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Opportunities and Challenges of Investment Activities: The Case of Selected Areas in Jimma Zone

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Chapter One

I. Introduction

a) Background of the study

In countries where growth is high, total domestic and foreign investment often exceeds 25% of gross domestic product (GDP). But, in sub-Saharan Africa, gross fixed capital formation has hovered at around 18% of GDP for the last two decades. Since the financial crisis in 1997, investment rates in developing countries in Asia (excluding China and India) have remained at around 21% (World Bank, 2005b). One factor contributing to low growth rates in developing countries, especially the poorest ones, is insufficient, inappropriate and poorly maintained physical infrastructure (Migliorisi,s. and M. Galmarini, 2004b:28).

Improving the investment climate will encourage more infrastructure investors to invest. This in turn will make infrastructure services more widely available and encourage other types of investment. Recent research supports the view that using ODA to promote infrastructure development merits greater attention; studies have found a large, positive, causal relationship over a four-year period between "immediate-impact aid" – *i.e.* budget and balance-of-payments support, infrastructure and aid for productive sectors – and economic growth (Clemens, Radelet & Bhavnani 2004). A diversified and competitive financial sector is also important for promoting growth in developing countries as it helps maintain economic stability, makes financial transactions secure, mobilises external and domestic savings and facilitates the efficient allocation of capital to productive investments. The World Bank's 2005 *World Development Report* (World Bank, 2004) similarly highlighted that it is not just the quantity of investment that matters for promoting growth, due to the decreasing marginal impact of additional investment in physical assets. What ultimately counts are the productivity gains that result from product and process innovations brought about through investments, as well as the extent to which jobs and capital flow from declining industries to expanding and emerging economic activities (Boza,Baatriz and Luke Haggarty,2006:74).

This will make it possible to invest larger sums in the future. The investment climate consequently needs to provide opportunities and incentives for firms and entrepreneurs to develop, adapt and adopt better ways of doing business. Investment is, therefore, one of the key factors for the growth of the economy of one country (OECD,2004 b:42). It is doubtless that dealing with the problems that hinder investment is necessary and also important in the investment sector, before making decisions, one investor should consider some required points such as;

- Required rate of return
- Rate of expected inflation

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- The risks involved, that can have an effect on the investors decision
- Services provided for customers

However, in case of Jimma zone, it is impassible to say that the factors hindering investment activities are confined to the above listed required points only. There are other factors that cut down the growth of investment sector in this zone.

Broadly speaking, as market is one basic factor for the determination of investment activity (i.e. an efficient market is one in which investment has higher expected return and also has lesser level of risk)[1], it is also necessary to deal with the market characteristics and market conditions, when ever we deal with investment. but in many cases, even though the market is profitable, fearing the risk involved makes business men far apart from the sector.

Furthermore, investment or investing is a term with several closely related meanings in business management, finance and economics, related to saving or deferring consumption. An asset is usually purchased or equivalently a deposit is made in a bank, in hopes of getting a future return or interest from it. (Bodei Kane Marcus (1999).

In other words, investment is the use of money for the purpose of making more money, to gain income or increase capital or both (www vss 2000. com/ glossary/asp).

From the national perspective, an increase in the stock of capital goods or any other expenditure designed to increase future output; from the perspective of the individual, any expenditure designed to increase an individual's future wealth, such as the purchase of a share in a company (www. wwnorton. com/ stiglit zwalsh/economics/glossary/htm)

Investing is the act of laying out money or capital in an enterprise with the expectation of profit (wordnet. princeton.edu/peri/webwn).

Investing is also using one's personal funds or the funds of a business to acquire productive resources (en.wikipedia org/wiki/investment).

Investment is money that is invested with an expectation of profit (Bodie Kane Marcus (1999).

In any case investment activities in Jimma Zone are found to be low, and my research study will try to find out some of the basic problems for the low investment situation.

b) Statement of the problems

Investment has direct relationship with the economy of one country. That means the level of the investment of one country can display the level of an economy of the country.

Despite the natural resources available, there are some factors that lead to low investment activities in different areas of our country. Among them the following major ones. Rate of expected inflation or market condition, required rate of return (market) and the risks involved.

Jimma Zone has a great potential for investment activity in most sectors. However, it has not been benefited from this opportunity. The rural residents live under poverty line and have been undergoing many development problems as unemployment, poor infrastructure facilities, and absence of manufacturing industries. The urban drivellers are living with low standard of living, low-income unemployment and other social service problems.

These are the factors necessitate to go for the study under his title and deal with the factors that lead to low investment activities in Jimma zone.

Generally, this study attempts to answer the following questions:

- What are the problems that lead to low investment activities in this zone?
- What suggestions can be made to overcome these problems, which is its goal?

c) Objectives of the study

i. *General Objectives*

- Identifying factors that contribute to low investment activities in Jimma zone.

ii. *Specific Objectives*

- To determine the general attitude of the population and the government to wards investment activities in Jimma Zone.
- To investigate the nature and level of investment activity in the zone and surroundings.
- To look whether there is paper tiger (i.e. gap between policy formulation and implementation).
- To determine the impact of low investment on the overall economic development in the zone.
- To identify the different potentials and opportunities for investment that can be utilized if suitable conditions are arranged.
- To initiate further research activity on the topic, simply by offering an available and relevant data.

d) Significance of the study

Undoubtedly, expansion in all types of investment activities is detrimental for a country's growth. The contribution of investment on GDP occupies a sound share in many countries including Ethiopia. Despite this, a number of factors have an adverse effect on it.

In order to attract investors, both from locally and abroad, there are certain key elements that are considered highly desirable by potential investors. These include the openness of the economy to international trade and finance, fiscal discipline by the government, political stability, governance and sound economic management, strong banking and financial markets etc.

[1] From bodie kane arcus

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When the presence of all the necessary conditions for investment is low, investment will be badly undermined, since investment promotes economic growth, raises standard of living and contributes to a nation's wealth, the relevance of the study be it implicitly or explicitly is to identify the major factors inhibiting investment and to make the line open for further extended (advanced) research, besides showing some of the investment opportunities for investors, and providing possible solutions to the problems to be observed.

e) Scope of the study

Jimma zone was selected as the study area among the zones in Oromia region which has with available human and material resource background but owing to different constraints related to lack of awareness, limited socio-economic infrastructure, lack of managerial and technical skills and mal-administration. For the reason that the investment activities of the zone was dwarfed despite the fact that natural endowments. The researcher was initiated to choose the area like Seka Water Fall,Asendabo Hydro Electric Power,Yebbu Beekeeping and Jimma Museum, too. The study will therefore focus on assessing factors that limit the level of investment activity and impact on this area's development in the zone.

f) Limitation of the study

- Unwillingness of some investors or their representatives to fill the prepared questionnaires.
- Insufficiency of time and money to effectively collect the necessary data
- Unpunctuality of some workers of the documentation and other workers of the library, which hinders the obtaining of some data and references timely.

g) Background of the study area

Jimma Zone is a zone bounded by other zones of some Regional State such as; Welkitie, Bonga and Ilu Aba Bor, with the capital of Jimma town.

