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INSTITUTE OF AGRICULTURAL AND DEVELOPMENT STUDIES

DETERMINANATS OF PRIVATE INVESTMENT IMPLEMENTATION PERFORMANCE IN SULULTA TOWN, OROMIA REGIONAL STATE

BY

ADDISU SHUMET

JUNE, 2018

ADDIS ABABA, ETHIOPIA

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A THESIS SUBMITTED TO SCHOOL OF GRADUATE STUDIES ST. MARY'S UNIVERSITY INSTITUTE OF THE AGRICULTURE AND DEVELOPMENT STUDIES, FOR PARTIAL FULLFILLMENT OF THE REQUIREMENTS FOR THE MASTERS OF SCIENCE DEGREE IN DEVELOPMENT ECONOMICS

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Approval Sheet

As members of the Examining Board of the final MSc, open defense, we certify that we read and evaluated the thesis prepared by Addisu Shumet and recommend that it be accepted as fulfilling the thesis requirement for the Degree of Master of Science in Development Economics.

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DECLARATION

I declare that this MSc. thesis is my original work, and has never been presented for the award of any degree in this or any other university and all source of materials used for the thesis have been duly acknowledged.

Addisu Shumet

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ENDORSEMENT

This thesis has been submitted to St. Mary's University, School Of Graduate Studies for examination with my approval as a University advisory.

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TABLE OF CONTENTS

LIST OF TABLE

LIST OF ABBREVIATIONS

EIA - Ethiopian investment agency

EPA - Ethiopian privatization agency

FDI - Foreign direct investment

GDP - Growth domestic product

FGD - Focus group discussion

MOFED-Ministry of finance and economic development

MSE - Micro and small enterprise

NGO - Non-governmental organizations

OECD - Organization for Economic Cooperation and Development

OIB- Oromia investment bureau

OLS - Ordinary list square

PSC- Private Sector Development

PPESA-privatization and public enterprises supervising agency

PSD - Private Sector Development

VIF – Variance inflation factor

Abstract

This study analyzed investment implementation performance in relation to its determinants in Sululita town of Oromia Regional state. The sample consisted of 62 private investor's selected using stratified random sampling method. The data were collected through structured questionnaires. The descriptive analysis and duration model were used as the main technique of data analysis so as to identify the main factors affecting private investment implementation performance. The findings of the study showed that access to infrastructure facilities, access to credit, and bureaucratic red tapes have significant and negative impact on the investment implementation performance. However, education level of the investors, access to land and corruption were found to have no significant impact on the investment implementation performance. Finally, the State of Oromia, Ethiopia, must attract and encourage private investors by applying and improving policies which promote private investment. In this way they will actively contribute to the overall development and growth of the Ethiopian economy by considering aforementioned determinants of project performance.

Key Words: Implementation delay, access to credit, access to infrastructural facility, bureaucratic red tape.

CHAPTER ONE

INTRODUCTION

1.1.Background of the Study

In the contemporary world, the main goal of every nation is to bring economic growth and development. Among the mechanisms through which this objective can be realized is making use of available resource for productive investment activities. Private investment, according to Chhibber and Leechor (1995 cited in Gizachew, 2017), is an investment which is made by privately owned business firms on new buildings, plants, and equipment that are used in the production of goods and services. It is considered to as key to solving economic problems such as poverty and unemployment, especially in developing countries. Researchers such as Hernandez (2000) and Barro and Lic (1994) have established the critical linkage between investment and rate of growth based in Africa, Asia, and Latin America. Private investment has been the major economic driver in developing countries such as Fiji, Ghana and Pakistan (Seruvatu and Jayaraman, 2001; Asante, 2000; Reinhart, Ghura, 1997 (all cited in Bayai and Nyangara, 2013).

Accordingly, practitioners and academicians have conducted studies on the importance and determinants of the operations of investments. They argue that investment is key for economic growth and development because high investment rates are widely considered to be an essential condition for attaining a high and sustainable growth rate (Levine and Renelt, 1992). The Organization for Economic Cooperation and Development (OECD, 2012) also indicated that a strong investment sector contributes prominently to the economy of a country through creating more employment opportunities, generating higher production volume, increasing export and introducing innovations, increasing employment opportunity.

Investment has a very crucial role for accelerated and sustainable growth and development. As we know from aggregate expenditure function which includes consumption, private investment, government expenditure, and the net exports, investment is the second largest element of aggregate expenditure representing Gross Domestic Product. Private Sector Development (PSD) is about enabling the enhanced utilization of labor and other resources through the growth of private business by creating an enabling environment both in the domestic and overseas markets (MoFED, 2000). Although private investments play an important role in economic growth, there are factors affecting the status of private

investment in each operation such as like economic, social, political, institutional, cultural, geographical and etc (Frimpong and Marbuah, 2010).

Ethiopia recognized the immense contribution of investment in economic development and transformation of the country. Following the adoption of investment proclamation number 14, 1992, investment in Ethiopia has been gradually increasing over the past seven years owing to the favorable investment climate. There are visible trends that Ethiopia is becoming an investment focal point in the horn of Africa. The Ethiopian Investment Agency (EIA) and regional Investment Offices licensed some 69,079 investment projects with an aggregate capital of Birr 1.3 trillion during 1992/93-2012/13. Of these projects, 58,735 (85%) were domestic, 10,220 (14.8%) foreign and 124 (0.2%) public (NBE, 2012/13).

The standard period/duration for private investors to move from the pre implementation to operation status is determined by the Ethiopian Investment Agency. Accordingly, the period allowed to proceed from pre implementation status to implementation status is six months and the period to proceed from implementation status to the operation status is thirty months. The investor is required to enter the operation status within 36 months of collecting the investment permit from the investment office (EIA, 2012).

Economic evidence indicates that private investment has stronger, more favorable effect on growth rather than government investment, probably because private investment is more efficient and less closely integrated with corruption (Ghura, 1997). In Ethiopia, private investment sectors also have an important contribution to make to economic development and poverty reduction because it creates good employment opportunity and creating an enabling environment both in the domestic and overseas markets (Haile and Assefa, 2005).

Oromia, being one of the regional states of Ethiopia which have huge population and wide geographical area coverage, is one of the rich regions of the country and have huge potential to attract investors (Oromia investment commission, 2011).Sululita town, which is commercial city town in the Oromia regional state and in has a huge potential and fertile environment for investors. But the question left unanswered is the reason for the low level of privet investment, the slow progress of new business and the complicating investment and small number of investors in the town existent except for some public investment (Sululita Town investment office, 2011).

1.2.Statement of the Problem

The economic standard of developing countries has not been showing progress due to many reasons of which lack of investment is the one. Ethiopia is one of the least developed countries, which tries to increase investment activity for its economic growth. However, the country‘s benefit from investment is less as compared to other African countries reports in Ethiopia (EIA, 2012) show that project stagnation and delays of operations exist at all statuses of the investment sectors. In addition, a study by Hussien (2000) showed that in spite of the enormous number of projects licensed, the real investment rate is very unsatisfactory and more than 50% of projects have not yet started to be realized. According to the empirical data analyzed by Deneke (2001) the process of investment from preparation to implementation must pass through a long and cumbersome bureaucratic process. This accounts in part for the big gap between approved and operational projects, and also for the fact that the number of projects completing the project cycle is low Workie, (1996). This reality shows that there are problems which should be investigated so as to encourage and promote private investors at each investment status.

Moreover, the gap between approved investment permits and implemented project operations provides insight into the fact that the implementation aspects of private investment are problematical in Ethiopia (Deneke, 2001). Deneke’s research also shows that out of the total domestic private investment projects approved; only 32% were operational in eight years. The rest (68%) had either been terminated or were lagging well behind schedule because of numerous reasons the number of investor become decline or increment from year to year. The researcher observed this and identified additional relevant and important points from reports and data at federal and state levels in Ethiopia. It is from these insights that the research problem addressed by this study was identified. According to EIA data the investment sectors currently experience various problems in spite of the fact that one of the principal undertakings of the Ethiopian Government since 1991 has been to transform the country from a centrally commanded economic system into market oriented-economy when we see specifically most of Sululita town investors those pre implementation and implementation statues have slow progress of new business and complicating investment by different case specially social, political and economic factor (EIA, 2012). As a result there is a need to know the factors which determine private investment implementation performance. A further factor is that most of the related reviewed studies on private investment in Ethiopia and other developing countries used variables at a macroeconomic level. Examples are inflation, real interest rate, openness and real exchange rate (Yawul 2000, Bayai, and Nyangara, 2013, Bigsten et al 1999 cited by Gizachew, 2017). All the researchers studied macro level factors that affect

private investment and little has been done regarding micro level factors affecting private investment in the country and to the best of my knowledge there is no empirical research conducted in investments in Sululita Town.

Adugna (2013) have studied determinants of private investment in Ethiopia. The data were analyzed using descriptive and inferential statistics (OLS estimation).however, The researcher didn't used primary data but in this study the data were gathered mainly from primary source. Ephrem and Andualem (2015) have done their studies using micro level data in WolayitaSodo town but they used descriptive analysis. But this study were adopt in addition to descriptive analysis, it employed one econometric model that is duration model to explore inferential relationships between variables and to draw conclusion. The World Bank and Ethiopian Development Research Institute (EDRI) have concluded that an empirical analysis of private sector based on firm level data with the purpose of proposing sound set of policies regarding investment climate and private sector development in Ethiopia (World Bank, 2005). In addition many empirical studies have been carried out on the determinants of private investment in the different in different areas with a view to enhance its performance and benefits. However, the validity of investigations into the determinants of the private investment sectors in Ethiopia are affected by time constraints because most of Ethiopian privet investors started within recent years and some study were conducted on the determinants of privet investment at micro level. In addition, the investment law has been amended several times in order to meet the demands of both domestic and foreign investors (Woldemeskel, 2008). Thus, the study was plan to fill the above listed research gaps by studying the impact of independent such as the level of education, access to credit, access to infrastructure facility, bureaucratic red tape, corruption, and access to land on investment implementation performance of projects in the town.

