



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF THE OPPORTUNITIES AND CHALLENGES
OF PRIVATE INVESTMENT IN HARARI REGIONAL STATE,
ETHIOPIA**

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF
GRADUATE STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENT
FOR THE AWARD OF MBA DEGREE IN ACCOUNTING AND FINANCE

BY

WAHIB ABDISHAKUR BEDRI

**JUNE, 2021
ADDIS ABABA, ETHIOPIA**

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**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
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ACCOUNTING AND FINANCE**

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REGIONAL STATE, ETHIOPIA**

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ACRONYMS

EIC	Ethiopian Investment Commission
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
GTP	Growth and Transformational Plan
ICT	Information Communication Technology
IISD	International Institute of Sustainable Development
IMF	International Monetary Fund
NBE	National Bank of Ethiopia
SPSS	Statistical Package for Social Science
UNCTAD	United Nations conference for Trade and development
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency International development

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Abstract

The aim of the study was to assess the Opportunities and challenges of private investment in the regional state of Harari. The study was survey type which was collected from sample respondents of 246 investors out of 684 investors in the region. The study has employed survey questionnaire so as to gather data from large number of respondents with in specified period of time. The study used stratified random sampling design because it endeavored to stratify the population in different sectors of investment. Within the strata to select the respondents, simple random sampling; lottery method was used. The study was analyzed using mixed approach both qualitative and quantitative research approach by applying descriptive statistics with the tool Statistical Package for Social Science (SPSS Version 26) computer program to run the questionnaire. From the finding the opportunities include being a world heritage city which is a known tourist destination, tax incentives provided by the state, the availability of infrastructure, being a potential market area (center of trade) among the rural areas surrounding the region and less operational cost mainly labor cost are amongst them. The study has also identified the challenging factors which include high inflation, unavailability of foreign currency, exchange rate fluctuation, interruption of electric power, interruption of water, political instability, poor tax administration and customs procedure, contraband, land provision, less work on awareness creation by the investment office, ethnic conflict among dwellers of the region were among the challenging factor of private investment in the region. In order to overcome the challenges and enhance the opportunities available to investors, the region, as well as the investment office has to work together with investors to create a conducive investment climate to achieve the GTP II goal which is becoming a middle income country by 2025.

Key Words: Private investment, Opportunities, Challenges, Harai regional state

CHAPTER ONE

1. INTRODUCTION

This chapter gives an overall introduction of the study which includes the background of the study, problem statement, general and specific objective, research questions, significant of the study and finally the scope and limitation of the study. It explains the meaning and role of private investment from different perspectives and by different scholars. It states the need to conduct the study on the topic by pointing out the gap and give answers as to why it is necessary to conduct the study and what objectives it would achieve within the scope and limitation presented.

1.1. BACKGROUND OF THE STUDY

From the point of view of national economy, investment has a very crucial role. To create a good business environment for any country, investment as well as business ethics is necessary (Singh, 2019). Private investment is one of the driving forces of an economic growth (Waktole & Bogle, 2018; Woktole, 2020).

According to the International Institute of Sustainable Development (IISD), the term investment forms part of everyday usage, which may give the impression that there is a common or shared understanding of the term. However, investment is a broad term invoking different meanings in everyday, economic and legal usage. In particular, the definition of investment has far-reaching legal implications.

Different scholars have defined investment in different views. Individuals have put time and resources to upgrade knowledge and acquire experience. Businesses spend money on different structures, plant and equipment, in an exertion to plan for greater product demand and to steal a march on their competitors. And governments in place put infrastructure and programs that can facilitate the future economic decisions of their citizens. All of these forward looking actions can be put in one word as investment (Mullins, 2005).

According to Federal Negarit Gazeta of the Federal Democratic Republic of Ethiopia Proclamation no. 769/2012, investment meaning expenditure of capital in cash or in kind or in both by an investor to establish a new enterprise or to expand or upgrade one that already exists and here Investor means a domestic or foreign investor having invested in Ethiopia, but this study will not incorporate the foreign investors because the study is all about domestic private investment.