Even though, the zones'investment activity is not as much satisfactory, it is one of the zones of Oromia which have plenty resources suitable for investment.

For instance, among the investment activities of the zone, let us see small holders Hydro Electric Power projects developed by the regional government from 1993-2004. Within this time, total investments were Br 9,313,171. Government was serving as a source of fund. These Hydro Electric Power projects are developed from Gibe and Gilgal Gibe River.

When the researcher compared to other zones of the region, it was moderately invested in this specific project, following some zones such as; East Shewa and West Harerghe. But when it was investigated at the country level, it would be at its infancy.

h) Acronyms

DAC Development Assistance Committee
FDI Foreign Direct Investment
GDP Gross Domestic Product
IFC International Finance Corporation (World Bank Group)
MDG Millennium Development Goals
ODA Official Development Assistance
PPP Public-Private Partnership
SME Small and Medium-sized Enterprise

Chapter Two

II. Literature Review

a) An Overview

For many years, investment has been viewed and defined in different ways by different authors, Even though it is defined and viewed by different authors, it has the same concept. Different countries have also different investment policies, rules and regulations. For example one country many give more freedom for private investors within the nations. The other country many close its door for foreign investors more than the other countries', etc. Accordingly, authors suggest different techniques for success in investment sector for a country or investors.

As investment is defined Helffert (1997), it is "a fixed and initial operating resource used for the production of goods, the provision of services and the development of science and technology capability". Helfert also advises investors that they should invest internally (within their own activities) before considering external investment (investing outside their activities) accordingly an investor engaged in an oil drilling investment should consider weather he/she expand this activity before starting (selecting) other activities say manufacturing activity. Definition of investment by Gitman is that " sizable outlays of funds that commit a firm to some course of action, the firm lies on specific procedures to analyze and select those investments properly".

Shaum,S(1998) has set the process for evaluating and selecting long term investment and classifies investment decisions as the following:

1. Selection decisions concerning proposed projects that involves investment in long term assets such as property plant and equipment, or resource commitments in the form of new product development, market research, refunding or long term debt, etc and.
2. Replacement decisions such as replacement of existing facilities with new facilities.

Before starting an investment activity, one investor must know in what area he/she is going to invest, the available funds he/she has for investment, the

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economic and political situations of the country, availability of raw materials for running its activity, and finally, he/she must put a standard of evaluating the profitability of the investment.

According to Helford, an investor engaged in the investment activity must be seen wither the investment is contributing some advantage for the nearest society and the nation in general. Thus, the following investment objectives may be fulfilled by an investor:-

- To increase in the variety, quality and value of the supplied goods and services of the country
- To create employment opportunities
- Encouraging the expansion involve in variety and quality of the export of the nation
- Encouraging utilization of domestic raw materials, production machinery, equipments and other goods.
- To develop and utilize the natural resources of the country and others.

For judging the attractiveness of one investment an investor should first consider; the amount to be expended on the investment, the potential benefit of the investment, the time period and any final recovery of capital.

Generally, for evaluating investment projects, shaums (1998) has set 5 main methods of evaluation.

a) Pay back period

Measures the length of time required to recover the amount of initial investment. According to this method, the investor chooses an investor chooses an investment activity with the shorter pay back period.

b) Accounting Rate of Return (ARR)

This measures the profitability from the conventional standpoint by relating this required investment (average investment) to the future annual net income. According to this rule, the investor has to choose the project with the higher rate of return.

c) Net Present Value (NPV) method

NPV is the excess of the present value of cash inflows generated from the investment over the amount of the initial investment and the rule says, accept an investment activity with the positive not present value.

d) Internal Rate of Return (IRR)

IRR is defined as the rate that equals interest with the present value of future cash indows. In this method, the investment decision is accepted if IRR exceeds the cost of the total investment.

e) Profitability index (PI) Method

It is the ratio of the total present value of future cash inflows to the initial investment; i.e PV/I. The rule says accept the investment which its profitability index is greater than other factors to be considered in investment activities include; risk associated with the investment, inflation rate, tax policy of the government etc.

Investment is defined by Helfert (1997) as a fixed and initial operating resource used for the production of goods, the provision of services and the development of science and technology capability. When we relate this definition with the statement of the problem; poor infrastructure facilities, unemployment, absence of manufacturing industries, low standard of living, low income and other social service problems are the results of absence of using these operating resources for the production of manufacturing industries and the provision of these unfulfilled services.

Robert C. Radcliffe's investment description (1996) denotes that investment is the sacrifice of certain current wealth for possibly uncertain future. Since most investments have uncertain future values. Investors in such assets will require positive expected future returns.

Bodie kane Marcus (1999):- Real assests versus Financial Assets the material wealth of a society is determined ultimately by the productive capacity of its economy the goods and services that can be provided to its members. this productive capacity is a function of the real assets of the economy. The land, buildings, knowledge, and machines that are used to 14 produce goods and the workers whose skills are necessary to use those resources. Together, physical and human assets generate the entire output.

Financial assets are such as stocks or bands. Shares of stock are no more than sheets of paper; they do not directly contribute to the productive capacity of the economy. Because they allow for separation of the ownership and management of the firm and facilitate the transfer of funds to enterprises with attractive investment opportunities. Financial assets certainly contribute to the wealth of the individuals or firms holding them. This is because financial assets are claims to the income generated by real assets or claims of income from the government.

International investment refers to investing in securities beyond the borders of one's own country. Global investment refers to investing in securities throughout the world (Robert C. Radeliffe 1996).According to investment Management in the 1990s, the type of securities traded as well as the way in which they are traded are constantly evolving as technology, society's needs, and political conditions change. The pace of change seems to be accelerating, driven both by increasing numbers of investors and competition. The major areas of change are in globalization, securitization, derivatives and technology.

b) Statement of Investment Policy

[2]An organization uses statement of investment that will be best understood by the investor. It is common to have three sections:

[2] From Robert C.Radcliffe (1996)

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(1) Investment objective (2) investment constraints and (3) investment policies.