1.3. Objective of the study

1.3.1. General objective

The general objective of the study is to found out the major determinant factors that affect private investment implementation performance in Sululita town.

1.3.2. Specific Objectives

The specific objectives of the study includes:-

- To discover the major factors causing the delay to start the operation/production statues in the town.
- To assess or identify the major financial source of the investors in the town.

1.4.Research question

This study aims to answer the following basic research questions;

1. What are the major firm level determinants that cause the delay of private investment status or factors that delay the promotion of private investment in the town?
2. What are the major sources of finance for investors in the town?

1.5. Significance of the Study

The main relevance of this study lies on the fact that it improves the investment activity of the study area in particular and that of Ethiopia in general by improving private investment through understanding factor that affect privet investment implementation, In spite of this, the contribution of private investment to the overall development in Ethiopia is still at a very low level. Also, since the fight against poverty and the need of transformation cannot be realized by ignoring investment, Lastly, the study ware a stepping stone in the area and it have been a good input for future researchers to study the topic by including wider geographical area as well wider concepts.

1.6.Scope and Limitation of the Study

This study is only confined to Sululita town. Despite the fact that private investment is affected by macro-economic variables like GDP, inflation rate, interest rate, etc the study aims at studying the micro level determinants of private investment implementation performance. For the purpose of this study, the investors selected to be respondents were only those private investors register by the Ethiopia investment office those who start operation during the data collection period. The study were not include micro and small enterprises (MSE), public investment, endowment fund investments, non-governmental organizations (NGO).Private investment is not only affected by the micro economic but also macro and policy variables like gross domestic product, inflation rate and interest rate. However, this study only considered micro level variables. In addition, since many micro label data are difficult to quantify, this study only used limited variables. In a similar manner, there are also some factors that challenge the effectives of this pear. These include the inconstancies nature of the data, lack of efficient

and sufficient data in desired way. Hence, the findings of the study should be applied with reference to these limitations and should not be inferred to other area than the study area.

1.7.Research Hypotheses

In trying to achieve its objective, this study hypothesized the following:

Hypothesis 1: Level of education

H0: Investor's level of education is expected to have no effect on private investment.

H1: Investor's level of education is expected to have positive effect on private investment.

Hypothesis 2: Access to credit

H0: There will be no negative influence of access to a bank loan on the investment status delay of private investors.

H1: Access to a bank loan will have a negative effect on investment status delay of private investors .

Hypothesis 3: Access to infrastructure facility

H0: Access to infrastructure facilities has a no effect on the investment implementation delay of private investors in Sululita.

H1: Access to infrastructure facilities has a negative effect on the investment implementation delay of private investment.

Hypothesis 4: Access to land

H0: Access to land has a no significant effect on investment implementations delay status of private investors.

H1: Access to land has a significant negative effect on investment implementation delay of private investors.

Hypothesis 5: Bureaucratic red tape

H0: Public services delay due to bureaucratic red tape has a no impact on investment implementation delay of private investors.

H1: Public services delay due to bureaucratic red tape has a negative impact on investment implementation delay of private investors.

Hypothesis 6: Corruption

H0: Investment status delay is not significantly affected by the level of private investors' perception of corruption.

H1 Investment status delay is negatively affected by the level of private investors' perception of corruption.

1.8.Organization of the Study

The study was organized under five chapters. The first chapter deals with the introduction part which contains introduction, statement of the problem, objective, research hypothesis, scope, significance and limitation of the study. The second chapter includes both theoretical and empirical reviews. The third chapter covers methodologies and model specification of the study. Descriptive statistics analysis and econometric estimation results also presented in chapter four. The final chapter was designed to provide conclusion and recommendation based on the study obtained from the analysis.

CHAPTER TWO

LITERATURE REVIEW

2.1.Theoretical Literature

2.1.1. Definition and Concepts of Investment

Private investment is a major driver of economic growth. In LDCs, increasing the growth rate of private investment would be a desirable target to achieve development agenda. A rate of investment is one of the key factors that differentiate developed countries from developing countries. In high-growth countries investment is high, where as it is low in low growth countries. Investments is key for economic growth because high investment rates are widely considered to be an essential condition for creating good employment opportunity as well as attaining a high and sustainable growth rate (Levine &Renelt, 1992).

Bayai&Nyangara(2013) noted that economists usually reserve the term investment for transactions that increase the amount of real aggregate wealth in the economy and sustainable growth for a country. This includes mainly the purchase (or production) of new real durable assets such as factories and machines. Under the International Centre for Settlement of Investment Disputes Convention, investment encompasses any reasonable activity or asset that is any form of investment, which adds to the existing capital formation of a country and so has a positive effect on the gross output of a country.

Investment is generally classified into four major components: private domestic investment, public domestic investment, FDI and portfolio investment. Private domestic investment refers to gross fixed capital formation plus net changes in the level of inventories whereas public investment includes investments made by the government and public enterprises on social and economic infrastructures, real estate and tangible assets. The combination of private investment and public investment is normally referred to as gross fixed capital formation and this is distinctive from their counterpart – foreign investment. When foreign investment is on a tangible asset, it is referred to as a direct foreign investment; when it is in shares, bonds, securities, etc., it is called portfolio investment (Bakare, 2011).

Investment is an expenditure of money for income or profit or to purchase something of intrinsic value: capital outlay. It is the sum invested or the property purchased the commitment of funds with a view to minimize risk and safeguarding capital for sustainable time while learning a return (Adugna, 2013).

2.1.2. The Classical Theory of Investment

The classical school took for granted that capitalists make investment because they expect to earn profit in the future depend on a good deal on what profit are now. For example Adam Smith in his book" the wealth of nations" elaborate this fact, by arguing that investment were made because the capitalist expected to earn profit on them and future expectation with regard to profit depend up on the present climate of investments as well as the actual profit depend up on the present climate of investments as well as the actual profit.

However, this rate of profit tends to fall with economic progress, when the rate at which capital accumulated increased capitation among capitalists raises wages and tends to lower profit, and hence lower investment (Jhingan, 1988 as cited inKedir, 2011).

2.1.2.1.The Neoclassical Theory of Investment

According to Seruvatu and Jayaraman (2001) to formulate the neoclassical theory of business fixed investment in which net investment is proportional to the gap between actual and desired capital stock. This model combines the user cost of capital and the accelerator effect to explain investment behavior. According to this theory, net investment is proportional the gap between actual and desired capital stock.

This relationship given by:

It: Kt-Kt-1 = n(Kt-1)

Where It: the net investment

Kt: the existing capital stock at the end of the current period

Kt -1: The capital stock at the end preceding period

K* the desire level from of capital stock and

η: measures the fraction of the gap between the actual and the desired level of capital stock that is closed each period (Mankiw, 2003).

The basic notion behind this theory is that larger the gap between the existing capital stock, the more rapid a firm's rate of investment. So any factor that increases the desired capital stock such as an

increase in expected output or a reduction in interest rate will increase the rate or investment. This theory is criticized on the grounds that it makes the following simplifying assumptions. The assumption of perfect competition and output is exogenously determined (Which are inconsistent with the business cycle) as well as expectations regarding price interest rate and output are static (which is invalid because economic agents have rational expectation about the future (Haile, 2015).

2.1.2.2. Tobin's "Q" theory

In the "Q" theory of investments associated with Tobin (1969), the ratio of market value of an existing capital stock to its replacement cost (the 'Q' ratio) is the main force driving investment.

Tobin argues that, delivery laps and increasing marginal cost of investment are the reason why Q would differ from unity.

$$Q = \frac{M}{PCIC}$$

Where M……Market value of installed capital

PCIC…… Replacement cost of installed capital

Accordingly, the firm decides whether to invest or not depends on the values of Q. If the market value of capital is greater than its replacement cost i.e. when Q>1, investors decides to invest and vice versa (Mankiw, 2003).

2.1.2.3. Accelerator Theory of Investment

Keynes' idea was never left unchallenged. Because in the 1950's and early 1960's other economist formulated model that gave rise to accelerator theory of investment. These theories assume investment to be proportional to the change in output. That is I = a(y) where I is investment and 'y' is output (Sader, 1994). In the model, a relatively modest increase in the rate of growth of demand for final goods can lead to large increase in the demand for investment on the other hand; the actual decline in the demand for final good produced is not a necessary precondition for a decline in investment. Investment can fall as a result of a decline in the rate of growth of the demand for final product.

These assumptions does not augur with real economic activities as it does not take in to account the role of expectation, profitability and capital cost which are a part and parcel of the investment activities. A number of criticisms have been leveled against simple accelerator theory. In flexible accelerator model, investments make up only a fraction (B) of the gap between the existing capital stock and the equilibrium desired capital stock.

This can be formally stated as

$$Int = B\,(a)\,Qt - Kt\text{-}1$$

According to this model disturbance in the final demand will have its largest effect during the current period and the effect will be diminished gradually. This argument served as the basis for the formulation of the flexible accelerator model of investment which can be augmented to capture country's specific feature of investment behavior. Despite the drawback of accelerator principle, these theories as well as the flexible accelerator principle of investment are popular as evident in most of the empirical studies done to date. It is a constant capital stock to output ratio and assumption of availability of sufficient investment to keep desired capital stock to actual, In addition, disregards expectations, profitability and the cost of capital as determinants of investment (Serven and Solimano, 1992).

