforcing objectives. These include lower the costs of investment i.e. refer to the cost of doing business. (e. g the cost of complying with the policy legal and regulatory frameworks, in which the private sector operates, includes the extra costs created by the inadequate infrastructure, crime, corruption and excessive red tape). High costs reduce profits and discourage investment. They also create disincentives for firms to formalize with a resultant loss of benefit to the economy. A good investment climate provides opportunities and incentives for firms to invest profitably, create jobs and expand output, thereby increasing private investment and growth. The literature shows that the better the investment climate the higher the levels of private investment is likely to be (Fiestas, & Sinha, 2011). However, in the poorest developing countries, business frequently operates in investment climates that undermine their incentive to invest and grow. Business seeks to maximize the risk adjusted rate of return to investment after tax. Investment climate constraints serve to depress the potential rate of return on investment, increase risk and or prevent the entrepreneur from capturing the returns on offer. As the above empirical literature shows there is a controversy for the determinants of domestic private investment growth. For instance, capital import and GDP are the most important determinants for the private investment and inflation rate, money growth, interest rate and tax rate does not have important effect on private sector investment (Majdzadeh, Ghazanfari and Meher, 2014). Inflation is not determining the private investment but financial development, bank credit, public investment, GDP per capita growth, trade openness are highly significant determinants. Contrary to this real GDP, real exchange rate, ratio of private sector credit to GDP, private external debt, inflation and trade openness

have significant impact on private investment (kadir karagoz, 2010). Private investment is influenced by economic factors such as the real interest rate inflation and exchange rate (Seruvatu, Elenoa, T.K Jayaraman, 2001) Khan Sajawal M.A Khan, 2007).

Conceptual Frame Work

This study has both dependent and independent variables. Dependent variable for this study is determinant variables for domestic private investment and independent variables are market availability, access to land, access to infrastructure, interest rate, tax rate, investment incentives, and access to finance. The researcher has tried to visualize the relationship of dependent and independent variables. The frame work of this study has been given as follows in diagram.

Fig 1: Frame work of the study



Source: from literatures (2012 E.C)

Definition of Variables

- **Dependent variable**

Private Investment: Private sector 's gross domestic investment activity is defined as all additions to the stocks of assets or purchases and own-account gross capital formation, less any sales of second-hand and scrapped assets (Asante,2000). This dependent variable is to be affected by the following factors

- **Independent variables**

- **Interest rate:** According to economists' interest is the cost of investment (Jalloh ,2002). The results from the studies show that interest rate is inversely related private sector performance in Sierra Leone and Zambia.
- **Access to Credit:** Access to finance can be broadly defined as access to financial products (e.g. deposits and loans) and services (e.g. insurance and equity products) at a reasonable cost (Osmod, 2014).
- **Access to infrastructure facility:** Infrastructure facilities like water, electricity and telephone lines, and more investors would be attracted to invest and so it contributes to promote investment. According to the

study by Soneta et al. (2012), investment in public infrastructure has an insignificant effect on the manufacturing sector in Pakistan

- **Access to land:** One of the major factors of production according to economic theory and different empirical pieces of evidence is access to land. Mitiku (1996) and Deneke (2001) found that access to and the cost of land is the specific leading entry constraint to private investment in Ethiopia. And, the results at a micro level showed that the probability of individuals to invest is significantly and positively influenced by access to land (Baye et al., 2005).
- **Investment incentive:** Incentives are used as tools to boost investment and growth (Barbour, 2005). That is, availing incentives for investors would promote investment by attracting more investors. Similarly, the study at the micro level by Baye et al. (2005) showed that the probabilities of individuals to invest are significantly and positively influenced by investment incentives.
- **Market availability:** A market can be called the 'available market' - that of all the people in the area. Within the available market, there is the 'market minimum'- or the market size, which will buy goods without any marketing effort. This is the lowest sale that a company could get without any action on its part. In today's world, this level is sinking ever lower. Therefore, availability of market has a positive effect on the growth of investment activity (Potts, Cunningham, Hartley, & Ormerod, 2008)
- **Tax rate:** A reduction in tax increases the profits they retain after tax is paid, and this acts as an incentive to invest. Thus, tax rate has effect on the growth of investment (Chirinko, R.1993).