The investment objective is usually a return objective related to the asset allocation that has been chosen. Investment constraints can include factors such as liquidity constraints, tax requirements, and any other relevant constraints. Investment policies represent the strategies that are to be used.

c) Investment Types

[3]Major types of securities traded in world markets are categorized in to various classes based on their type and amount of investment risk. Direct Security claims are assigned to one of three asset classes: (1) debt securities with a maturity of less than one year referred to as money market instruments, (2) debt securities with a maturity of more than three years referred to as capital market fixed income securities, and (3) equity securities, indirect claims are classified as either derivatives or commingled portfolios.

d) The process of investment Management

[4]The process used to manage a security portfolio is conceptually the same as that used in any managerial decision:

- Plan
- Implement the plan
- Monitor the result

i. *Planning*

At this stage, investor and capital market conditions are blended in order to determine a set of investment and speculative policies as well as a long-run strategic asset allocation.

ii. *Implementation*

This consists of any active timing between asset classes and the selection of individual mangers or securities to be held in each asset class.

iii. *Monitoring*

There are three aspects to this monitoring. First, the actual portfolio held should be examined to ascertain it is in compliance with the statement of investment policy and to determine wither any passive rebalancing of the asset mix is required. Second, investment performance should be reviewed. This should consist of a review of returns on (1) the aggregate portfolio, (2) each asset class and investment manager, and (3) the returns from any speculative strategies employed. Finally, adjustments to the statement of investment policy (SIP) and investment managers should be made if necessary.

e) Management Of Equity Securities

- [5]Passive Equity Management
- Active Equity Management
  - Active Management by institutional investors

Active institutional managers use a wide variety of approaches. The following listing illustrates the general approaches used:

- Top-Down Managers
- Bottom-Up Managers
- Quantitative Managers
- Concept Managers
- Value Managers
- Growth Managers
- Large cap Versus Small cap Managers

Chapter Three

III. Methodology

a) Souces Of Data And Method Of Collection

Data and information have been gathered from two main sources:

Primary sources of data and secondary sources of data.

i. *Primary Sources of Data*

Information from primary sources is called primary data. They are original. Sources of such information were the respondents. Primary data from primary sources. Primary data from primary sources have been collected using:

1. Written Questionnaires
2. Structured Interview Questionnaires
3. Structured Personal Observation

1. Written questionnaire

This is a very good instrument in gathering original information from the sources since the respondents are free to fill the opinion what they feel without any pressure. Therefore, the researcher selected this instrument for this reason.

2. Structured interview Questionnaire

This involves the use of a set of predetermined questions and has standardized technique of recording. This method is preferable for the following reasons:

a. The questioner is administered by enumerator himself /herself and attains higher response rate.
b. The presence of enumerator (interviewer) decreases the number of "don't know" or "no answer".
c. The enumerator can reduce confusion of questioner items.

3. Structured Observation

This is structured and preplanned. The researcher had careful look at the investors/their representatives to know how they handle their activities & their expected return in the market, or the observation made at some museum and tourist attraction places.

ii. *Secondary Sources of Data*

Secondary data is not collected for the just time & it is not original. Documents have been used as a source of information which has been obtained from investment bureau of Jimma Zone, Jimma town.

[3] From robert Radcliffe (1996)
[4] From robert radcliffe (1996)
[5] From Bodie Kane Marcus

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b) Data analysis and Interpretation

Firstly, in this part, after the problem of the study was defined, the next step has been defining the population. In this specification of the population, all investors activating in the zone have been taken into consideration.

c) Sampling Technique and Size

Since the number of the population is large and there were time constraints, non-probability sampling method of data collection was preferable.

The sample sizes that the investigator used is out of 1000 total population 10% have been the respondents to his questionnaires. That means 1000X10% =100 people.

d) Method of analysis

The collected data were processed and analyzed. Raw data have been examined to the purpose of making it accurate in the control editing. As most of the questions are not related with the quantitative responses, some of the data have been processed using computers. For instance grouping related information's in to one and using for calculating some simple calculations.

e) Method of Presentation

Finally, the data collected and analyzed have been presented using different methods such as tables, pie charts, etc. and the finding has been compared and discussed with relevant literatures.

Chapter Four

IV. Data Analysis

a) Content of Investment

The respondents selected have replied for the questionnaires, concerned the investment level and background in the zone.

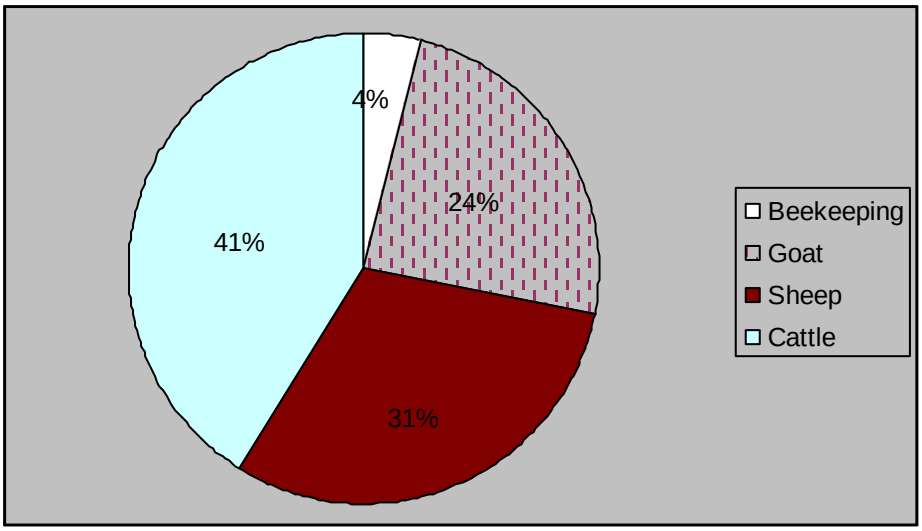
i. *Agricultural and Agro-Processing Types (Appendix- I: 36, No.1-3)*

Table 1: Agricultural and agro processing types

	Production of crops	Oil bearing crops	Catton	others	Total
Frequency	78	11	11	-	100
percentage	78	11	11	-	100

As the respondent replied, the zone has investment potentials in production of crops, i.e. 78%. There are some factors that contribute to low production of crops such as; the mismatch of the investor's need of investing on one type of crop and the available land in that are which is suitable for production of other type of crop, expensiveness of fertile and erosion of land by water. There is also potentials of oil bearing crops which is about 11%. When we see the overall potential of the area there is no as much potential for production of oil bearing crops. By the same amount of oil bearing crops, there is a potential of cotton production, which its major problem is absence of close market for the product. If all these agricultural and agro- processing types improved, the rural residents who live under poverty line can improve their income and their life standard.

ii. *Types of Livestock Production*



Chat 1: Livestock production in the zone

As the respondents replied the zone has investment potentials in production and processing of livestock, which can improve the living standard of the people who engage in animal husbandry, if effectively

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conducted. The chart shows that 41% of them replied that production of cattle share the major, relative to other in the zone. The factors that contribute to low production of cattle are: the weather condition of the area which is changeable and can also change the availability of grass and water for cattle which is the reason for fluctuation of its availability throughout the year; availability of transmitted diseases of animals which indicates as there is insufficient health care for animals. 24% of the respondents said that goat and 31% of them sheep production potentiality is there. Little areas which is suitable for sheep rearing is the factor that contribute to low production of sheep in addition to weather condition of the zone. Weather condition is a factor also for low production of goat. Additionally, there are others such as bee keeping which constitutes 4 %. The reasons for low production are: because beekeeping is relatively unordinary type of livestock production and there is no much initiation of beekeeping. These all livestock production types can solve the problem of rural to urban migration or unemployment in animal husbanding areas.

iii. *Investmen in Social Service Sector*

Table 2: Investment in social service sector.