2.1.2.4.Keynesian Theory of Investment

Keynes (1936) developed the idea of an independent investment function in the economy. According to Keynes the quantity of desired investment is a function of the marginal efficiency of investment (MEI) or the rate of returns on investment and the interest rate, with the latter a function of liquidity preference and the stock of money. Investment is worth undertaken if the present value of the future stream of returns is equal to or greater than the initial cost of capital Keynes observed that investment spending is highly volatile due to the uncertainty associated with the returns on investment. Keynes further described the relationship between marginal efficiency of capital and investment. As he noted, there is an inverse relationship between investment and marginal efficiency of capital and when investment decline. Keynes described this volatility of expectations by saying that investment decisions depends on "animal spirits" of private investors or entrepreneurs, that is, their optimism or pessimism about the future (Serven and Solimano,1992).

2.1.3. Investments and Economic Development

One of the indisputable stylized facts of economic development has been the w idea disparity in economic performance across countries of the world. Over the past 40 years, economic performance of a small number of countries has been remarkable; with per capital GDP increasing fivefold is not more. At the same time a number of countries have experienced a starting decline in per capital GDP (Bouton and Sumlinski, 2000).

Investment is considered as one of the principal and important factors in economic development of a nation. Investment as it brings about fuller utilization of available resources, it paves the way for large scale production and technical progress, increases specialization, creates employment opportunities helps to have a more diversified economy, etc. and also, it can be considered as a source and mechanism to ring about economic growth. Due to this fact many economists agree on the fact that every nation should invest in order to achieve a sustainable economic growth (Amanuel, 2015).

Salaries work in 1956 introduced a different perspective on the role of investment in economic growth. The production function he postulated has a long tradition in economics-output is produced by combing capital and labor under constant returns to scale. According to his model positive level of investment is needed to replace capital as it depreciates and to maintain the size of capital stock constant relative to the labor forces. Countries with higher levels of capital investment and higher levels of capital per workers will have higher level of per capital output. A conclusion from this model is that countries are rich because they have a lot of capital (Bouton and Sum linski, 2000).

2.1.4. Sources of Private Investment

It is obvious that increasing investment or capital accumulation is a necessary condition for economic growth as well as economic development. So the need for increasing the level and rated of investment is unquestionable. The question is “how can investment be financed?” that is what are the real sources coming to support investment. Therefore without increasing the level and rate of investment, bringing a sustainable economic development is unthinkable. In any developing economy the accumulation of capital requires mobilization of economic surplus which can be financed from internal of external sources. Basically, the sources of investment can be categorized into tow: domestic (internal) and foreign (external) sources (Kedir, 2011).

A. Domestic Source of Private Investment

The accumulation of capital in any developing economy requires the mobilization off economic surplus, in the case of private investment is to be increased from domestic sources there must be growing surplus, in the case of private investment it is to be increased from domestic sources there must be growing surplus above current consumption that can be tapped and directed into productive investment channels. This involves abstinence from present consumption for future use.

The importance of financial institutions in this case leis in their making available the mean to utilize saving. It means the existence of a more developed capital market and financial intermediaries will in the collection and distribution of inevitable funds (Meier, 1995) as cited in (Haile, 2015).

B. External Source of Private Investment

Mobilization of resources from external sources is needed when the domestic resources are not enough to finance investment. The imports of foreign capital from developed countries could be in the form of loans and grants without 'strings'. But according to Jhingan (1988) as cited in (Kedir, 2011).The best course is to start joint ventures where by foreign investors bring technical knowhow along with capital, and they train local labor and enterprises.

2.1.5. Factor that affect investment implementation

Private investment is a 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 all over the country. The main determinants of investment in a given country can be at a micro and macro level. However, as the study emphasizes the micro level, the following discussion concentrated on different variable within different kinds of literature

Access to credit: according to Ambaye et al (2014) study on the determinants of domestic private investment in Ethiopia identified that domestic credit given to the private sector reduces domestic private investment because the credit may be diverted to nonproductive activities due to this reason it have negative impact. Study by Workie (1996) on constraints to entry, operation and expansion of private investment in Ethiopia using investor level information showed that bureaucratic procedures, a lack of infrastructure, power supply problems and access to finance were the leading constraints for operations. The other areas of the business environment (such as political/policy uncertainty and labor

regulations) were relatively less important. The survey ultimately confirmed that the availability of finance rather than the interest rate is a crucial determinant of private investment in Ethiopia. In support of above evidence, Mbaye (2014 cited by (Muhdun, 2016) stated that funds to the private sector do not go to finance new investments because of poverty most people would borrow to finance other matters like education, healthcare and basic necessities. As a result private sector credit is negatively related to private investments.

Corruption& Bureaucratic red tape: A study by Deneke (2001) on the impact of corruption on investment showed that corruption was among the most significant obstacle due to this reason, the process of investment from preparation to implementation must pass through a long and cumbersome bureaucratic process both corruption & bureaucratic red tape have a negative impact.

Level of education and access to land: A study by Baye et al. (2005) on the macro and microeconomic determinants of private investment both at national and regional levels in Ethiopia showed that at the micro level the probability of individual's to invest is significantly and positively influenced by the level of education, access to land and investment incentives. The influence of bureaucratic red tape was also found to be negative impact.

Investment location: location is significant and firms located within the central region are likely to invest less than those located outside the central region in Uganda. effect of sector location is also found to be significant for firms in agriculture, manufacturing, and services, According to Abuka et al (2006 cited by Deneke, (2001).

Infrastructure facility: Adugna (2013) undertook a study covering the period 1981-2010 using Ordinary Lease Square (OLS) regression to model the determinants of private investment in Ethiopia. Findings from the study showed that public investments in basic infrastructures and social overheads are essential for private investment. In addition, the rising real per-capital income of the people has a crucial positive effect on private investment by way of increasing market demand for goods and service.

2.2. Past trends and the Policy Environment of Private Investment in Ethiopia

It is uncontroversial that the performance of investment in Ethiopia has been at very low level in the post many years. For instance, the average gross domestic saving of the country during 1980-1990 was recorded about 7.3% in similar period the average gross investment rate was about 14.1%. And also the

national saving rate and fixed capital formation as a percentage of gross domestic products was registered as 6.5% and 16.7% respectively (economic focus. 1999). Three distinctive periods are identified for the study of investment and its determinants.

2.2.1 The Imperial Era (Pre 1974)

Immediately after the collapse of Italian occupation, the empirical government was occupied in setting the foundation for modern Ethiopia. The economic strategy of the country during the period was export trade development aiming to earn more freight currency to finance the import of more capital goods to accelerate the overall development process. As a result of this economic strategy the participation of the private sectors both the domestic and foreign investors grow up. In connection to that the private investment was highly recognized by the government policy makers as a supporting hand of the public development efforts. In realization of this situation, the agricultural and industrial expansion program of the 1954 and later on three- five years development pans starting from 1955 has been introduced. These policy measures, in effect, were able to attract both domestic and foreign investors to participate in various industrial and agricultural activities. For instance during the 1950-55, the FDI (foreign direct investment) inflow to the country was about 63 million birr. The Investment Decree No. 51 of 1963 (Imperial Government of Ethiopia, 1963) as cited in (Kedir, 2011) was issued at a time when infrastructure development (road transport, air transport, banks, power generation, etc.) was taking place at a rapid pace. Private investment was singled out for attention and this led to the import substitution strategy which was adopted in the five-year development plans.

2.2.2 The Derg Era (1974-1991)

Immediately after assuming power in 1974 the declared the national democratic revolution in which it started that the country presumes military government nationalized a large number of domestic and foreign production, distribution and service rendering private enterprise. Consequently, the government took over ownership and operation of over 100 private manufacturing enterprises, such act of nationalization significantly decreased the participation of private capital and specially the foreign investors to factor economic development of the country (Haile, 2015).

These restrictive policies of the regimes results in a very low rate of private sector development. The average rate of private investment to real DP during the period 1974-1990 was 6.7%.This ratio is very low even by the standard of sub Saharan African countries were the average rate of private investment to

GDP was 8% for the period 1975-1889. The import and export activities, the FDI, Joint venture business operation and other economic exposures to the international market were limited. The economic performance of the country has been declining' for instance in the period 1975-79 a condition of economic stagnation and even in the same years an economic regression has been registered. The growth rate of real GDP was – 6.3% and 9.7% in the years 1983/84 and 1984/85 'respectively. They were exempted from income tax and custom duty and hand was given In general, investment policy of the Derg regime was characterized by restrictions on private investment and biased towards the development of the public sectors (Economic Focus, 1999).

2.2.4. Post 1991

Post 1991 unlike previous regime, presently the government has recognized the need for increasing the participation of private sector. No doubt, the country's investment climate of the country has changed radically since the introduction of the market economy policy back in 1991. The economic policy of the government indicates that investment by the state will be restricted to activities that have strategic roles in economic development or in areas were the private sectors could not adequately cover investment needs.

Accordingly, the economic policies of the transitional government encourage private capital participation. To rehabilitate and revitalize economic performance, the proclamation that encourage private sector was issued (Proclamation No 15/1992). It envisaged the spending up of the economic and social development of the country through increasing supply of goods and service, promoting domestic investment, particularly in the production sectors in order to insure linkage and suitable development there by promoting the benefit of both the countries and the investors.