3. Research methodology

3.1. Research design

According to (Robson, 2002) and Saunders et al. (2007) as cited by Dragan (2010) an exploratory study has been used to meet the aim of the research which is to make a close analysis determinants of domestic private investment activities. Regarding research approach, the researcher has used mixed approach. There are three research approaches called quantitative, qualitative and mixed approach (Cresswell, 2003). The emphasis of quantitative research is on collecting and analyzing numerical data. It concentrates on measuring the scale, range, frequency of phenomena whereas qualitative research is more subjective in nature than quantitative research and involves examining and reflecting on subjective aspects of a research subject such as values, attitudes and perceptions.

The mixed research approach is the combination of quantitative and qualitative research approaches. Hence this type of approach is helpful to use the benefit from two original approaches because the limitation of one approach is covered by the advantages of the other approach

Mixed methods of research provide better (stronger) inferences, help to capitalize on the strengths of both quantitative and qualitative approaches and remove any biases that exist in any single research method if the nature of the dependent variable or outcome variable can be ordered or dichotomous (Creswell, 2003).

3.2. Types and Sources data

The required data for this study were collected from primary sources and secondary sources. The primary data were collected from existing investors in the selected towns a, who have taken license and begun their investment up to 2011 E.C and from employees of investment offices of Finoteselam Bure towns via interview. Secondary data were accessed from documents recorded and maintained by the concerned body of the government regarding domestic investment activity in west Gojjam zone.

3.3. Data Collection tool

Questionnaire was used to collect primary data from respondents. In addition to questionnaire, unstructured interview was also used to solicit information from selected interviewees of employees of investment offices of Finoteselam and Bure towns. To make the questionnaire more understandable by all the respondents, all questions were translated to Amharic languages. The questionnaire was designed in five likert scale. Respondents were asked to show their level of agreement on a five point Likert scale. Therefore, the questionnaire was developed in order to understand level of agreement of respondents by using Strongly Disagree (SD)=1, Disagree (D)=2, Neutral (N)=3, Agree (A)=4 and Strongly Agree (SA)=5.

The secondary data were accessed manuals, reports by towns' trade and investment expansion offices and brushers.

3.4. Target population

The target population of the study was individual domestic investors registered in the western Gojjam zone especially in the two towns of the Zone, Finoteselam and Bure towns.

The total number of domestic investors in both towns is 312, out of which 177 is found in Bure and 135 Finoteselam as obtained from the investment office of the zone.

3.5. Sample size determination

The number of sample respondents of this study from the total population will be determined by using the following Yemane's formula

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

$$\begin{aligned} \text{Therefore, } n &= \frac{312}{1+312(e)^2} \\ n &= 175 \end{aligned}$$

Where n= sample size

N= total number of the population

e = the level of precision (5% error) or 95% of level of confidence

Table-1 Proportional distribution of sample respondents

S.No	Town's name	total number of domestic investors	Proportional sample size
1	Bure Town	177	99
2	Finoteselam Town	135	76
3	Total number of sample respondents		175

3.6. Sampling technique

The researcher purposively selected Finoteselam and Bure towns to conduct this study because both towns are the prioritized towns for investment activities in west gojjam zone. From each town, the total number of domestic investors was obtained from the zone investment office. As the above sample size determined by Yemane's formula out of the total population, using proportional sampling technique, the sample size was distributed.

3.7. Model Specification

According to Sekaran (2000), inferential statistics permits to infer from the data through analysis of the association between two or more variables and how several independent variables might explain the variance in a dependent variable. Since the sample respondents taken as primary source are homogeneous, Multiple Linear Regression Model was used. This assists to test the influence of the explanatory variables on the dependent variable. Analysis of data was carried out using SPSS software Version 20 through the model called Multiple Linear Regression analysis. According to Gujarati (2004) the model is specified as follows:

$$Y = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \dots + \beta_n X_{ni} + \varepsilon_i \dots \dots \dots (1)$$

Where:

Y - is the value of the dependent variable (in the case of this study investment activity, ie. in selected town).