Ethiopia follows a market-oriented economic development strategy. In order to encourage, promote and expand private investment, the Government has issued council of ministers regulation No. 313/2014 to establish the Ethiopian Investment Commission (hereafter EIC) as an autonomous federal government office having its own legal personality which is accountable directly to the prime minister with the objective to implement transparent and efficient investment administration system and thereby encourage and expand investment.

According to the EIC's report of 2015, the vision of Ethiopia with regards to investment states that, "To see Ethiopia as one of the leading investment destination countries in Africa by 2023." In addition, the mission statement states that, "To enhance investment in the country by promoting investment opportunities through creating conducive investment climate and providing efficient services to investors so as to bring rapid and sustainable economic development in the country." Harari as part of Ethiopia shares the same investment vision and mission and strive to achieve them.

Investment in Ethiopia has been steadily increasing over the past ten years owing to favorable investment climate. And there are feasible trends that Ethiopia is becoming an investment hub in the horn of Africa. Ethiopia investment commission and Regional investment offices issued licenses to 2,610 investment projects with an aggregate capital of Birr 36.148 billion during 2017/18 to 2019/20 (NBE annual report, 2019/20).

According to the Report of Harari Region Investment office (2019) specifically Harari regional state has licensed total of 684 projects that started operation up to now. According to the report the priority areas of investment that the state wants to attract domestic as well as foreign direct investment include hotel and tourism, real estate and business center

development, urban agriculture and services. Other areas of investment include agro processing, manufacturing and production of construction materials.

Charles and Bradford (2002) stated that different investors have very different investment objectives and strategies. For example, some will be very active, buying and selling frequently; others will be relatively inactive, buying and holding for long period of time. Some will be willing to bear substantial risk in seeking out returns; for others, safety is a primary concern.

The most fundamental question in thinking about investment objective is: why invest at all? And the answer is we invest today to have more tomorrow. In other words investment is simply deferred consumption; instead of spending today, we choose to wait because we wish to have or need to have more to spend later. Given that we invest now to have more later, the particular investment strategy chosen will depend on, among other things, willingness to bear risk, the time horizon, and taxes.

Charles and Bradford (2002) also stated that as larger return are generally associated with larger risks, individual must therefore balance return objectives with risk tolerance. In addition to attitude towards risk, an investor's investment strategy will be affected by various constraints. They stated that the five most common and important constraints are Resource, Horizon, Liquidity, Taxes and Special circumstances. In addition, Investment management, Market timing, Asset allocation, and Security selection as the four key areas to be addressed in formulating an investment strategy and policy.

Private Investment as being a vital engine for economic growth, it is very important to study the opportunities and challenges with the researcher's interest in one of the historic and famous tourist destination in Ethiopia; Harar. Here in this paper, the opportunities and challenges were assessed because of the problem stated below.

1.2. PROBLEM STATEMENT

According to Mullins (2005) investment is the economic equivalent of preparing for the future. And Investment in its sense is a vital engine for a countries economy. According to Maqbool et.al (2010), on their study of investigating the performance of a country, they stated that the key determinant of economic growth is investment. In addition, they stated that those who invest considerable fraction of their GDP grow rapidly and vice versa.

According to the report of the Oakland institute (2010) as cited by Molla (2019), Ethiopia has created a very attractive investment climate for investors in recent years by offering land incentives, tax holidays, duty free privilege and relatively efficient investment process.

According to the IMF country report No. 16/322 of the October 2016, the key GTP II goal is for Ethiopia to become a lower middle-income country by 2025, through average annual growth of 11% in 2015/16 – 2019/20. Accordingly, as part of the goal, Investment as a share of GDP is targeted to be 41.3 in 2019/20 as compared to 2014/15 which was 39.3 indicating a higher share as compared to other sectors on the goal.

Thus, in order to achieve the GTP II goal, investment plays a very important role to the country's economic growth as well as to the Harari region which shares the same goal.

The opportunities and challenges of private investment in different parts of Ethiopia were conducted by different researchers. Molla and Ayele (2019) in East Gojjam Zone, Singh (2019) in Mettu town, Yehuala (2019) in Addis Ababa Kality sub-city specifically on the manufacturing sector, Abadi, G/Meskel and Engida (2015) in Tigray region the case of manufacturing sector only. The findings of the researchers differ based on their focus area. Thus, it is difficult to generalize the same result in Harari regional state. Hence, this initiated the researcher to study the opportunities and challenges of private investment in Hariari regional state which is a world heritage site registered by UNESCO and a famous tourist destination located in eastern part of Ethiopia.