The proclamation encourages the private sector to invest in all sectors except some areas which are exclusively reserved for government. It reserved areas like defense industries, large scale production and supply of electric energy postal and telecommunication service, large scale air and marine transport, and armament for government. Moreover, areas like large scale engineering and metallic industries, capital intensive and technology intensive investment in large mining and energy production and industries which supply strategic raw material of chemical industries were allowed for investment by the government on its own or partnership with private investor the proclamation put no limitation on capital ceiling currently, government is up for-far-reading measures to accelerate the privatization exercise. And

some efforts are geared toward this direction. The farmer Ethiopian privatization agency (EPA), merged with the previous public enterprise Supervising authority (PESA) in 2004 to form the privatization and public enterprises supervising agency (PPESA), a body saddled with the task of improving the efficiency of decision making in the privatization process. The autonomous body is also to assist state owned enterprises to became commercially viable before selling or leasing them to private investors, in 2007/2008 fiscal years, PPESA successfully transferred 15 enterprises to the private sectors in industry, 12 enterprises in agro-industry and 4 enterprises in services industry (Kedir, 2011).Despite these positive effects, in the present government where a very good and attractive policy is formulated, though there is a very good and significant change in private investment, as compared to post times, there is steel fluctuation overtime. And according to statistical report a considerable proportion of total approved investment projects fail to be implemented due to several reasons in which many of them are attributed to the negative effects of determinants of private investment (Workie, 1996).

2.3. Empirical Review

There have been empirical studies by researchers to determine factors affecting investment behavior and volume of investment in Ethiopia and outside the country. The main determinants of investment in a given country can be at a micro and macro level. However, as the study emphasizes the micro level determinant factor of privet investment implementation delay, the following discussion focuses mainly the micro level determinants of private investment using different kinds of literature.

2.3.1. Studies conducted outside Ethiopia

Pun 2005 cited in Gizachew, (2017) identified a list of common success factors and problem areas for manufacturing businesses in Hong Kong. The success factors are: accessibility to markets, availability of funds and capital, availability of workforce, company's location, company's mission, company's policies, company's reputation, company's strategies, cost of production and operations, customer services, employee involvement, information technology or system, management commitment and communication, market share, market positioning, materials supply, product mix and range, product or service quality, research and development or innovation capabilities, and workforce skills or abilities and training. The problem areas are: cash flow problems, effects of protectionism, few current and potential markets, few suppliers and/or vendors, high employee turnover, increasing production costs, insufficient research and development, strong local competition, lack of government support, low productivity (including poor employee morale), political influence, and strong overseas competitors.

Management commitment, the company's mission, and the availability of funds and capital are key determinants for organizational success in various endeavors.

Yawul (2000) studied "determinants of private investment behavior" using time series analysis complementing it with a cross sectional one. The result suggested that policies that address only some components of macroeconomic instability may not be enough to revive private investment. The question of finance must be addressed in order to ensure continuing participation of private sector investment based on the finding that the growth of real credit to private sectors has a positive and statistically significant effect on private investment. The study also founds, the overall measure of macroeconomic instability has been a major hindrance to private sector and again founds, public investment has a positive coefficient and shows "crowding-in" effect of public investment.

2.3.2. Studies Conducted inside Ethiopia

The study Ephrem and Andualem (2015) on "Assessment of Domestic Private Investment in Wolaita Zone: Case of Sodo, Areka and Bodity Cities" concluded that the major constraints hinder investment activity in the town are institutional problems (lack of consultation and advisory services, lack of promotional activities, corruption and administrative services (their problems), which is low level of qualified workers in offices), economic problems (like lack of capital loans, low level of market activity due to lack of diversity and high level of tax) and infrastructural problems (including transport service, educational service, water supply, telephone and electricity). The study utilized descriptive method of analysis and collected cross sectional data from 96 investors in the town using questionnaire. Thus, the above studies done in WolaitaSodo town regarding investment lacked inclusion of personal investors' characteristics in affecting investment in the town and only have used descriptive analysis method.

Adugna (2013) studied Determinants of Private Investment in Ethiopia. The data was gathered mainly from secondary source and were analyzed using descriptive and inferential statistics (OLS estimation). The research arrived at the cost and quality of infrastructure, limited financial access and poor institutional set ups are major restraints to firm performance and the econometrics result also concluded that poor infrastructural qualities, specially power interruption has a negative impact on privet investment productivity. Finally, he recommends that for the improvement of infrastructural services with a large emphasis to public power supply.

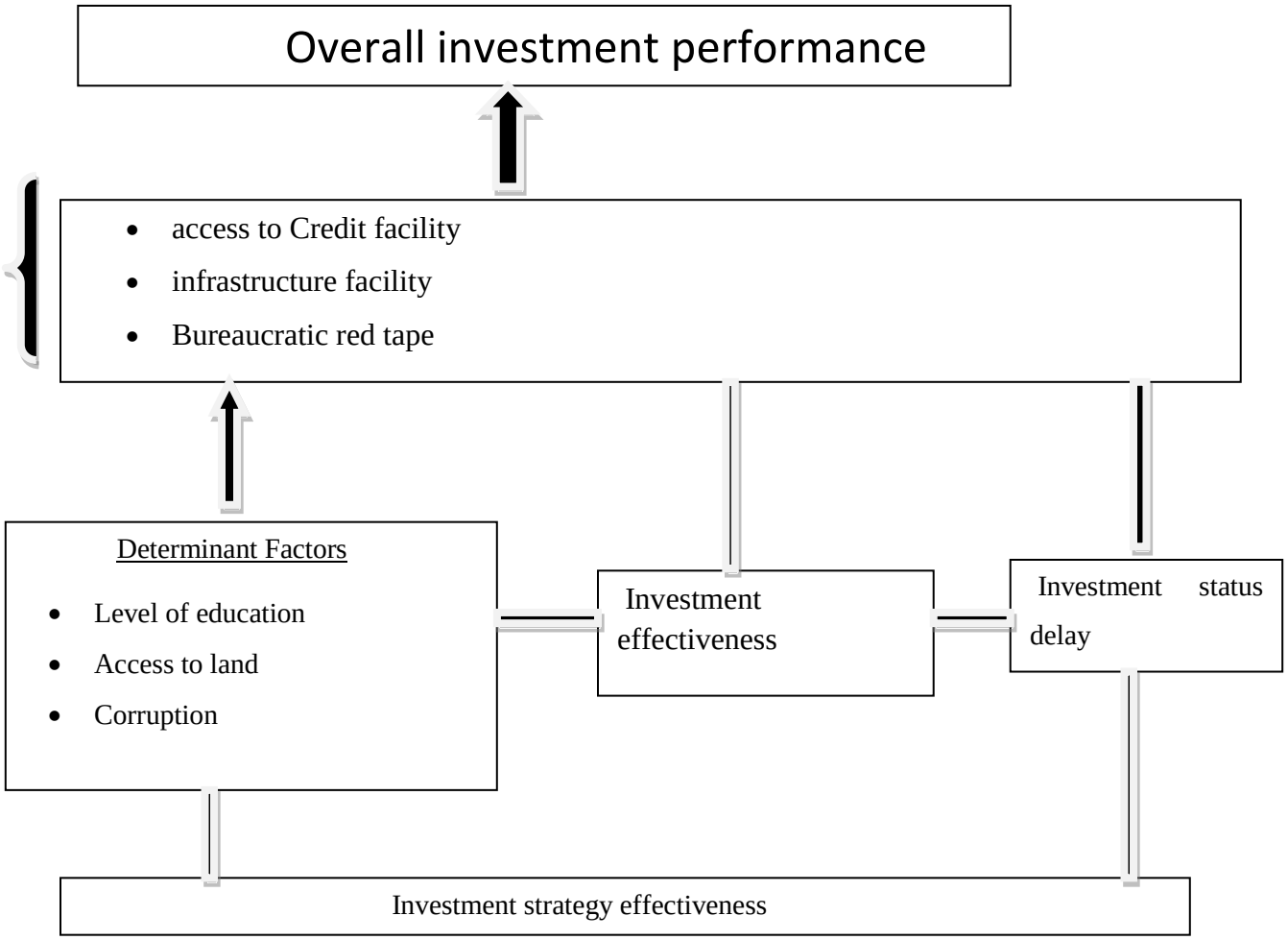
According to Gizachew (2017) studied micro-level determinants of private investment in manufacturing sector in the State of Tigray, Ethiopia, were analyzed using both descriptive and econometric methods Thus, an econometric method of data analysis using a duration model was applied and also he conclude 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.

Having the roughly revised all these literatures, the researcher examined the following research gaps. Firstly, the studies conducted in WolaitaSodo town are descriptive one and they only analyzed factors which are common to all investors in the town and nothing is done regarding the study of individual behaviors in affecting investment decision of households. Most researches done in Ethiopia on the topic is greatly confined to obvious macro-economic determinants of private investment (like interest rate, GDP, etc) and gave marginal importance to firm level determinants. Thus, having these considerable gaps is existing in the area of study, this study was make the gap narrower and to solving for those want to boost investment in the town.

2.4. Conceptual Framework

As it is described in the above, the major determinant factors which are to be used in this study are selected and grouped into two categories such as: the human related determinant factors and the investment implementation performance factors .The measuring criteria selected from literature review to conduct this thesis research for the measurement of the overall determinant investment implementation performance in Oromia Region, Sululita town, Ethiopia are access to Credit facility, infrastructure facility and Bureaucratic red tape. Therefore, the conceptual frame work of this research is presented in figure 2.4 below. The **arrow shows** the direction of management activity flows, influences and command of chains, controls, responsibility flows, and activity directions and so on for the performance of investment implementation in Sululta Town.

Figure 2.4.The Conceptual Framework of the Investment Implementation performance



Source: Own Construction based on literature review (2018)

2.5. Summery

The current study was conducted based on a conceptual framework drawn from the empirical literature reviewed and explained above. The main determinant variables at macroeconomic levels in various research literatures were identified but the study only makes use of independent variables at a microeconomic firm level. This research also focused on studying the major determinants of privet investment implementation performance in Sululita town, Ethiopia. From the literature review above, the following schematic representation of the conceptual framework/model for this study was developed. It depicts the relationship of variables within the investment status and shows the 6 independent variables and 1 dependent variable selected.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

Under this chapter the study area description, the sampling method and type and source of data, economic analysis and model specification were us a method and methods of data analysis employed in this study are discussed respectively.