β_0 – the intercept that show the average effect on Y if all variables excluded from the model

The parameters $\beta_1, \beta_2 \dots \beta_n$ are the regression coefficients of parameters

i = the i^{th} observation

ε - The total error of prediction (residual)

X_i = f (Access to land (land), (Investment incentives (incen), (Market availability) (mark), (Access to finance (fina), (Access to Infrastructure (infra), (Interest rate(inter), and (Tax rate (tax)

Furthermore, it is also worthwhile to test the existence of multi co linearity problem between continues explanatory variables and degree of associations among the discrete variables prior of running the model. Multi co linearity refers to the existence of more than one exact linear relationship among explanatory variables, and co linearity refers to the existence of a single linear relationship. The issue of multi-co linearity may happen

due to the fact that explanatory variables may have linear relationship. Prior to application of the econometrics model to make inference about the variables, all hypothesized variables were tested for existence of multi-co linearity problem. The existence of multi-co linearity may result in, smaller t-value, the estimated regression coefficient to have wrong sign and high R^2 value. Moreover, it may cause large variance and standard error with wider confidence interval deviation and the coefficients cannot be predicted with great precision or accuracy (Gujarati, 2004). In this study to detect the existence of multi-co linearity among the explanatory variables, variance inflation factors (VIF) technique was used (Gujarati, 2004). Thus, the VIF is stated as the multiple correlation coefficients between X_i and other explanatory variables. The largest the value of this will result in higher value of VIF (X_i) which cause higher collinearity among the variables. Most of the time as a rule of thumb for continuous variables values of VIF greater than 10 are taken as a signal for the existence of multi-co linearity in the model. Tolerance value also used to check nonexistence of multi collinearity problem.

3.8. Data processing procedure

In a survey study data processing is an important task. It has included manual editing, coding, data entry, data cleaning and consistence checking. This all were accomplished during and after the required data were collected from respondents by the researcher.

3.9. Data analysis technique

In this study initially, descriptive statistics were used to make trend analysis of domestic private investment activities of Finoteselam and Bure towns. Analysis of data was carried out using SPSS software Version 20 through the model called Multiple Linear Regression analysis to examine the relationship between independent variables and dependent variable so as to identify the determinant factors with reference to beta value of each variable change.

4. Data presentation and analysis

4.1. Trend of Domestic Private Investment activity in west gojjam

The trend of an investment shows up to down of the investment activity throughout year to year in a country. According to west gojjam zone trend and investment expansion office report shows that up to 2011 E.C, there were 257(45.89) % investment project which were in per implementation phase, 82 (14.64%) project were on constriction and 221(39.49%) were in operation in different sectors like in hotel and truism, social, industry, agriculture, construction and trade and transport sector in different worda and towns in zone. Among the investors who engage in operation 312 are found in finoteselam and bure town and the remaining are found in other parts of a zone. The number of domestic Private investment from 2007 to 2011 E.C was presented as follows

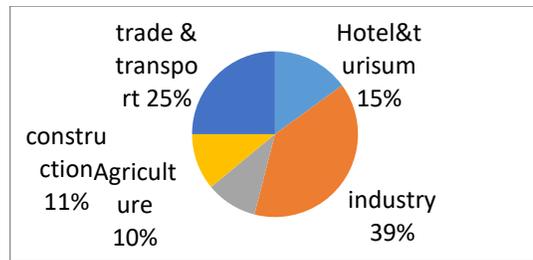
Table 2: Number and percentage of domestic private investment sectors from 2007 to 2011 E.C