	Education	Health service	Infrastructure	Total
Frequency	35	35	30	100
percentage	35	35	30	100

As the table indicates the zone's suitability for both education and health service sub-sector is almost equal which 35% is. Relative to past decades these are some what improving. The major problems with education sub sector are: the workers (teachers and others) are refusing to serve in remote areas and inadequacy of infrastructure. The same to this, in health sub sector the factor contributing to low health sub sector is reluctance of workers to serve in remove areas. And in addition insufficiency of materials in health centers. Regarding infrastructure facilities, the major factors contributing to low expansion of infrastructure facilities are the following. Since the landscape of the zone is not easy for instance to construct a road, it requires so many costs (i.e. its expensiveness). The other problem with infrastructure problem is absence of effective use of the available facilities. The improvement of these sub-sectors can alleviate the problems of unemployment, which can indirectly improve the living standard of mostly urban dwellers. There is also potentials of 30% for infrastructure sub-sector. This sub-sector can also solve the problems such as unemployment by hiring unemployed persons for construction of these infrastructure facilities; better provision infrastructures for urban dwellers, and also for rural residents.

iv. *Small Scale Industries in the Zone*

Table 3: small scale industries in the zone.

	Metal work	Weaving	Total
Frequency	60	40	100
percentage	60	40	100

Metal work and weaving are types of small scale industries which are conducted mostly in rural areas, which constitute 60% and 40% respectively. These can reduce the problem of unemployment in rural areas. The main problem with this sub- sector is the frights or shame that some persons are feeling in doing such works.

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v. *Sectors Available in the Zone*

Table 4: The available sectors in the zone.

	Manufacturing and processing industries	Mining industries	Forestry	Others	Total
Frequency	56	18	26	-	100
percentage	56	18	26	-	100

As the respondents replied, the zone's potentiality for manufacturing and processing industries shares the majority (i.e. 56%). The factors that contribute to low manufacturing and processing industries are the following. Its expensiveness; mismatch of the available raw materials and the industries proposed to do in that area and infrastructural problems. This manufacturing and processing industry is followed by forestry (26 %). The residents are cutting and using it ineffectively the available forests in order to get their daily livelihood. This is the factor that contributes to low forestry. Mining industry constitutes 18%. The existing low minerals in the zone are expensive to excavate. And the other problem with this sub-sector is infrastructural facilities.

vi. *The Reason Behind Low Museum and Tourism in the Zone*

The zone has some breathtaking artificial and natural tourist attractive sites, which if developed properly, will have economic importance for the development of the zone these are the following.

- ✓ The historical palace built by king of AbaJifar II known as AbaJifar II palace which is in Jimma Town
- ✓ Seka Water fall in Seka district
- ✓ Belete Chaka forest in Shebe
- ✓ Jimma Museum, which displays ancient cultural antiques and historical remains of the surrounding society which is found in Jimma town.
- ✓ The Origin of Organic Coffee(Coffee Arabica Tree)
- ✓ Gibe dam in Asendabo.

The number of tourists visiting the sites and annual revenue earned from them are however, insignificant. The reason behind this is the following.

- ❖ In the society itself, there is no as much custom of exhibiting museum and attractive areas.
- ❖ The available museum in the zone is far away from the residents out of the capital.
- ❖ There is no adequate services of hotels and others in such attractive areas, which can serve also as station.
- ❖ Since such attractive areas (Water fall & others) are around jungle, there is fear of dangerous wild animal such as snake, leopard etc.

If all these condition are properly fulfilled, problems such as unemployment and other social service problems will be solved.

vii. *Minearal Resources Abailable In The Zone*

Table 5: Status and ownership of mineral resources

Name of mineral	Status		Owner	
	Exploited	Not Exploited	Private	Government
Sand for building	100	-	25	75
percentage	100	-	25	75

As the respondents' response, sand from building constitutes the majority of mineral available in the zone. All of the existing sand is exploited. Among the existing mineral 75% is occupied by government and the remaining 25% is by owners. The major problem with this is the road problem followed by other infrastructure problems.

viii. *Infrastructure Facilities in the Zone (Appendix -I: 37, No.4-10.2)*

Infrastructure facilities are the basis as well as the result of good investment. That means if there is adequate infrastructure, the investment will expand well. On the other hand, if the investment activity of one area is at a good level, there will be adequate infrastructural facilities which are a part of investment. The major factor that contribute to low infrastructural facilities are the following.

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- Far apartness of sources of water for water supply & electric power generation.
- In adequacy of pipes and other necessary materials for provision of clean water supply.
- In the past decades there was a problem of electric pole production which is almost solved by establishment of electric pole production industry in the zone.
- The zone's landscape which is very unsuitable and requires high cost for paving the road.

The telephone problem in the zone is on the way to be solved, and almost solved other than mobile telephone service problems such as network problem.

- The major problem of postal service is that, it consumes time.

Table 6: Infrastructural facilities

	Poor	Fair	Total
Frequency	78	22	100
percentage	78	22	100

78% of the respondents said that there is poor infrastructure in the zone. Only 22% replied as there is fair infrastructural facilities.

Table 7: Inadequacy of infrastructural facilities.