The opportunities and challenges of private investment in Harari regional state have not been conducted until now. Therefore, assessing the opportunities and challenges of private

investment in the region is very important to address the issue base on opportunities and challenging factors to the regional state investment office so as to achieve the overall objective of becoming middle-income country by 2025.

Therefore, this study tried to incorporate factors stated by previous studies in different parts of the country and additional factors that suit the region. In addition the study will contribute to the existing literature in the topic and study area with aim of achieving the following objectives.

1.3. OBJECTIVE OF THE STUDY

1.3.1. GENERAL OBJECTIVE

The general objective of the study is to assess the Opportunities and Challenges of private investment in the regional state of Harari.

1.3.2. SPECIFIC OBJECTIVES

The specific objectives are:

1. To identify the Opportunities of private investment in Harari region.
2. To examine Challenges of private investment in the region
3. To assess the current status of the investment environment in the region

1.4. RESEARCH QUESTIONS

The following research questions are formulated to address the research objectives:

- What investment opportunities are available for private domestic investors in Harari regional State?
- What are the Challenging factors of private investment in the region?
- What is the current status of Private investment in the region?

1.5. SIGNIFICANCE OF THE STUDY

Investors spend more time and money on their investment in an effort to have more customers and beat their competitors, and government put in place infrastructure and programs that can facilitate the future decision of their citizens. Thus, it is necessary to make a study on Opportunities and Challenges of private investment in the study area. Further, it also helps the investment office of the region to find a solution for the better future with regard to private investment in the region. In addition to these it also helps as a promotion of Harari region investment condition and the opportunities for investors in the region. And last but not least, the study helps to fill the literature and knowledge gap which contributed to the scientific and practical research gaps and also used as an input and literature for further study in the topic.

1.6. SCOPE AND LIMITATION OF THE STUDY

1.6.1 SCOPE OF THE STUDY

The study will try to identify and describe the Opportunities and Challenges of private investment in the region. And for the purpose of this study the investors are only medium and large private investors that mean, the study does not include public investment as well as micro and small enterprises. And also these investors are only domestic investors who are registered (licensed) in the regional investment office and who are working in the city at this time i.e. the study will not include foreign direct investment (FDI). The study didn't use factor analysis or regression to further analyze the findings.

1.6.2. LIMITATION

The study didn't include those investors who have registered but not started operation. This might have its own effect on the generalization of the findings. Also the study didn't include micro and small enterprises. The study adopted a questionnaire from other study conducted elsewhere in Ethiopia, where the questions didn't include many variables that are specific to the region which in turn has effect on the findings. The other limitation faced while

undertaking the study, was lack of up to date information in the sector from the investment office of the region.

1.7. ORGANIZATION OF THE PAPER

This research study has a total of five chapters. The **first chapter** is introduction part of the study which describes background of the study, problem statement, objective of the study, general and specific objectives, research questions, research methodologies, significance of the study, and scope and limitation of the study. The **second chapter** is review of related empirical and theoretical literatures. The **third chapter** presents the method of the study. **Chapter four** presents the results and discussion of the research. And the **final chapter** is conclusions based on the finding and recommendations.

CHAPTER TWO

2. REVIEW OF RELATED LITRATURE

2.1. ROLE OF PRIVATE INVESTMENT

Investments both the public and private plays a central role in production functions by providing the required capital for development (Ari and Koc, 2020). Investment plays a very important role in the economic growth of a country, as it raises the productive capacity of an economy, increases the level of employment and promotes technical progress through embodiment of new techniques (Majeed, and Khan, 2008). 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 (Joseph & George, 2010, p. 250).

For the progress and prosperity of any country investment plays a very important and positive role. Therefore many countries depend on investment to solve their economic problems including poverty and unemployment. Since private investment has many roles for the growth of any country, the government of Pakistan is working very much to attract investors for investment in different sectors of the economy. Due to this reason, the government of Pakistan took many steps to encourage private investment and to increase the speed of the economic development in the country (Haroon and Nasr, 2011).