3.2. Description of the Study Area

The study was conducted in Sululita town in Oromia region, which is one of the Oromia Special Zone Surrounding Finfinne. Sululita is bordered on the south by the city of Addis Ababa - about 18km North of Addis Ababa, on the west by the Mulo and MirabShewa Zone, on the north by Semen Shewa Zone, and on the east by Bereh. The study was undertaken on the determinate of private investment implementation performance of the town. As investment activities affected by various variables in dynamic environment in which its activity takes places, the researcher gave more emphasis to the relevant variables determining the investment activity of the area. The data was cross sectional data which includes both quantitative and qualitative in nature depending in its nature it will gathered from primary and secondary source of data even though the greater part of the analysis is analyzed by using primary sources of data.

3.3. Sampling design and Procedures

The population under the study is the individual investors of Sululita town and the study employed sampling rather than census so as to increase the feasibility of the study. The study used random sampling technique. The total number of private investors (i.e. the sampling frame or source list) is 203. They have been classified or stratified based on statues as follows a total of 133 investors were in the operation status, 24 in the implementation status and 46 the pre-implementation status. Out of these 62 sample investor were selected using stratified random sampling technique. For the purpose of this study, the investment status was including only operational status and implementation status. Here the investors included as samples are only those invest who are under operations and implementation stage. Thus the total number of investments under operations and implementation stage is 157. The strata was

needed due to the fact that the investors are heterogeneous in terms of operational statues and due to sector so selecting were made according to the weight each strata (statues) have (the weight given to each sample is proportional to the number of investors found in each sector). According to Kish (1998 cited in Haile, 2015), No survey can ever be deemed to be free from error or provide 100% surety and error limits of less than 10% and confidence levels of higher than 90% can be regarded as acceptable. Bearing this in mind, at a confidence level of 90%, the margin of error was 0.1 or 10%. To obtain the minimum population sample for this study, the researcher adopted judgmental sampling as a technique as follows:

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

Where:- n = is the sample size

N = is the population size

e = is the margin of error.

$$n = \frac{157}{1 + 157 * (0.1)^2}$$

$$n = 62$$

Then, the total population of the study project is stated as follows: it holds 53 investors from operational statues, 9 from implementation statues. Therefore, Sample size of the respondents for this study is 62 from a population of 157.

3.4. Nature, Sources and Methods of Data Collection

The study used both primary and secondary data. Regarding the primary data, the researcher was collecting the data from 62 sampled investors using semi structured questionnaire. To get data from primary sources both open ended and closed ended questions have been preparing in the form of questionnaire and distributed to private investors and the investment offices to disclosed their ideas and about the questions for open ended questions. The closed ended questions also selected for the reason that it provides uniform responses an also easy to process and relevant to most of respondents.

The questionnaire was helping in collecting firm level data related to individual behavior of investors and the questionnaire invigorates both qualitative and quantitative questions. The secondary data is related to the general investment climate of the town, reports and rosters for the year 1998 -2017 and collected from Ethiopia investment agency (EIA). In addition, website, bulletins and other reliable source available at the time of the study was used for the analytical purpose.

3.5. Method of Data Analysis

To meet the objective, the study used both descriptive and econometric analysis.

3.5.1. Descriptive Statistics

Descriptive statistics is one of the techniques which could be used to summarize information (data) obtained from the respondents. By applying descriptive statistics such as mean, frequency of appearance, etc. one can compare and contrast different categories of sample units with respect to the desired variables. Hence it will help to create general awareness about the variables in the study

3.5.2. Econometric Analysis

In addition to the descriptive analysis, in order to capture the degree of influence of some of the determinants of private investment implementation delay, econometric analysis is applied.

3.5.3. Model Specification / survival model

In addition to descriptive analysis, the study used one econometric model – the duration model to test the relationships between variables and to draw conclusions. The duration model is a more recent statistical tool and it has gained a lot of popularity recently. The technical definition used in most of the studies for the hazard rate is the probability of exit faced by firms that survive up to a particular point in time (Egesa, 2010). In this study, duration analysis involves several related techniques that focus on times until the event of interest occurs. Although the event could be good or bad, by convention, the study refers to the event as a "failure." The time until the failure is "survival time." Survival analysis is important in this research; as it can be applied equally well to other fields from engineering to social science. In this study for example, time was modeled until the investor began operation, or there was a single exit from pre-implementation to another exit period.

A Cox proportional hazard model is applied on the cross-section data collected from 62 private investors in the Sululita Town of Oromia region to identify factors that determine the exit of a firm from pre-

implementation status to implementation and then to operation status at the optimal time. This regression employs proportional hazard models. The hazard rate for failure at time t is defined as:

$$H_{(t)} = \frac{\text{the probability of failing between time t and t+}\Delta t}{(\Delta t)\text{the probability of failing after time t}}$$

This hazard is modeled as a function of the baseline hazard $H_0(t)$ at time and as the effect of one or more explanatory or X variables. Baseline hazard means the hazard for an observation while all X variables equal to zero.

$$H_{(t)} = H_0(t) + \exp(B_1X1 + B_2X_2 + B_3X_3 + \ldots B_kX_k)$$

H(t) is a survival time data that contains, at a minimum, one variable measuring how much time elapsed before the certain event occurred to each observation. The literature often terms this event of interest a "failure" regardless of its substantive or functional meaning. When a failure has not occurred to an observation by the time that data collection ends that observation is said to be "censored." The duration of a firm's status is time taken (duration of months elapsed) before an investor leaves one investment phase to enter another, or study ended and it is a time variable.

To implement the duration model, the period (duration) of all the private investors in the study were counted in months from the survey questionnaire. An investor in the implementation status was counted the periods stayed in the pre implementation status and implementation status. And, an investor in the operation status was counted the periods stayed in the pre-implementation, implementation and operation status.

Based on the above data, an investor's status, when an investor registered as an investor, how many months elapsed in each statuses and when production starts helped to identify the event of an investor. Such information allows establishing the investment operation spell for each firm, and the spell might be either completed or right censored at the time of survey. The coefficient of Cox regeration is relate to hazard ratio coefficient: positive coefficient indicate worse prognosis means that the survival time should be minimize and also the negative coefficient indicates protective effect of variable with associated.

3.6. Definition of Variables

3.6.1. The dependent Variable

The dependant variable of the model in this study is measured by implementation duration which is the time from the application for an investment permit at the investment office until the investment license is granted and operation begins.

3.6.2. The independent Variables

The independent variables: The following are firm-level characteristics and investment climate (economic factor) indicators of the micro-level determinants of private investment operations in each investment status. They include the level of education, access to credit, access to infrastructure facility, access to land, bureaucratic red tape, corruption, and these are outlined together with their details

- **Level of education (edu):** This variable shows the level of formal education attended by the private investors in the sample group and its delay impact on investment status. This variable is included in a sense that investors with varied academic knowledge will have varied understanding about risks associated with investment, return from investment and management of investment, hence, this study expected a positive impact of education on private investment Baye et al. (2005). In this study, primary school complete is labeled '1,' secondary school complete '2,' college diploma '3,' first-degree graduate '4' and Master's degree graduate and above '5.'
- **Access to infrastructure facility (Pinfra):** This refers to whether the investor experienced a delay because of the lack of access to infrastructure facilities or not. If there are adequate infrastructure facilities like road, water, electric, telephone, etc., more investors would be attracted to invest and so this positively contributes to promoting investment status Adugna (2013). In this study, if the investment implementation is delayed due to problem in access to infrastructure facilities that is labeled as '1,' and not delayed is labeled '0.'
- **Access to land (Daccesstoland):** Land access is broadly defined as the processes by which people individually or collectively gain rights and opportunities to occupy and utilize land so this positively contributes to promoting investment status Baye et al. (2005). The private investors were asked whether they experienced a delay due to access to land for their investment activities or not by considering the land tenure system, bureaucratic procedures, lease prices and the size of land. Thus,

in this study, if private investors encounter any problems in securing land for investment that delayed their investment status, it is labeled '1,' and if not, '0'.

- **Bureaucratic red tape (Bredtap):** Bureaucratic red tape refers to the existence of complicated rules and procedures which can cause long delays due this reason it have negative impact Deneke, (2001).This variable refers to the respondents' perception towards bureaucratic procedures of government organizations. in this study, if there are delays in getting public services due to the bureaucratic red tape, it is labeled '1' and '0' if not.
- **Access to credit (Dacctcredit):** This refers to the possibility that individuals or enterprises can access financial services like credit, deposit and other related services. According to Ambaye et al (2014) study on the determinants of domestic private investment in Ethiopia identified that domestic credit given to the private sector reduces domestic private investment because the credit may be diverted to non-productive activities due to this reason it have negative impact. This study investigates whether the investor has delayed in their investment status due to the actual access to credit facilities. In this study, if access to loan delayed impact it is labeled '1' and if not, '0.'
- **Corruption (Ddcorruption):** The encyclopedic and working definition of corruption used by the World Bank and Transparency International is that it is the abuse of public power for private benefit or profit Deneke, (2001).They may be asked to consider different services areas such as: securing a bank loan, investment permits and licenses, municipality works, and infrastructure facilities related to their investment status. Thus, in this study, if private investors are affected their investment status by corruption to get services in the state; it is labeled '1' and '0' if not.

CHAPTER FOUR

PRESENTATION ANALYSIS AND INTERPRETATION OF DATA

In this chapter the main findings of the study are presented. The source of information is the data gathered from the respondents operating in the two investment statuses of the private investors in the different sector in Sululita Town in Oromia region. Descriptive and econometric analyses were used to analyze the data. The first section of this chapter discusses the descriptive statistical results of the study and the second discusses the results of the econometric model used. All these show the pattern of relationships between investment implementation delay and its determinants. Generally, this chapter identifies the effect of each explanatory variable on the dependent variables.