	Telephone	Postal service	Transport	Other	Total
Frequency	37	12	49	2	100
percentage	37	12	49	2	100

As the table above shows, transport (49%) is the major inadequate infrastructure followed by telephone (37%) and postal service (12%). There are also other (2%), such as electric power generation and clean water supply.

ix. *The Major Factors that Contributed to the Limited Level of Investment (Appendix -I: 38, No.5-7)*

Table 8: Factors limiting investment activity

	Lack of resource	Climatic condition	Lack of awareness	Political factors	Social factor	others	Total
Frequency	27	11	16	24	21	1	100
percentage	27	11	16	24	21	1	100

Among the selected respondents, 27% replied that lack of resource resulted to low investment activity in the zone. That means one person needs resources which are necessary for starting investment activity. Lack of these resources is the major factor that contributed to limited investment activity in this zone. This lack of resources is followed by political factors (24%), which is also a decisive factor. When we say political factors, there is a discrimination of one person from the other in respect of his/her political involvements. And also there is a fear of discontinuously of incentives given by government assuming that political chaos may occur in the country. Social factor is also one of factors for limited investment activity in the zone, which constitutes 21%. These social factors are such as absence of close relationship between investors and the society. Climate condition of the zone is also another factor consisting 11%. Climatic condition of some areas in the zone is not suitable for investment types required to be conducted there. There is also other factor which constitutes 1%, such as corruption.

3. Structured Interview (Appendix-II: 39, No.1-4)

x. *The Effect of Limited Investment Activity on the Economy (Appendix-Ii: 39, No.1-4)*

When the researcher investigated, generally this limited investment activity is a cause for low economy of the area. And indirectly an obstacle for the expansion of

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job opportunities; a cause for living under poverty line of rural residents; a reason for living with low standard of living of urban dwellers; a reason for the absence of manufacturing industries and also a reason for the other social service problems.

The relationship between the investors and the residents of the area is not as much satisfactory.

b) Information Gathered from Urban Development and Investment Bureau

Some data and information were collected specifically from these bureaus regarding investment activity in the zone.

i. *The Role of Urban Development and Investment Bureau in Investment Activity*

Urban development bureau contribute to the expansion of investment activity in the area by;

- Preparing and distributing suitable land around the towns for investors work around the town.
- Helping town administration to fulfill infrastructural facilities.
- Approving design and monitoring construction
- Helping investors by giving them some licenses and incentives.

ii. *Major Investment Activities Accomplished in the Past Decade in the Zone (Appendix -I: 38, No.5).*

Table 9: Investment activities accomplished in the past decade.

	Water supply	Electric power generation	Construction of large scale industries	Others
Frequency	48	48	3	1
percentage	48	48	3	1

In the past ten years there were a construction of water supply and electric power generation which constitutes 48% each. This show improvement in the supply of water for the urban dwellers living with low standard of life and electric power for both rural and urban residents. Large scale industry was also constructed around the capital of the zone constituting about 3% of the respondents. There is also another with the share of 1%, constituting agriculture and construction of small scale industries.

c) Information Obtained from the People Who are Engaged In Investment Activities

i. *Investment Activities the Investorsare Engaged in*

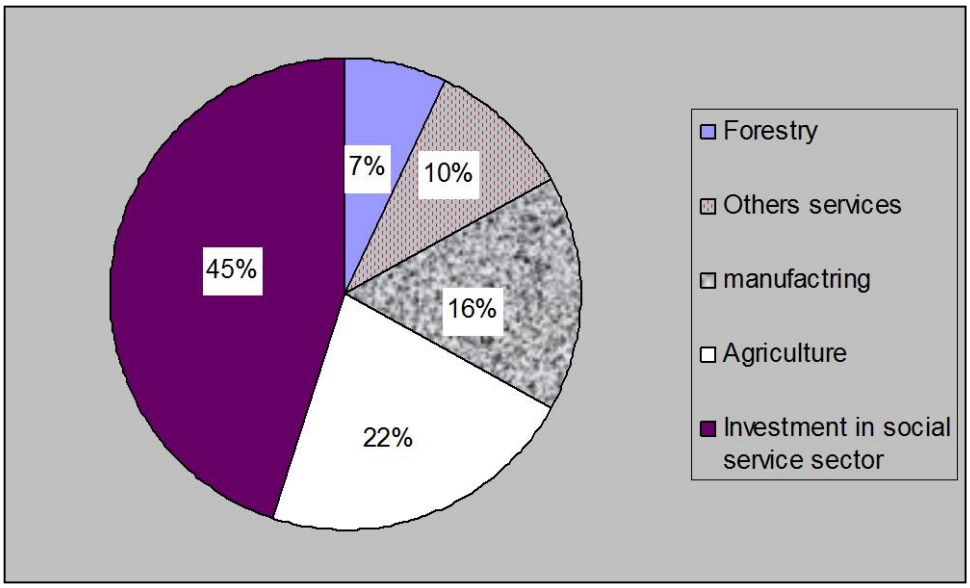


Chart 2: Investment activities the investor are engaged in

The above pie chart indicates that majority that majority of the investors in the zone participate in investment in social service sector (45%) followed by agriculture (22%) and manufacturing (16%). There are

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also other services such as hotels and others constituting 10%, which the investors are engaged in. some investors are participating in forestry which constitute about 7%.

ii *Kinds of Pro blems the Investors Face*

Table 10: Kinds of problems the investors face

	Social problems	Government/ political	Infrastructure	Other	Total
Frequency	11	40	49	-	100
percentage	11	40	49	-	100

According to the above table, the problems faced them is from government/political side (40%), next to infrastructure constituting 49%. There is also some problems related to the society which is about 11%. This indicates that infrastructure is the major problem of investors which limit their investment activity. This can indirectly result urban dwellers to live with low standard of living, and also result to unemployment. Another is government/political problems which result in unemployment and absence of manufacturing industries. Additionally there are social problems such as disagreement between investors and the society.

iii. *Kinds of Incentives given by Government*

Table 11: kinds of incentives given by government

	Loan from bank	Land fee	Exemption from tax	Market for good/service	other	Total
Frequency	25	31	19	25	-	100
percentage	25	31	19	25	-	100

The support or incentives the investors get from government are in the form of loan from bank and provision of market for their goods/services which are the highest, next to fee land (31%) constituting 25% each. There is also an incentive such as exemption from tax which is 19%. The researcher recognized from this that, incentives or supports given by government is not as poorer especially, regarding land given to investors. On the other hand exemption from tax of their land seems unsatisfactory. So this has to be improved.