Year	Hotel&truism		Social		industry		Agriculture		Constriction		Trade &transport		total No
	no	%age	no	%age	no	%age	no	%age	no	%age	no	%age	
2007	10	18.18%	1	1.8%	2	3.78%	22	40%	19	34.54%	1	1.82%	55
2008	7	15.21%			14	30.43%	11	23.91%	14	30.43%			46
2009	8	9.75%	1	1.21%	32	39.02%	13	15.85%	9	10.97%	19	23.17%	82
2010	8	6.34%			57	45.23%	17	13.49%	3	2.38%	41	32.54%	126
2011	33	14.93%			85	38.46%	23	10.40%	24	10.85%	56	25.34%	221

Source; west gojjam trade and investment expansion office, 2009 E.C

As indicated from table 4.1 above in 2007 as compared to others investment sector the highest number from of domestic private investors invested in agriculture 22 (40%) and construction sector 19 (34.54%). this might be due to the government policy which promoted agriculture investment (agriculture lead industrialization) whereas relatively small number in investor in industry sector 2(3.78%), social and trade and transport sector the same each as 1(1.82%), this might be due to the government. Investment incentive which did not give attention to other sector and the remaining investors have invested in hotel and truism sector. As shown from table 4.1 above in 2008 from the total investment project 84.77%, have invested in industry, construction and agricultural this might be due to the region and federal governments have given good attention to attract investors in those sectors and the remaining 15.33% have invested in hotel and truism sector. During those year, there was no new investment made in social and trade and transport. From table 4.1 above, in 2009 more than 60% of the investors have invested in industry and trade and transport sectors. This was due to high emphasis given by government policy for in those sectors. During 2010 and 2011 next to Industry, investors have invested in trade and transport sector (32.54%) and (25.34%) respectively and the remaining percent have invested in other sectors. Number of domestic private investment activity in each investment sector in west gojjam zone has been displayed in chart as follows.

Fig 2. composition of percentage of domestic private investment in investment Sectors up to 2011



From the above figure 4.2, 39% of domestic private investment activity has been covered by industry, 25% of domestic private investment activity has been covered by trade and transport, 15 % of domestic private investment activity has been covered by hotel and tourism, 11% of domestic private investment activity has been covered by construction and sector and 10% of domestic private investment activity has been covered by urban agriculture. Out of the total percentage of domestic private investment activities, the industry sector has covered large proportion due to the government stands to promote the domestic investors in industry sector in Finoteselam and Bure towns.

4.2. Total domestic private investment activity trend

On the above description of domestic private investment activities, the researcher has presented the domestic private investment activity trend as follows totally by understanding what investment trend in west gojjam zone, specifically in Finoteselam and Bure towns, seems like total domestic private from 2007 to 2011 E.C.

The total domestic Private investment activity in west gojjam zone, specifically in Finoteselam and Bure towns, from 2007 to 2008 has declined by 16.36%, but from 2007 to 2008 has increased by 43.90%. On the other hand, from 2008 to 2009, it has increased by 34.92% at decreasing rate as compared to 2007 to 2008. Even if the total domestic private investment activity from 2008 to 2011 has increased by 23.17%. The rate of increase is at decreasing rate when compared with the previous years investment numbers. From this the researcher has observed that even if the total domestic private investment has increased from 2008 to 2011 at once at an increasing rate and in other times at a decreasing rate, the number of domestic private investment projects in Finoteselam and Bure towns was not in line with their plans or expectations as sourced from investment offices of both towns in west gojjam zone.

4.3. Capital flow of domestic private investment in west gojjam

The flow of the sector in to investment area is important for the economic growth of particular country. And hence interims of domestic private investment capital flow from 2007 to 2011 in west gojjam zone was presented as follows.