4.1. Descriptive Statistical Analysis

4.1.1. Investors status by implementation

This section focuses on the descriptive analysis of the data. For the descriptive analysis, frequencies of the descriptive statistics and mean have been utilized.

Private investment has three statuses: pre-implementation, implementation and operation. Private investors receive investment permits and investment land in the pre-implementation status. Those who have started practical activities (such as civil engineering works, the construction of factory buildings or installation of purchased machinery and equipment) are considered to be in the implementation status. Those who have started with production are in the operation status (Hussien, 2000). However this study covers only private investments that are found in implementation and operation status. Participants were asked to determine the status of their investment by labeling '1' for implementation status and '2' for operation status.

Table 4- 1: Private investor distribution by investment status

Investment status	Frequency	Percent	Valid Percent	Cumulative Percent
Implementation	9	14.5	14.5	14.5
Operational	53	85.5	85.5	100.0
Total	62	98.4	100.0	

Source: Self compiled from Survey Questionnaire, (2018)

As depicted in Table 4.1 above, out of the total respondents of private investors in the survey during the data collection period, about 14.5% in the implementation status and 85.5 % of respondents were in the operation status.

4.1.2. Categorization of investment status

a) Categorization of groups by delay

The standard period/duration for private investors to move from the pre implementation to operation status is determined by the Regional State of Oromia and Ethiopian Investment Agency. Accordingly, the period allowed to proceed from pre-implementation status to implementation status is six months and the period to proceed from implementation status to the operation status is thirty months. The investors are required to enter the operation status within 36 months of collecting the investment permit from the investment office (OIB, 2018).

Table 4- 2: Respondents' investment status delay

Delay status	**Investment status**				**Total**	
	Implementation		**Operation**		**Freq.**	**%**
	Freq.	**%**	**Freq.**	**%**		
Delayed	7	77.78	38	71.7	45	72.58
Not delayed	2	22.22	15	28.3	17	27.42
Total	9	100	53	100	62	100

Source: Self compiled from Survey Questionnaire, (2018)

According to the information in Table 4-2 above, 77.78% of the respondents in the implementation status were delayed and had not yet proceeded to the next status (operation status). Only 22.22% of the respondents of the implementation status group were expected to implement on time. But, in the operational status group, 71.7 % were delayed from proceeding to the operation status. The remaining 28.3% were not delayed to proceed to the operation status on time. Overall, 72.58% of the total respondents were delayed from proceeding from one status to the next; the remaining 27.42 % were not delayed. According to EIA (2012) only 32 percent of the respondent was not delayed but the remaining 68 percent of the respondent was delayed not yet proceed to the next statues more or less this study investigation is similar to above investigation.

b) Gender and age of private investors

The study revealed that most of the respondents in the started group or in both statues (90.3%) were males and only 9.7% were females.

Table 4- 3: Gender of respondents'

Gender	Frequency	Percent
Female	6	9.7
Male	56	90.3
Total	62	100.0

Source: Self compiled from Survey Questionnaire, (2018)

Table 4-4 illustrates that the highest percentage of respondents were aged between 41 -50 years (33.9 %) closely followed by the investors aged between 31 - 40 years (29 %). The least number of respondents (12.9%) were aged above 50 years old.

Table 4- 4: Age of respondents

Age Group	Frequency	Percent	Cumulative Percent
Below 30 years	15	24.2	24.2
31 - 40 years	18	29.0	53.2
41 -50 years	21	33.9	87.1
above 50 years	8	12.9	100.0
Total	62	100.0	

Source: Self compiled from Survey Questionnaire, (2018)

C) Distribution of respondents' according to Area of investment

Table 4- 5: Distribution of respondents' according to Area of investment

Investment area	Frequency	Percent	Cumulative Percent
Food industry	3	4.8	4.8
Chemical industry	4	6.5	11.3
Garment and Textile Industry	4	6.5	17.7
wood products industry	2	3.2	21.0
Rubber and Plastic industry	8	12.9	33.9
Basic metals industry (excluding mining of the mineral)	11	17.7	51.6
hotel industry	14	22.6	74.2
nonmetallic industry	16	25.8	100.0
Total	62	100.0	

Source: Self compiled from Survey Questionnaire, (2018)

Out of the total private investors surveyed, 16 (25.8%) were engaged in nonmetallic industry investment area and it is investment area which has a largest share of investors followed by hotel industry which has 14 (22.6 %) investors.

4.1.3. Descriptive Analysis on Determinants of Investment Status

a) Level of education and investment delay status

The level of education of private investors and its impact on investment implementation delay was studied. The educational level of respondents included is varied from primary school to master's degree level. Concerning Implementation delay status, out of the total respondent investors whose investments are delayed, 60% were found to have either primary or secondary level of education. The remaining

40% had at least a diploma. Furthermore, it was found that the greatest number of private investors delayed had a primary school education (42.2%).

Table 4- 6: Level of education and investment delay status

Attributes	Delay Status				Total	
	Delayed		Not delayed			
	Freq.	%	Freq.	%	Freq.	%
Primary school complete	19	42.2	5	29.4	24	38.7
Secondary school complete	8	17.8	3	17.6	11	17.7
College Diploma	5	11.1	0	0	5	8.1
First Degree graduate	12	26.7	6	35.3	18	29.0
Master's Degree graduate and above	1	2.2	3	17.6	4	6.5
Total	45	100	17	100	62	100

Source: Self compiled from Survey Questionnaire, (2018)

Table 4-7 below illustrates that the 58.1 % of the investors think that their level of education did not affect the implementation delay status while the remaining 41.9 % think their education level affect the implementation delay status

Table 4- 7: The effect of education level on investment implementation delay

Education level affects implementation delay	**Frequency**	**Percent**
Yes	26	41.9
No	36	58.1
Total	62	100.0

Source: Self compiled from Survey Questionnaire, (2018)

b). Source of finance of private investors

The financial source for the investors was analyzed and the data is presented in Table 4.8 below. 73.2 % of the respondents replied that the main source of finance for their investment was their own contributions. Only 9.7 % replied that the main sources of finance for their investment were informal financial institutions.

Table 4- 8: -Source of finance of private investors

Source of finance	Frequency	Percent
Formal financial institutions	22	15.5
Loan from NGO	1	1.6
Personal saving	33	73.2
Informal Financial institutions	6	9.7
Total	62	100.0

Source: Self compiled from Survey Questionnaire, (2018)

The level of difficulties of the source of finance from own contributions for investment was asked through open ended question in the questionnaire. Accordingly, the following merits and challenges of own contributions were raised:

i. Own contribution is easy to get because bank loans have long procedures which must be followed.
ii. Own contributions were easy to get because it was collected from previous businesses.
iii. Even though it is easy to save money to investment, the amount of savings required takes a long time to collect.

The major source of finance for private investors is their own contributions and bank credits. Own contributions are problematical as discussed above, but they are easily accessible and available for use.

The discussion now focuses on the number of private investors who applied for a bank loan, and the impact of the loan on investment implementation delay and related problems.

Data was gathered concerning whether the private investors requested a loan from a financial institution. Overall, around 77.4 %(48 investors) of the respondents applied to financial institutions for loans for their investment activities, but the remaining 22.6 % did not (see Table 4-9).

Table 4- 9:-Request for credit by private investors

Requested credit from financial institutions	Frequency	Percent
Yes	48	77.4
No	14	22.6
Total	62	100.0

Source: Self compiled from Survey Questionnaire, (2018)

Based on this, the reasons for not requesting credit from banks were asked in the questionnaires and the following reasons were given:

i. Some private investors had enough capital for their investment from the beginning.
ii. Some private investors did not have enough collateral to get a bank loan, and it was difficult to fulfill all the requirements of bank loan processes.
iii. The religion of some private investors did not allow for the borrowing of money from a bank and paying of interest on loans.

c) Access to credit and investment implementation

The impact of access to credit on private investors is a significant variable. This section also considers factors like collateral, interest rates, bank paperwork, officials' corruption, and inadequacy of credit. Table 4.10 below was generated using SPSS and shows that 43 private investors (69.35%) had reported that access to credit constrained investment implementation.

Considering all private investors who requested bank credit, only 19 (30.65%) were report they are not adversely impacted due to access to credit problems.

Table 4- 10: Access to credit impact on investment status delay

Attribute	Freq.	%
Have impact	43	69.35
Didn't have impact	19	30.65
Total	62	100

Source: Self compiled from Survey Questionnaire, (2018)

The complexity of securing a bank loan for those private investors who requested credit was also studied. Table 4-11 illustrates that inadequate credit for the investment and Collateral requirements were the major problems experienced in securing loans from financial institutions that account. out of the total of 50 respondents' who filled this part of the questionnaire 80% and 76% replayed that inadequate credit for the investment and Collateral requirements delayed their investment implementation respectively. Bank bureaucracy and corruption of officials were the next most commonly cited difficulties to securing bank loans. By contrast, interest rates were not obstacles to acquiring bank loans for investment activities.

Table 4- 11: Constraints of private investors due to bank loan access

Problems	Attributes	Freq.	%
Collateral requirement	Yes	38	76.0
	No	12	24.0
Bank Bureaucracy	Yes	23	46.0
	No	27	54.0
High interest Rate	Yes	7	14.0
	No	43	86.0
Inadequate credit	Yes	40	80.0
	No	10	20.0
Corruption	Yes	15	30.0
	No	35	70.0

Source: Self compiled from Survey Questionnaire, (2018)

In addition to the above factors that difficulties in securing a bank loan, private investors identified other challenges. These are:

i. Due to foreign currency shortage that the countries face, there are delays to import the necessary machineries on time.
ii. Construction and the installation costs of investment are not always accepted by banks as collateral for bank loan requests.
iii. Due to a shortage of cut experienced by the financial institutions, banks prioritize within the type of investment as per the policy of the government and minimize the credit requests made by the investors.

d) Infrastructure facilities and investment implementation

The variables used to evaluate the quality and efficiency of infrastructure service deliveries to private investors are discussed below. These infrastructure establishments are: road, telecommunication, electric power, water/sewerage agency, postal service agency, port service authority, investment office, municipality, and customs and revenue authority.