4. Structured Personal Observation (Appendix-III: 40, No.4)

To help Jimma Zone Community in improving their investment climate, development agencies should support interventions that contribute towards achieving the following intermediate and mutually reinforcing objectives as the investment opportunities:

a. Lower the costs of investment

This refers to the costs of doing business (*e.g.* the costs of complying with the policy, legal and regulatory frameworks in which the private sector operates, including the extra costs created by inadequate infrastructure, crime, corruption and excessive red tape). High costs reduce profits and discourage investment. They also create disincentives for firms to formalise, with a resultant loss of benefits to the economy.

b. Reduce risks

This involves policy and institutional reforms that improve the stability of the investment climate and the predictability, real and perceived, of returns on investment, including by making the implementation of regulations established by national and local governments more predictable and enforcement of the rule of law morerigorous. A well-functioning financial market is crucial for managing the risks associated with firms and expanding production, especially for the many small domestic firms that rely on internally generated cash flows and money provided by family and friends.

c. Improve competition

A more competitive investment climate improves efficiency, encourages innovation and is a key factor driving productivity improvement in the short run. This often calls for the sequenced removal of policies or laws that protect markets or allow anti-competitive behaviour by public or private sector actors. A competition law and policy can help curb uncompetitive practices and engender a culture of competition.

d. Develop capacity

Reforming the investment climate is a political process and relies on effective institutions and the ability of the private sector to identify key constraints to investment and to lobby for and help implement change. There is thus a need to support initiatives that build up

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the capacity of public and private sector stakeholders to engage in political process and to implement policy reforms. Capacity development can also improve the private sector's ability to cope with constraints and changes in the business environment and its capacity to innovate by adopting new technologies and expanding entrepreneurial skills.

d) Challenges of Investment Activities for Jimma zone (Appendix-III: 40, No.5)

Much is already known about what should help promote private investment. To flourish, the private sector requires a stable and predictable investment climate that comes from macro-economic stability, transparent and accountable government, rigorous enforcement of the rule of law, functioning markets and institutions, a skilled and productive labour force, a strong commitment to fighting bribe solicitation and corruption, affordable and accessible infrastructure, intellectual property right protection and political and social stability. But Jimma zone contexts differ – including the size and maturity of their markets and governance conditions – as do the needs and especially the risks faced by different types of investors. To improve the investment climate, reforms should build on an analysis of the zone and sector-specific constraints to private sector development andan assessment of the zone's competitive advantage. Most of what needs to be done to mobilise investment is the responsibility of government offices and the private sector themselves. Nevertheless, ODA can help facilitate processes and promote the supply-side responsiveness of firms in Jimma zone. But using ODA to promote investment entails several challenges for Jimma zone and its development agencies.

e) Private investors are diverse

It is important to recognise the diversity of private investors – domestic or foreign, large or small, formal or informal – when assessing barriers to investment. Priority areas for interventions are likely to be different for each group and need different responses:

i. The private sector in developing countries, such as Jimma zone is often made up of a very large number of small and medium-sized enterprises (SMEs) and a small number of well-established, larger firms. To help fill this gap, SME growth can be promoted by focussing on their specific needs such as expanded access to financial services and support to participate in processes that set the strategic framework for regional development. SMEs can also need greater access to the associations and enterprises that will help them improve their competitiveness and raise their capacity to link up with larger firms, both domestic and foreign. Fixed business costs weigh more heavily on SMEs. Therefore, there is a case for introducing graduated schedules of payments (*e.g.* taxes, registration fees) or regulatory requirements based on firm size, rather than exemptions which can create disincentives for firms to grow or lead to unfair competition. A disproportionate number of women-owned businesses are SMEs. To help unleash women's entrepreneurship, specific, targeted initiatives may be needed to address gender biases that prevent women's enterprises from making their full contribution to growth and poverty reduction although direct interventions should not lead to market distortions.

However, concentrating on the SME sector to the quasi-exclusion of micro/informal enterprises and large enterprises should be avoided. Policies are also needed to remove barriers to micro/informal enterprises joining the ranks of the SMEs, as well as to support the latter growing into large enterprises as observed in selected areas of the zone.

ii. The informal economy forms a large part of the economies in many developing countries (OECD, 2004b:37). It provides employment and income to many poor households, including those who lose or cannot find work in the formal economy. It includes a disproportionate number of women and people from disadvantaged groups. But informality is not conducive to sustained growth and poverty reduction – it distorts markets, excludes people from basic protections and reduces revenues for social and other public expenditures. There are substantial assets held in the informal economy that could be used to help spur economic growth but fail to fulfil their productive potential. Formalisation also brings benefits for firms they are often unaware of, including greater access to the financial and other resources that will help their business to grow. It also helps them better deal with risk and vulnerability. Informality is not only a consequence of a weak investment climate; reducing informality will make an economy more attractive for investors. There is a continuum between informality and formality – few firms follow all the rules governing enterprise behaviour and few follow none of them. To promote movement towards a greater degree of formality, constraints to address include regulatory and administrative barriers, fees and financial requirements, corruption in public administration, socio-cultural attitudes and a lack of key business services. Making business services available to associations of informal firms and workers can be a first step along the path to greater formalisation (OECD2001:14). Development agencies in Jimma zone need to ensure that their efforts to improve livelihoods for those in the informal economy do not hold back tendencies towards greater formalisation.

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iii. Foreign direct investment (FDI) should be encouraged, not only for the extra capital that it brings, but because it can lead to technology transfers, better human capital formation, deeper international trade integration and a more competitive business environment. Ideally, FDI projects should provide opportunities for competitive local firms to forge forward and backward linkages. There are four main determinants for attracting FDI: *i)* market size and growth prospects; *ii)* natural and human resourceendowment; *iii)* physical, financial and technological infrastructure; and iv*)* Openness to international trade and access to international markets. Some of these can be improved through investment-enhancing ODA if Jimma zone,at the grass root level enhances its investment activities.

In the least-developed countries like Ethiopia, which have still to benefit from sizable FDI inflows, particular efforts appear necessary to improve the functioning of financial markets, expand infrastructure, increase skill levels and connect up better with local enterprises. Foreign investors sometimes have difficulties assessing the risks of doing business in Jimma zone. Making accurate information on market conditions and experiences of other foreign investors more readily available will help address this. In addition, nationals abroad can have more accurate perceptions of conditions at home and can be encouraged to invest in their country of origin(OECD 2001:37).

f) *Trade liberalisation needs complementary policies*

Trade and investment are closely linked and complementary activities for modern business operations. For potential foreign investors, the ability to import and export easily is an important aspect of the investment climate. In the long-run, greater openness accelerates growth and leads to greater competition and efficiency in domestic and international markets. But, in the short-run, trade liberalisation may either increase welfare for the poor (if they are employed in export sectors or consume previously protected products) or decrease welfare for the poor (if they are employed in protected sectors or consume goods destined for export).