Accordingly some of the advantages of private investment are increasing the level of employment in the country, increasing the individual income and also their standard of living would improve, it helps to reduce the poverty in the country, it also helps to increase the per capita income in the country, pushes up the growth rate of GDP and GNP, it also helps to attract foreign investors to invest in the country, and generally positively developed private investment has a positive impact on the economic development of any country Haroon et al. (2011).

Here in Ethiopia according to Ciuriak and Preville (2010) on their studies Ethiopia's Trade and Investment Policy Priorities for the New Government, In Ethiopia trade and investment can clearly accelerate the development process by providing ready access to the technology

that is a necessary component of a developed economy and by filling in gaps in both the demand and supply of the spectrum of goods and services that are traded in developed economies but not at earlier stages of development. In other words, through trade and investment, the production structure can adjust towards a modern industrial pattern at a faster pace than the evolution of domestic demand and supply capacities would permit. At the same time, the mixed empirical record and the growing list of conditions that seem to be needed for trade and investment to reliably generate the expected benefits has led to a new caution in policy recommendations, with emphasis on targeting liberalization (e.g., on imports of capital goods and attracting particular types of FDI), on developing supply capacities to take advantage of trade opening and on building linkages to domestic suppliers to maximize the local benefits of inward FDI” (Velde, 2010, as cited by Ciuriak & Preville, September 2010, p. 5).

2.2. FACTORS THAT AFFECT PRIVATE INVESTMENT

Growth rate of real GDP, availability of credit, and public investment among others, have positive impact on private investment (Waktola, D. A, 2020). Khan and Khan (2007) on their studies on what determines private investment in Pakistan they have divided the factors that affect private investment in to two broad categories as economic factors and non-economic factors. According to their report on the basis of theoretical and empirical considerations in developing countries, private investment is determined mainly by level of domestic output, real interest rate, public investment, size of the external debt and macroeconomic stability. In developing economies due to the reason that there is underdeveloped capital markets and financial intermediation, the other important factor that affects the private sector investment is credit constraint. Bank loans and external borrowing may be the only sources of credit available for private sector investment financing because of the absence of long-term financing and the futures market in developing countries.

The other important economic factor is the exchange rate. The real costs of buying imported capital goods and the profitability of the private sector is affected by change in currency value and also this change possibly causes investment to change. In addition it may result into change in real income of the economy as a whole, thus changing the production capacity. Due to its impacts on competitiveness and export volumes, the investment through

sectors producing internationally traded goods is also affected by the change in exchange rate.

There are also some other non-economic factors that are important for the rapid private sector investment growth in addition to economics factors. These non-economic factors are good governance, quality of institutions and entrepreneurial skills for the private sector to make big investment decisions based on a rational assessment of risks and potential pay-offs. These factors play important role with the economic factors.

Political instability is also another non-economic factor that may affect private investment, and here there are two approaches to define political instability. “In the first approach it is defined as instability of the executives i.e. propensity to observe government changes which is associated with policy uncertainty for example threat to property rights. Second approach is based on socio-political unrest that is measured by some index of variables related to such unrest. Both the measures, however, are difficult to construct” (Khan & Khan, 2007, p. 8).

According to Charles and Bradford (2002), investor’s investment strategy will be affected by five most common and important constraints which are:

Resource: It is probably the most obvious constraint because if one cannot have money, he or she cannot invest at all. Beyond that, certain types of investments and investment strategies either explicitly or effectively have minimum requirements.

Horizon: the investment horizon refers to refers to the planned life of the investment. Individuals frequently save for retirement where the investment horizon depending on his or her age, can be very long. On the other hand, he or she might be saving to buy a house in the near future, implying a relatively short horizon.

Liquidity: for some investors, there is the possibility that an asset will need to be sold quickly. In such cases, the asset’s liquidity is particularly important. An asset with a high degree of liquidity is one that can be sold quickly without a significant price concession. Such an asset is said to be liquid.

Taxes: Different types of investments are taxed very differently. When we talk about the return on an investment, what is really relevant is the after tax return. As a result, taxes are a vital consideration. Higher tax bracket investors will naturally seek investment strategies with favorable tax treatments, while lower tax bracket (or tax – exempt) investors will focus more on pretax returns.