According to Table 4-14 below, the lack of infrastructure facilities influenced 36 private investors (80% of the total that delayed). 9 respondents' (20% of the total that delayed) said that problems with infrastructure facilities did not have an impact on implementation delay status.

Table 4- 12: The impact of infrastructure facilities on investment status delay

Attributes	Delay Status			
	Delayed		Not delayed	
	Freq.	%	Freq.	%
Had impact	36	80%	5	29.4
Did not have an impact	9	20%	12	70.6%
Total	45	100	17	100

Source: Self compiled from Survey Questionnaire, (2018)

As illustrated in table 4.13 below, 69.2 % investors replied that their investment implementation had constrained by difficulties to get electric power and 17.3 % by difficulties of road Facilities.

Table 4- 13: constraints of private investors due to infrastructural problem

Problems	Attributes	Freq.	%
Delay due to Difficulties of road Facilities	Yes	9	17.3
	No	43	82.7
Delay due to Difficulties of telephone and internet service	Yes	8	15.4
	No	44	84.6
Delay due to Difficulties of electric power	Yes	36	69.2
	No	16	30.8
Delay due to Difficulties of sewerage services	Yes	14	2.9
	No	38	97.1
Delay due to Difficulties of postal services	Yes	0	0
	No	52	100

Source: Self compiled from Survey Questionnaire, (2018)

E) Bureaucratic red tape and investment status group

The study also investigated the impact of bureaucratic red tape on the investment delay status due to the delay in receiving public services like investment licenses, bank loans, vehicle registrations, police services and other utilities. As indicated in Table 4.14 below, more 60 % of the respondents whose projects are in delay status replied that they were subjected to delays in their status because of bureaucratic red tape in getting public services and said that this did not facilitate their investment status. However, 40% of the respondents in delay status replied that they were not subjected to due to bureaucratic red tape.

Table 4- 14: Bureaucratic red tape impact on investment status delay

Attributes	Delay Status			
	Delayed		Not delayed	
	Freq.	%	Freq.	%
Had impact	27	60%	2	11.8%
Did not have an impact	18	40%	15	88.2
Total	45	100	17	100

Source: Self compiled from Survey Questionnaire, (2018)

In the case of the private investors who replied that their investment status was delayed due to bureaucratic red tape, more than have of the respondents said that getting bank loans, getting investment and utility services (like water, electric power, and telephone lines) were the major obstacles. But, the other public services (the land access process and vehicle registrations) did not have much impact on the delay of investment status arising from bureaucratic red tape (see Table 4.15).

Table 4- 15: Public services delay due to bureaucratic red tape

Public services	Attributes	Freq.	%
Investment license	Yes	41	66.1
	No	13	21.0
Bank loan	Yes	39	62.9
	No	15	24.2
utility service	Yes	31	50.0
	No	23	37.1
Register vehicle	Yes	24	38.7
	No	30	48.4

Source: Self compiled from Survey Questionnaire, (2018)

In addition to the above, private investors mentioned the poor delivery of the following public services as causes of delay due to bureaucratic red tape.

i. Inefficiency of customs and duty authority in facilitating taxes, customs duties, etc.

ii. Inefficiency of the municipal office, especially in construction design activities.

iii. Unwillingness of the investment office in permitting them to invest as per their interest.

F) Corruption and investment implementation delay status

The perception of private investors on corruption as a cause of investment implementation delay was studied. In particular it refers to the impact on investment implementation due to the level of corruption in getting services like a bank loans, investment permits, licenses, municipal services, etc.

Accordingly, out of the total respondents, more than half of the private investors that are delayed reported that their investment status was negatively influenced by the high challenge of corruption in the state to get different services. From output in Table 4-16 below, it can be seen that 25 private investors delayed because of the challenge of corruption in the state to get different services (40.3%) and 37 (59.7%) not delayed by corruption.

Table 4- 16: Corruption impact on investment status delay

Delay due to Corruption	Freq.	%
Yes	25	40.3
No	37	59.7
Total	62	100

Source: Self compiled from Survey Questionnaire, (2018)

G) Access to land and investment implementation status

Table 6.15 below presents the perception of respondents' about the impact of the problem of access to land on private investment implementation delay. To summarize, the status of 23 private investors replied that their implementation was delayed (37.1% of the total that delayed) because of problems of access to land and 93 private investors (62.9%) were not impacted by problems of access to land for their investments.

Table 4- 17: The impact of access to land on investment implementation

Delay due to access to land	Freq.	%
Yes	23	37.1
No	39	62.9
Total	62	100

Source: Self compiled from Survey Questionnaire, (2018)

4.2. Results of econometric model

As explained in the methodology section, the duration analysis was used to complement the preceding descriptive result. The descriptive analysis focuses on explaining factors that determine the delay of private investment from one investment stage to the next.

The duration of domestic private investment, that is, the time from the application for an investment permit at the investment office until the investment license is granted and operation begins, is influenced by various factors which have been discussed in previous empirical works. Identification of both dependent and independent variables for this study was guided by the conceptual framework of the study and review of related literature. Due consideration was given to include relevant variables and appropriate post-estimation tests were made. The duration model was used to estimate the potential effect of each explanatory variable on the condition to continue the private investment status timeline.

Different pre- and post-estimation tests were made to minimize bias, inconsistency and inefficiency estimators. To consider the problem of heteroscedasticity, it was estimated robust standard errors and there is no serious multicolinearity problem that results in the estimation of biased estimators. Prior to running the duration model, the hypothesized explanatory variables has to be checked for the existence of multicolinearity among them. Multicolinearity problem arises when at least one of the independent variables is a linear combination of the others. The existence of multicolinearity might cause the estimated regression coefficients to have the wrong signs and smaller t-ratios that might lead to wrong conclusions. In order to test whether multicolinearity problem present or not, a simple pair wise correlation coefficient matrix and Variance Inflation Factor (VIF) were employed. Gujaraati (1995) established a rule of thumb, which said multicolinearity is a serious problem when the pair wise correlation coefficient is 0.8, or above and the VIF is on average 10 or above (Gujarati, 1995). The

appendix at the end of the paper indicates that multicolinearity is not serious problem in the data since all reported pair wise correlation coefficients are less than 0.8. Besides, according to VIF test of multicolinearity, the values of VIF for explanatory variables were less than 10 that is (1.47). The result showed that there were no significant multicolinearity problems among the variables considered and also the model is significant at (P, 0.000) means that all independent variable together affect the dependant variable Thus, including an explanatory variable in the duration analyses improves the fitness of the model. (Appendix).

This model only includes private investors in the implementation and operation statuses. The model sought to establish the impact of variables on investors beyond the pre-implementation phase. The model assumes that when the investors completed the questionnaire, they took into account all the problems they experienced in the previous phase(s).

The estimated result of the duration model is shown in tables 4.2.1. A total of 6 explanatory variables were considered in the econometric model out of which three variables were found to significantly influence the implementation delay status of private projects in Sululita Town. These were access to credit, problem in infrastructure facilities, and bureaucratic red tapes. The remaining variables were found to have no significant effect on implementation delay status of private projects in Sululita Town**.**

Table 4- 18: Duration model results of private investment status (implementation and operation

Variables	Haz. Ratio	Robust Std. Err.	Z	P>z	[95% Conf.	Interval]
Edu	1.245773	0.180886	1.51	0.130	0.937227	1.655896
Pinfra	0.1620102***	0.0711536	-4.14	0.000	0.068502	0.383163
Daccesstoland	0.8378228	0.3193215	-0.46	0.642	0.396946	1.768368
Bredtap	0.2639749***	0.0930292	-3.78	0.000	0.132308	0.526672
Ddcorruption	0.6768852	0.1854018	-1.42	0.154	0.395701	1.157878
Dacctcredit	0.3527019***	0.1232892	-2.98	0.003	0.177773	0.699763

(Source: Self compiled from Survey Questionnaire, 2018)

*** indicate level of significance at 1%,

In these status group, problem in infrastructure facilities has a significant and negative effect on the significant level of 1%. The private investment implementation delay in the Town of Sululita in the regional State of Oromia with a hazard ratio of 0.1620102, thus the null hypothesis (Ho) is rejected and the alternative hypothesis (H1) is accepted. The results indicate that a low infrastructure is likely to increase the duration of implementation status in the state for all forms of industries. This result is consistent with the study result of Baye et al. (2005), Seruvatu and Jayaraman (2001) and (Gizachew, 2017).

This econometric result also proves that access to credit has a significant and negative effect on the significant level of 1%. The hazard ratio of access to credit is 0.3527019 which indicates that the absence of credit facilities causes private investment status delay, thus the null hypothesis (Ho) is rejected and the alternative hypothesis (H1) is accepted. . Private investors that have access to credit started operations prior to those that did not have access to credit. This is consistent with findings from previous studies by Baye et al. (2005); Hussien (2000) and Michael &Aikaeli (2014).

In addition, bureaucratic red tapes have a negative and significant effect on the Investment implementation delay with a ratio of 0.2639749, thus the null hypothesis (Ho) is rejected and the alternative hypothesis (H1) is accepted. It indicates private investors project are likely to delay in implementation status due to the presence of bureaucratic red tapes. This is consistent with the findings of Seruvatu and Jayaraman (2001), Michael &Aikaeli (2014) and Ephrem and Andualem (2015).