Complementary, compensatory and time-bound measures are generally needed to help the poor adjust to structural changes and take advantage of opportunities created through trade liberalisation. Therefore, to help firms in Jimma zone participate in regional markets where adherence to high business standards is required, Jimma zone administrators and development agencies can promote adoption of responsible business practices in such areas as labour relations, the environment and anti-corruption. The *OECD Guidelines for Multinational Enterprises* are a useful reference as they contain a set of recommendations for responsible business conduct that aim to promote the positive contributions that investment activities can make to economic, environmental and social progress.

g) Natural resources can be a mixed blessing

Abundant natural resources provide a basis for growth in Jimma zone and investment can help expand this zone' primary export sector. But some of this zone experience a "resource curse" and grow more slowly than those with fewer natural resources. As demand for commodities may remain strong for some time, further investments to expand extractive industries can be expected. Developing value chains that link natural resources up to processing activities using domestic suppliers of goods and services will help produce higher returns create more jobs and ensure that the resulting growth is broader-based and more sustained. So too will efforts to reduce corruption and strengthen public financial management. It is important that extra revenues that governments may receive through royalties and taxes do not reduce pressures to reform and that Jimma zone pay attention to the possible environmental degradation that can result from intensive use of natural resources.

h) Public-private partnerships should help promote private investment

The motivation behind the public-private partnership (PPP) approach is to maximise interactions between the public and private sectors so as to deliver public services, such as water, electricity or telecommunications, more efficiently and to more people, and to improve the quality and the affordability of access to services provided. PPPs can take many forms – ranging from a private firm providing a public service for a specific period to "design-build-operate-transfer" arrangements. As well as leveraging extra funding and encouraging efficiency gains, entering into a PPP can motivate governments to identify and prioritise their infrastructure needs. But, establishing appropriate framework conditions for PPPs has often proved to be a complex task, particularly in small markets and in some sectors such as water.

Governments have complained that investors have reneged on contractual obligations, especially regarding the coverage of services, while investors have complained that the business environment has not been conducive to delivering services according to sound commercial principles. Other important issues that have arisen include the pricing of the basic services provided, arrangements regarding poor people's access to services, financing operating and maintenance costs and mitigating non-market risks. A structured dialogue between the public and private sectors can help identify common goals and facilitate better understanding of each partner's objectives. Results to date with PPPs have been mixed and lessons need to be learnt and

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applied. To avoid pitfalls encountered in the past, careful attention is required when contracts are being negotiated as researcher's personal observation revealed.

i) Expectations need to be kept realistic

The researcher investigated more about the institutional and policy reforms that should improve the necessary conditions for investment. However, the managers are less clear about how to bring about the conditions that will lead to more investment, particularly in Jimma zone that appear to have low growth potential. This highlights the importance of working both on the enabling environment as well as strengthening the supply-side capacity of the local private sector, including by promoting entrepreneurship and innovation through education and vocational training, research and development, technology transfers, making access to finance and other inputs cheaper and less cumbersome, and reducing the costs and formalities associated with creating and closing firms. Efforts to mobilise investment should not focus only on expanding production of existing goods and services; improving the investment climate will also help new economic activities to emerge.

5. Document Analysis from existing written Materials

Enhancing the contribution of investment to reducing poverty (Appendix-IV: 41, No.1)

To enhance the impact of private investment on poverty reduction, which in turn should make growth more rapid and sustained as well, policies need to ensure that poor women and men participate in, contribute to and benefit from the growth process:

i. Obstacles that limit poor people's access to labour, land and other markets need to be removed. The poor may need help to increase their assets and legal rights as well. So that reforms translate into development results throughout the selected areas of the zone, efforts are needed to ensure that poor people are aware of the availability of services and of their rights, and that these rights can be enforced. Awareness campaigns in local languages, the establishment of help lines to report abuses by public officials and greater access to functioning small claims and commercial courts can help improve the implementation of reforms.

ii. Women face specific constraints to participating in labour, financial, goods and services markets because of social norms, biases, prohibitions and gender divisions of labour. This jeopardises efforts to spread the benefits of growth among the poorest. Policies that can help expand female participation in markets and make the creation or formalisation of women's enterprises easier include increasing access to health care and infrastructure that meets women's needs, expanding school enrolment for girls and supporting laws that reduce gender discrimination in pay and working conditions. Making the experience of successful women entrepreneurs widely available can inspire and motivate other women.

iii. The poor are heavily dependent on natural resources and environmental costs bear hardest on the poor. Environmental degradation is not the inevitable cost of economic development. Rather than trying to mitigate the environmental impact of policies and projects, Jimma zone and their donor partners should use tools such as Strategic Environmental Assessments to help make informed choices. Central to such an approachis effective governance and fiscal policies that change incentives in favour of environmental sustainability and growth.

iv. A well-developed financial sector, including a more integrated micro-credit sector, can expand access to an array of financial services (such as payment instruments, saving facilities, credit and insurance) for poor people and micro-entrepreneurs. It is also important for financing long-lived infrastructure assets. In countries with less developed financial sectors, development agencies should give priority to helping create a conducive enabling environment, through support for regulation, supervision and promotion of financial systems. In more sophisticated economies, development agencies can give higher priority to supporting policies and projects that extend the provision of financial services to the poor and small firms, on terms and conditions more adapted to their needs. Expanding access to banking facilities for the many "unbanked" in Jimma zone – through outreach, use of ICT and more cost-efficient and transparent services – will also help channel remittance payments more cost effectively and enhance their contribution to mobilising investment.

v. Inadequate and insufficient infrastructure is a major obstacle to growth, trade and investment and raises the production and transaction costs of doing business. Investments in transport, energy, and water and ICT services are also essential to bring poor people closer to local, national, regional and global markets. To meet the infrastructure challenge in selected areas of Jimma zone, four guiding principles should be applied (Appendix IV: 41, No.2):

i. use partner country-led frameworks as the basis for co-ordinated donor support;
ii. enhance infrastructure's impact on poor people;
iii. improve management of infrastructure investment, to achieve sustainable outcomes; and
iv. Increase infrastructure financing and use all financial resources efficiently. To help meet this challenge,

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private sector participation in infrastructure investment needs to increase, including through PPPs where there is official

v. financing support for export credits; these need to bear in mind international obligations about trade distortions and subsidies.

There has been considerable underinvestment and disinvestment in agriculture, especially in Africa (OECD 2001:67). In some cases, this has been due to local agricultural produce not being able to compete with imported goods. Yet agriculture remains a key sector because enhancing growth prospects, productivity and diversification will contribute significantly to growth and poverty reduction. Hence, most poor people in selected areas of Jimma zone engage in private sector activities through farming and associated agribusiness. Increasing access to markets and assets, improving access to productivity-enhancing technology (especially for small produces and agribusinesses) and boosting investment in power, irrigation and road infrastructure are critical for releasing the economic potential in rural areas and expanding the domestic private sector.