Table 3. capital flow of domestic private investment from 2007 to 2011

Year	Capital increase/decrease in birr	Capital increase/decrease in birr
2007-2008	(28,043,474)	(10.9)
2008-2009	31,083,540	13.64
2009-2010	1,048,848,574	19.8
2010-2011	854,122,495	65.3

Source; west gojjam trade and investment expansion office, 2011 E,C

From the above table 4.3., the total capital flow of domestic private investment in west gojjam zone from 2007 to 2008 was declined by birr 28,043,474(10.95%) this is because of the liquidation of existing domestic private investment and there are no new entrants in some investment sectors like social and trade and transport sector, but from 2007 to 2008, it has increased by birr 31,083,540 (13.64%), from 2008 to 2009, it has increased by birr 1,084,848,574(19.8%). Similarly, from 2009 to 2010, capital flow of domestic private investment has increased by birr 854,122,495(65.3%). This is due to the government policy which gives high incentive to the industry sector in order to attract the investors to invest in the industry sector as result the number of investors who are invested in the sector has increased from 2007 to 2011 than other sectors. Since the industry sector needs high capital (capital intensive) than other sectors as a result the total capital flow of domestic private investment has increased from year to year. However; the number of domestic private investments during those years was not increased as such expected by the zone.

Table 4: Trend of Domestic Private Investment change from 2007 to 2011E.C based on number of investment and capital flow

Particular	Year			
	2007-2008	2008-2009	2009-2010	2010-2011
No of investment project	(16.36%)	43.9%	34.92%	42.98%
Total capital flow	(10.95)%	13.64%	19.8%	65.3%

Source; own computation, 2011 E.C

As shown in table 4.3, the number of domestic private investment projects and capital flow from 2007 to 2011 was declined by 16.3% and 10.95% respectively. The percentage variable comes down due to the nature of investment that is more number of investors was engaged in labor intensives investments to gain the advantage of labor cost. Generally, even if the number of domestic private investment and capital flow has increased from year to year when as compared to others zone or part in the region. in addition to this as the zone investment office report shows because of land , infrastructure, finance and other problems 257(45.89%) projects are in pre implementation phase , 82(14.64%) projects are in construction phase but only 221 (39.46%) are in operation

phase. This shows even if there is an increment in number of projects still the investment activity has not grown as per the expectation or plan of the zone.

4.4. Regression Analysis

To accept or reject the hypothesis developed in this study, the researcher used multiple linear regression analysis as follows

Table 5: Model summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.320 ^a	.102	.72	1.246

a. Predictors: (Constant), Landava, Marke, Goincen, Govinf, Inter, Taxgo, Fin

The regression model fits because the adjusted R Square shows 72% of the value of the dependent variable is explained by the independent variables included in this study, but the rest 28% is explained by other external variables of this study which have been designated as error terms.

Table 6: ANNOVA table

NOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.610	7	4.230	2.724	.000 ^a
	Residual	259.327	167	1.553		
	Total	288.937	174			

a. Predictors: (Constant), Landava, Marke, Goincen, Govinf, Inter, Taxgo, Fin

b. Dependent Variable: Investment activity of towns

As it has been seen from the above ANOVA table, the regression model fits because it is significant.

Table 7: Regression table

Independent variables	Unstandardized coefficients		Standardized coefficients		
	B	Std. Error	Beta	t	Sig.
Tax	-.008	.081	-.016	-.103	.003
Investment incentive	.033	.078	.065	.430	.019
Access to Finance	.072	.070	.287	1.028	.001
Interest rate of loan	-.141	.113	-.342	-1.238	.004
Access to Infrastructure	.009	.034	.521	.273	.001
Access to Market	.066	.022	.231	3.051	.003
Access to Land	.072	.034	.162	2.127	.002

As depicted in the table above, tax rate has statically significant association with domestic private investment activities with Beta value of (-.016) at 3% which is less than the p- value (5%). As the tax rate levied by the government decreases by .016, domestic private investment increases by 3%. Thus, Tax rate determined by the government affects number of investment projects to be executed in each year in Bure and Finote selam towns negatively. Therefore, the null hypothesis has been rejected because there is association between change in tax and domestic private investment activity. This interpretation is supported by the following literature as noted by Hodo (2013). High taxes have negative effect on domestic private investment activities, but if the tax rate is low, it affects investment projects positively. From the above interpretation, one can conclude that an increase in tax rate discourages new investment projects to be executed in those towns. The second determinant factor affecting domestic private investment activities is investment incentive to be offered by the government in order to attract new investment projects. The null hypothesis formulated has been rejected because, as indicated in the table above, investment incentive has statically significant association with domestic private investment activities with Beta value of (.065) at 2% which is less than the p- value (5%). As the investment incentive given by the government increases by .065, domestic private investment increases by 2%. Thus, investment incentive given by the government encourages number of investment projects to be executed in each year in Bure and Finote selam towns. If more investment incentives such as access of suitable land and making an ease access of materials for investors is arranged by investment offices of the towns, more investment projects will be attracted and implemented a number of actual and potential investors might be encouraged to invest. From the above interpretation, one can conclude that an increase in investment incentive to be provided by the government has a power to attract new investment projects to be executed in Bure and Finoteselam towns.