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

First, the result of the econometric and descriptive analysis shows that access to infrastructure facilities, access to credit, and bureaucratic red tapes have a significant and negative impact on the investment implementation delay. The result also shows that variables like education level of the investors, access to land and corruption have no statistically significant positive influences on the investment implementation delay in the study.

In the following, final section, recommendations are put forward to investors and concerned bodies of the government for further inputs in the development and encouragement of private investment.

5.2. Recommendations

1. The availability of domestic credit is believed to promote private investment statuses. However, the study confirmed that there is very restricted access due to strict collateral requirements, lengthy paper work and insufficient amount of credit.

A. Access to credit for private investors should be made more accessible by banks and should be timeouts and through the establishment of fair collateral requiring credit schemes, efficient bank paperwork, and the supply of a sufficient amount of credit.
B. If the private sector is to play a major role in economic growth and development, they must receive the greatest share of domestic credit allowed by financial institutions so as to enable them to render their services efficiently and avoid delays in their investment implementation. In addition, the government should increase its budget and efforts towards assisting the private sector through the issuing of credit which goes a long way to boosting private investment.
C. Private investors should also prepare a sound financial application in line with financial institutions' policies and procedures and the credit requested should only be the amount required and used for the intended purpose.

2. The analyses revealed that the availability of infrastructure facilities was an important determining factor in delaying private implementation. Therefore:

A. There is still a need for the regional state and federal government to develop the infrastructural base of the economy and so boost the private sector. Furthermore, shortages of electricity and water supplies have been cited as the major obstacles which delay the investment implementation in the town. All this needs continuous improvements. Therefore, improving the availability of road infrastructure and quality of utilities such as electricity, water, and telecommunications is important to minimizing the delay of status of private sectors.
B. The State of Oromia and Sululita Town administration should allocate development funds for infrastructure, especially roads, electricity and other public facilities that facilitate the progress of investment implementation and act as an incentive for private investors to invest and start operation as per the standard.

3. The analyses revealed that the bureaucratic red tapes were an important determining factor in delaying private implementation. Therefore: the Town administration and the regional government should design implement strategies that can minimize the bureaucratic red tapes in the town.

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I. APPENDEX

Appendix 1: Pair wise Correlation test

```
. pwcorr edu duration dacctcredit pinfra daccesstoland bredtap ddcorruption
```

	edu	duration	dacctc~t	pinfra	dacces~d	bredtap	ddcorr~n
edu	1.0000						
duration	-0.3763	1.0000					
dacctcredit	-0.3017	0.6696	1.0000				
pinfra	-0.2281	0.6190	0.4853	1.0000			
daccesstol~d	0.3118	0.0575	-0.0955	-0.0370	1.0000		
bredtap	-0.3196	0.6295	0.6231	0.4660	-0.1116	1.0000	
ddcorruption	-0.0039	0.0997	-0.0955	-0.1065	0.3297	0.0861	1.0000

Appendix 2: VIF Test

```
. vif
```

Variable	VIF	1/
bredtap	1.88	0.532
dacctcredit	1.85	0.540
pinfra	1.43	0.701
daccesstol~d	1.28	0.778
edu	1.27	0.789
ddcorruption	1.23	0.815
Mean VIF	1.49	

Appendix 3: Econometric Estimation Result

```
. stset duration

     failure event:  (assumed to fail at time=duration)
obs. time interval:  (0, duration]
 exit on or before:  failure

------------------------------------------------------------------------------
       62  total observations
        0  exclusions
------------------------------------------------------------------------------
       62  observations remaining, representing
       62  failures in single-record/single-failure data
     2358  total analysis time at risk and under observation
                                        at risk from t =         0
                              earliest observed entry t =         0
                                   last observed exit t =        64

. stcox edu pinfra daccesstoland bredtap ddcorruption dacctcredit, vce(robust)

         failure _d:  1 (meaning all fail)
   analysis time _t:  duration

Iteration 0:   log pseudolikelihood = -201.25916
Iteration 1:   log pseudolikelihood = -169.14605
Iteration 2:   log pseudolikelihood = -167.44477
Iteration 3:   log pseudolikelihood = -167.41391
Iteration 4:   log pseudolikelihood = -167.41391
Refining estimates:
Iteration 0:   log pseudolikelihood = -167.41391

Cox regression -- Breslow method for ties

No. of subjects      =           62                 Number of obs    =        62
No. of failures      =           62
Time at risk         =         2358
                                                    Wald chi2(6)     =    116.41
Log pseudolikelihood =   -167.41391                 Prob > chi2      =    0.0000

------------------------------------------------------------------------------
             |               Robust
          _t | Haz. Ratio   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         edu |   1.245773   .180886     1.51   0.130     .9372265    1.655896
      pinfra |   .1620102   .0711536   -4.14   0.000     .0685016    .3831629
daccesstoland|   .8378228   .3193215   -0.46   0.642     .3969462    1.768368
     bredtap |   .2639749   .0930292   -3.78   0.000     .1323077    .5266721
 ddcorruption|   .6768852   .1854018   -1.42   0.154     .3957011    1.157878
  dacctcredit|   .3527019   .1232892   -2.98   0.003     .1777725    .6997627
------------------------------------------------------------------------------

.
```

SAINT MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF DEVELOPMENT ECONOMICS

Determinant of private investment implementation performance in case of Sululita town, Oromia regional sate.

Dear respondents,

Thank you very much for your willingness to take time to respond these research questionnaires. This study is going to be undertaken as a partial fulfillment for the award Master of development economics from St. Mary's University school of graduate studies.

The purpose of this questionnaire is to assess the major determinant factor that delays the activity of privet investment in Sululita towns. I would like to assure you that your responses will be treated in a strictly confidential manner, and the results will be used only for the purpose of achieving academic award. Your honest and thoughtful response is invaluable and a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study. Kindly, therefore, return the questionnaire upon completing each item appropriately.

Thank you in advance.

Respectfully!!

Addisu Shumet (0921291907)

Instruction:

Mark (✓) in the box infront of your choice and write short answer for open ended questions

1. Background Information

1.1. Gender of the respondent (Please circle one): 1) Male ☐ 2) Female ☐

1.2. Age of the respondent: _____ years

1.3. Educational level of the respondent: _____ grade

1.3.1. Does your educational level affect to delay your status? 1) Yes ☐ 2) No ☐

2. Basic business information

2.1. What is the status of your firm/organization? Please circle one.

A. Under implementation i.e. under construction and/or installation of machineries) ☐

B. At operation i.e. production stage ☐

2.2. When did you get your investment permit for your firm from investment bureau? (Duration)

Date _____, Month _____, Year _____

2.4. If your answer in question No. 2.1 above is at operation phase (i.e. No. 3), when did you get your business license?

Date _____, Month _____ Year: _____

3. Sector (Area of investment)

A) Food industry ☐

B) Chemical industry ☐

C) Garment and Textile Industry ☐

D) Wood products industry ☐

E) Rubber and Plastic industry ☐

F) Basic metals industry ☐

G) Hotel industryH) nonmetallic industry ☐

4. What was the major source of fund to start your business? (Multiple response possible)

1 Formal financial institution (banks and Micro finance) ☐

2 Loan form NGOs ☐

3 Personal saving ☐

4 Informal financial sources (e.g. money lenders, family/friends) ☐

5 Other source ----------

4.1. If your answer in question No. 3.1 above is other source in addition to the formal financial institutions (i.e. No. 4), can you judge their level of difficulties?

1) Very easy ☐2) Easy ☐ 3) Medium ☐

4) Difficult ☐ 5) Very difficult ☐

4.2. Please explain for your answer in question No. 4.1 if your major source of finance is your above: ---

---

---

5. After getting your investment permit, have you ever asked financial institutions like bank for loan?

1) Yes ☐ 2) No ☐

5.1. If your answer is yes, go to question No. 5.2. But your answer is no, please explain the reason?

5.2. If you asked to get a loan from financial institutions (like banks), have you experienced any difficulty in acquiring loan (access to credit)?

1) Yes ☐2) No☐

5.3. If practiced any difficulty in acquiring banks loan, what were the problems? (Please circle one from listed number under Yes or No)

No.	Problems	Yes	No
	Collateral requirements of banks/financial institutions	1.☐	2.☐
1	Bank paper work/bureaucracy/delay in loan delivery.	1.☐	2.☐
2	High interest rate	1.☐	2.☐
3	Corruption of bank officials:	1.☐	2.☐
4	Inadequate credit/finance	1.☐	2.☐
5	Others (specify) _____	1.☐	2.☐

6. Do you have problems which results investment implementation delay regarding infrastructural facilities?1) Yes ☐ 2) No ☐

6.1. If your answer is yes, go to question No 6.2. But, if your answer is no, please explain the reason? --

---

------.

6.2. Does the overall quality and efficiency of infrastructure facilities/services delivered by the following public agencies or services affect your investment activity?

Public service	Yes	No
1 Roads facility	1.☐	2 .☐
2 Telephone and internet service	1.☐	2 .☐
3 Electric power service	1.☐	2 .☐

4 Water and sewerage service	1.☐	2 .☐
5 Postal service	1.☐	2 .☐
6 Others (explain) _____	1.☐	2 ☐

7.Do you have problems of accessing land which results investment implementation delay?

1) Yes ☐ 2) No ☐

7.1. To get land or (access to land) for your investment, what were the problems? (Please circle one from listed number under Yes or No)

No. Land access	Yes	No
1 Existing land tenure system	1.☐	2.☐
2 Bureaucratic procedure	1.☐	2.☐
3 Other (specify)----------	1.☐	2.☐

8. Have you been subjected to delays in implementation due to corruption to get investment support services from any government officials?

1. Yes ☐2. No ☐

8.1. In question No. 8, Can you judge their level of difficulties?

1) High negative effect ☐2) Average negative effect ☐ 3) Neutral ☐

8.2. Please explain for the answers in question No.8.1 from the above:----------
---