Chapter Five

V. Conclusion and Recommendation

a) Conclusion

In Jimma zone, even though the potentiality of the area has not been studied before fully, according to this investigation it is concluded that Jimma zone has great potential for investment. The general structure of landscape, and its scene tic nature have made it to have different weather conditions, good rainfall which make it suitable for the growth of different types of crops (such as sugarcane, coffee, oil bearing crop etc), and cotton production. The landscape and weather condition of the zone is also conductive for live stock production, such as cattle, sheep, goat and beekeeping. Investment in social service sector and small scale industries are the types of investment activities available in the zone and which have to be expanded more. Manufacturing and processing industries, mining industry and forestry sectors are also available. In addition, there found museumand tourists attraction area in Jimma zone. But compared to these potentialities investment sector is found in poor condition in the zone.

The development of investment sector for the future also seems one of the disgusting one, if the problems identified are not alleviated properly. Factors that contribute to this low investment activities in the zone are a lot. But, the general problems are seen from, government side, investors themselves and natural factors. The government has not made sufficient survey on natural resources, has not gave much attention on the development of infrastructural facilities, has not gave fair treatment or incentives (i.e. based on political involvement), has not strengthen the exchange of information and consultancy services for investors and others.

Investors have also problems such as lack of awareness (i.e. lack of knowledge about investment and absence of carefulness when they are doing their activities), and lack of strong coordination with the society.

In addition there is also a problem of mismatching of available factors (potentials) of some parts of the zone with the investment types which have to be conducted there. For instance, in urban parts of the zone there may be rainfall and land which is suitable for the production of crops and vice versa which is generally concluded as climatic condition and lack of resources.

b) Recommendation

To overcome these and all other problems that contribute to low investment activities in the zone, the following points may be recommended to the government and the general public.

- By matching the activities conducted in one area with he climate suitable for the activities
- Developing infrastructural facilities in key areas of investment, especially in low developed areas.
- Creating good relationship with other zones of the region
- Government and other investment related bureaus have to activity participate in fulfilling infrastructural facilities
- Government has to give fair and equal treatment or incentives for all investors by not discriminating them based on political involvement.
- Providing sufficient information of investment possibilities by giving some councils to the public and aware those investors about other investment alternatives
- Preparing and conducting panel's discussions and meetings year, quarterly, or monthly concerning investment activities in order to bring together the government and those investors to solve investment related problems.
- Those investors should be able to prepare themselves to create other investment opportunities in addition to what they are currently doing (i.e. they have to be flexible).
- Investors have to choose properly the area which is suitable and match with the type of investment activity they are going to do.
- Inviting new investors also from other places e.g. Foreigners.

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Appendix - I

Questionnaires to Collect Information from beneficiaries of investment

The following questions are designed to collect data and information regarding investment activities, factors that hinder its development, its impact on the zone's economic development.

The questions are prepared in two languages; i.e English language as well as Afan Oromo language for some respondents in a way that it is simple and easy to comprehend.

Request to the Respondents

1. Read the statement carefully and try to be objective to the possible extent.
2. For "yes" or "No" responses make " X" mark on the space provided
3. For description questions try to be clear as much as possible.

A. Written Questionnaire

The following questions are designed to gather information on opportunities for investment activities in Jimma Zone. The respondents for these questions will be some residents or users of investment out come and other sections.

1. Agricultural and agro-processing
   - Production of crops _____
   - Oil bearing crops _____
   - Cotton _____

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- Others (specify) _____

2. Production and processing of live stock
   - Cattle _____
   - Sheep _____
   - Goat _____
   - Others (specify) _____
3. Manufacturing and processing industries _____
4. Mining industry _____
5. Investment in Social Service sector
   - Education _____
   - Health Service _____
   - Infrastructure _____
6. Small scale industries
   - Metal work _____
   - Weaving _____
7. Forestry _____
8. Others (specify) _____
9. Museum and tourist attraction areas in the gone

No	Types of attraction	Location

10. Mineral resources in the zone.

Name of Mineral	Status		Owner	
	Exploited	Not Exploited	Private	Government

10.1 Adequacy of mineral resources
Poor _____ Fair _____
10.2 Inadequacy of mineral resources

a. Telephone _____
b. Postal Service _____
c. Transport _____
d. Other _____

5. What are the major factors that contributed to the level of limited investment in this zone?

- Lack of resource _____
- Climatic condition _____
- Lack of awareness_____
- Political factors _____
- Social factors _____
- Others (specify) _____

6. What effects do you think that these limited investment activities have on the economy of the zone?

_____
_____

7. What kind of cooperation and coordination do you have with investors operating in the zone?

_____
_____

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Appendix-II

B. Structured Interview

Questions designed to be filled by trade and investment Bureau, & bureau of urban Development.

1. What is the role of your bureau in investment activity? (Ga'een Waajjira keessanii "invastimentii" hirmaachisuu fi babal'isuu irratti maali?)

   _____

   _____

2. What were their major investment activities accomplished in teh past decade in the zone? (Hojiiwwan "invastimentii gurguddoo waggoota kudhanan darban zoonii kana keessatti raawwataman maalfaadha?)
   - Water supply (tajaajila bishaan dhugaati) _____
   - Power generation (tajaajila humna ibsaa) _____
   - Construction of large scale industries (ijaarsa industiry gurguddoo) _____
   - Other (kanbiroo) _____
3. What are the major factors that contributed to low level of investment in this zone? (Sababootni qurguddoon guddina "invastimentii" zoonii kanaa xiqqeessan maalfaadha?)
   - Lack of resource (rakkoo qabeenyaa) _____
   - Climatic factors (haala qilleensaa)_____
   - Political factors (rakkoo siyaasaa) _____
   - Lack of motivation (kaka'umsa dhabuu) _____
4. What do you think can contribute to encourage potential investors and activate the level of investment activity in this zone? (Haala amma jirru kanaarra fooyya'ee guddina saffisiisuu fi " invastimantii" babal'isuuf maaltu ta'uu qaba jettee yaadda?

Appendix - III

C. Structured Personal Observation Checklist

The following questions are designed to be observed by researcher who is conducting research on the investment activities in the zone.

1. What are the investment activities the investors are operating or engaged in?
   - Agriculture _____
   - Manufacturing _____
   - Investment in social service sector _____
   - Forestry _____
   - Others (specify) _____
2. Problems the investor's face
   - Social problems _____
   - Government /political _____
   - Infrastructure _____
   - Others (specify)_____
3. Support or incentives given from government
   - Loan from bank _____
   - Fee land _____
   - Exemption from tax _____
   - Market for your good or service _____
   - Others (specify) _____
4. What are the investment opportunities that development agencies support?
5. What are the investment challenges for Jimma zone ?

Appendix – IV

D. Document Analysis

1. What does the existing document denote to enhance level of the activity? (Description of ideas are requested by researcher's observation)
2. How do we enhance the contribution of investment to reducing poverty in Jimma zone?
3. What are the guiding principles that we apply for achievement of the infrastructure challenge?

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