Special Circumstances: Beyond the general constraints discussed above, essentially everyone will have some special or unique requirements or opportunities. For example, many companies will match certain types of investments made by employees on a dollar-for-dollar basis (typically up to some maximum per year). In other words, you double your money immediately with complete certainty.

For the above objectives and constraints (Charles and Bradford, 2002) have also put four key areas in formulating an investment strategy or policy; these four key areas that must be addressed are investment management, market timing, asset allocation, and security selection.

Investment management: A basic decision that you and every other investor must make is whether you will manage your investments yourself or hire someone else to do it. Often investors partially manage their investments themselves and partially use professional managers. For example, you might divide your money between, say, four different mutual funds. In this case, you have hired four different money managers.

Market Timing A second basic investment decision you must make is whether you will try to buy and sell in anticipation of the future direction of the overall market. For example, you might move money into the stock market when you thought it was going to rise, and move money out when you thought it was going to fall. This activity is called market timing. Some investors very actively move money around to try to time short-term market movement; others are less active but still try to time longer-term movements. A fully passive strategy is one in which no attempt is made to time the market.

Asset Allocation Another fundamental decision that must be made concerns the distribution of your investment across different types of assets. Different asset types- small stocks, large stocks, and bonds have very different risk and return characteristics. In formulating your

investment strategy, you must decide what percentage of your money will be placed in each of these broad categories. This decision called asset allocation.

Security selection Finally after deciding who can manage the investment, where you will try to time the market, and the various assets classes you wish to hold, you must decide which specific securities to buy with in each class. This is termed security selection (Charles & Bradford, 2002).

2.3. FACTORS AFFECTING INVESTMENT IN DEVELOPING COUNTRIES

Public investment, real GDP, external debt servicing, and access to bank credit have significant positive effect on private investment while lending interest rate and foreign direct investment have significant negative effect on performance of private investments (Fujaw. W., 2018). Output/national income, public investment and exchange rate are the critical variables affecting the performance of private investment (Batu, M. M., 2016). GDP and public investment are the most powerful factors that affect private investment (Bonga, G. W & Nyoni T., 2017).

Determinant factors of investment in developing countries includes financing availability, the role of government investment, external inflows, the size of external debt, market structures, the level of protection, and the degree of price distortions are some of them (Khaled, 1993).

Financing availability: As compared to developed countries, the financing constraint is somehow more affecting in developing countries. There are two main reasons that self-financing is less available in developing countries, first, many firms in developing countries are undeveloped and new and therefore, they have limited ability to accumulate adequate financing. And secondly, low per capita income is often accompanied by low savings that leads to fewer resources being available to finance investment.

Foreign capital inflows: It has an important impact on investment whether they are in the form of debt flows or equities. They can ease the domestic financing constraint, and also they can generate crowding in effects by creating linkages and externalities. Foreign direct investment has required for many reasons such as the introduction of new technologies, upgrading of the capital stock, and enhancement of competitiveness and dynamism in the economy. But this study will not incorporate the foreign direct investment.

External debt: “As foreign inflows accumulate, the issue of external debt arises in two respects. First, higher debt servicing involves a larger contractual claim on available resources. This means, *ceteris paribus*, that fewer resources will be available for investment. Moreover, as concern rises about declining creditworthiness, the cost of new external credit would tend to increase (Mirakhor and Montiel, 1987 and El-Erian, 1992, as cited by Khaled, March 1993, p. 4).

The second respect, leading to the "debt overhang effect," relates to investors' perceptions of future returns on investment. Specifically, as debt grows significantly, investors' risk aversion would tend to rise, reflecting concerns about the country's ability to meet future contractual debt servicing without raising effective taxation” (Corden, 1988 and Dooley et al, 1990, as cited by Khaled, March 1993, p. 4).

Profitability and market structure: As incentives to investment and as a source of financing the role of profit was useful. It is fact that everything that affects profitability will also affects the investment in the same direction. In the literature, the impact of taxes on investment has been given special attention. Market structure is also another important factor that affects profits and therefore it will affect investment. The more the market deviates from its competitive paradigm, the profits are likely to be higher. And therefore, investment is expected to be inversely related to the degree of competition in the market.