Another determinant factor affecting domestic private investment activities in Bure and Finoteselam towns is access to finance. As we can see from the table above, financial access is statically and significantly associated with domestic private investment with beta value (.287) at 1%. This implies that financial access for executing domestic private investment projects in Bure and Finoteselam towns is very significant and powerful for attracting new investment projects. However; as obtained from interview, in Bure and Finoteselam towns money lenders require strong collateral which is sometimes beyond investors capacity to pledge assets as collaterals. From the above interpretation, one can conclude that adequate an ease financial access for domestic private investors available easily for investors has a power to attract new investment projects to be executed in Bure and Finoteselam towns. Thus, from this interpretation, the null hypothesis developed regarding to access to finance in relation to domestic private investment activity in this study, has been rejected.

Another determinant factor affecting domestic private investment activities in Bure and Finoteselam towns is interest rate which has the power to influence investment activities negatively. As we can see from the table above, interest rate is negatively associated with domestic private investment with beta value (-.342) at 4%. This implies that an increase in interest rate of loan by 0.342 decreases the number of investment projects by

the same rate in Bure and Finoteselam towns, i.e. this discourages new investment projects because investors' financial potential to access loan will be limited. On the basis of this, the above null hypothesis has been rejected. Thus, an increase in interest rate for domestic private investors to access loan discourages new investment projects to be executed in each year in Bure and Finote selam towns. According to the study by Woldemariam (2018), an increase in the real rate of interest will raise the user cost of capital, thereby making investment less profitable and thus real lending interest rate has a significant negative effect in the long-run on investment projects which discourages domestic investment activities. From the above interpretation, one can conclude that the rise in interest rate affects domestic private investors negatively and investment expansion will be limited in Bure and Finoteselam towns. As indicated in the table above, access to infrastructure has statically significant association with domestic private investment activities with Beta value of (.521) at 1% which is less than the p-value (5%). As the infrastructure offered by the government increases by .521, domestic private investment increases by the same rate. Thus, infrastructure facilities available by the government affects number of investment projects to be executed in each year in Bure and Finote selam towns positively. The null hypothesis formulated in the above has been rejected.

From the above interpretation, one can conclude that furnishing all required infrastructure facilities motivates new investment projects to be executed in those towns. Therefore, infrastructure facility is one of the determinant factors for investment activities. Another determinant factor affecting domestic private investment activities in Bure and Finoteselam towns is access to market. As we can see from the table above, access to market is statically and significantly associated with domestic private investment with beta value (.231) at 3% significance level, which is less than the p-value(5%). This implies that market access for executing domestic private investment projects in Bure and Finoteselam towns is significant and powerful for attracting new investment projects. Thus, market access for domestic private investors motivates new investment projects to be executed in each year in Bure and Finote selam towns. From this, the already formulated null hypothesis has been rejected. From the above interpretation, one can conclude that adequate market access for domestic private investment to easily sell and distribute their products has a power to attract new investment projects to be executed in Bure and Finoteselam towns.

Access to land is another determinant factor for domestic private investment activities in Bure and Finote Selam towns as identified by this study. As it has been seen from the above regression table, access to land is statically and significantly associated with domestic private investment with beta value (.162) at 2% significance level, which is less than the p-value (5%). This implies that land availability for executing domestic private investment projects in Bure and Finoteselam towns is significant and determinant factor and powerful for attracting new investment projects. As it has also been obtained from interview, pieces of lands are not transferred at the right time of demand of domestic private investments. Domestic private investors have faced several problems related to getting suitable land and material for their investment and this situation results in less willingness to expand

the existing business and restrain them from joining new business for potential investors. The null hypothesis already formulated regarding access to land has is rejected. Even though access to land for domestic private investors motivates new investment projects to be executed, in Bure and Finoteselam towns, pieces of land for implementation of investment projects cannot be free from the third party. This limits growth of number of investments in those towns.

4. conclusion and recommendation

4.1. Conclusion

Based on the finding of this study, the researcher has drawn conclusions. The trend of domestic private investment growth in number west gojjame zone has increased at decreasing rate from 2005 E. c to 2009 due to the existences of factors. From this finding, we can conclude that positive determinant factors have not been emphasized by the concerned body of the government in Finoteselam and Bure towns. As it has been found out that in this study, an increase in tax rate declines the number of investment projects. From this, we can conclude that high taxes have negative effect on domestic private investment activities, but if the tax rate is low, it affects investment projects positively. We can understand that an increase in tax rate disheartens new investment projects to be executed in Finote selaqm and Bure towns. Since as many of investment land pieces are farming lands and the government does not free up those lands at the right time for investors, investors are discouraged to immediately come for implementation of their investment projects. This has its own negative effect for limiting domestic private investment activities in Bure and Finoteselam towns. Investors cannot access pieces of lands as they need and are ready to invest. From the output of the regression analysis of this study, it has been seen the association between domestic private investment activities and access to finance is positive. This indicates that as access to finance for investors is easy, they are encouraged to implement investment projects that increases growth of number of investments in Bure and Finoteselam towns, but due to the existence of restrictions to access finance like collateral problems and inflexibility problems of money lenders, domestic private investors cannot get the required amount of loan at the right time that affects the growth of number of domestic private investment activities in Finoteselam and Bure towns. Infrastructure which includes electric city water supply road hotel and communication are poor in the study area as obtained from this study, domestic private investment activities in Finoteselam and Bure towns are restricted by poor infrastructures. Investment incentives such as arranging ease access of land and raw material, delivering quick services for investors encourages domestic private investors as we can see from the analysis From this finding, we can conclude that an increase in investment incentive to be provided by the government has a power to attract new investment projects to be executed in Bure and Finoteselam towns. According to the finding of this study, market availability for investors encourages potential domestic private investors to initiate new investment projects that increases the number of investment projects in Finoteselam and Bure towns. From this finding, we can draw the conclusion as market access for domestic private investors motivates new investment projects to be executed in each year in Bure and Finote selam towns.

Interest rate of loan affects the investment projects negatively as can be seen from the analysis part of this study. From this, one can conclude that an increase in interest rate of loan decreases the number of investment projects in Bure and Finoteselam towns, i.e. this discourages new investment projects because investors' financial potential to access loan will be limited. Thus, an increase in interest rate for domestic private investors to access loan discourages new investment projects to be executed in each year in Bure and Finote selam towns.

4.2. Recommendation

According to the finding of this study, all variables (tax, investment incentive, access to finance, access to land, and access to market, interest rate and access to infrastructure) are significant. They affect domestic private investment activity in Finoteselam and Bure towns. Therefore, the concerned body of the government office should do more in improving the value of these determinant factors in line with the interest of domestic private investors. As identified by this study, land accessibility is difficult for domestic private investors, so the investment offices should cut bureaucracy of making pieces of lands free from the third party and ready them for quick transfer to potential investors. Infrastructures available for investors are poor in both Bure and Finoteselam towns as identified by this study. Therefore, the investment office in collaboration with other sectors such as with Electric power authority, Ethio telecom, road authority and water supply offices of towns, should make these services easily accessible for domestic private investors. To alleviate investment fund of domestic private investors in both Finoteselam and Bure towns, the offices should cooperatively do to help those investors to easily get loan with smooth bureaucracy. Finally, it is advisable that improving the entire seven determinant factors by considering degree of their individual influences over domestic private investment activity

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