Uncertainty: Expectations play a crucial role in investment decisions in any country, and therefore economic and political instability and uncertainty can have a harmful effect on investment. Efforts designed at encouraging private investment have to be supported by

sound macroeconomic policies and adequate regulatory and supervisory structures in a country which maintain clarity and reasonable stability.

Government expenditure: “The final factor that is considered here is that of government expenditure. A priori, government expenditure can have either a positive or a negative impact on private investment. Government expenditure can positively influence private investment by raising effective demand, which can lead to a rise in profitability and investment. Also, if government expenditure is geared toward investment in required infrastructure, it can help relax existing constraints, reducing transaction costs for the private sector, thereby raising expected profitability and encouraging private investment. Furthermore, government investment can crowd in private investment when it targets activities which have strong linkages with the rest of the economy” (TunWai and Wong, 1982 as cited by Khaled, March 1993, p. 5).

2.4. FACTORS AFFECTING PRIVATE INVESTMENT IN ETHIOPIA

Education, marital status, age, personal saving, inflation, public investment, investment incentive, raw materials and land are a statistically significant determinant of private investment (Waktole and Bogale, 2018). Real GDP growth rate, inflation, real lending interest rate, real effective exchange, and gross fixed capital formation both in a short-run and long-run significantly affect the level of private investment (Wale, Y., 2015). Private investment in Ethiopia is determined by the availability of finance, the real exchange rate, policy and external debt (Workie, M., 1999). Public investment, real GDP per-capita, and external debt have significant positive long run effect on private investment (Adugna, H., 2013).

The World Bank Report (2004) on determinants of private sector growth in Ethiopia’s urban industry has classified the affected activities in to two as Export activities and Domestic activities. Under the export activities the following are classified as the determinants factors affecting entrepreneurial performance in Ethiopia, macroeconomic stability (inflation and exchange rate), tariffs, port facility which is the time it takes to clear customs, infrastructure which includes the availability of services such as power, telephone, roads, and waste disposal. Corruption, and also communication services such as postal, railway, air freight,

email, faxes, availability of export facilities such as customs duty drawback, export credit guarantee, export processing zone, export proceeds retention, skill and education of workers, business licensing and operating permits, customs and trade regulations, availability of business support services, and foreign currency regulation.

Infrastructure such as availability and efficiency of services including power, telephone, water, roads, and waste disposal, domestic demand, competition from imports, communication including postal, railway, air freight services, bureaucratic harassment which is the time spent management in dealing with regulations, access to land, access to and cost of finance, labor regulations, tax rates and administration, availability of business support services, and corruption are classified as the determinants of entrepreneurial performance in Ethiopia under the domestic activities (World Bank, 2004).

In Harari region, the results at micro level showed that the probability of individual's willingness to invest and intensity of capital use is significantly and positively influenced by level of education, access to land, access to credit, infrastructure facilities and investment incentives that means as these increases the private investment will also increase and vice versa. But the influence of corruption and bureaucratic red tape were found to be negative and significant that means as they increase the private investment will decrease. And also other variables such as interest rate, access to market, and practice of competitors, political instability, regionalism, legal and judiciary system, and investment locations were not significantly related to the investment (Baye, 2005).

2.5. INVESTMENT OPPORTUNITIES

USAID (2005) on their publication on Investment Opportunity Assessment for Timor-Leste they have identified that the natural resource of the country, its rich culture, availability of lower labor cost, strong leadership and vision of the government where the head of state is directly involved and stability of the country were among the opportunities identified.

According to the final report of the Caribbean export development agency (December, 2004), the investment opportunities in Saint Lucia starts from their openness for foreign investment and their commitments under international agencies such as World trade organization (WTO) and their commitments under Caribbean Community and Common Market and Caribbean Single Market and Economy in trade services. Priority investment areas identified include information technology, hotel and resort development and Financial services.

Giwa (2000) in Nigeria stated that there is a wide range of industries with high investment prospects. Specific industries that have been given priority for private sector investment are the following

Building materials industry including cement, roofing sheets, ceiling materials, ceramics and floor/walls tiles, door locks, carpets, plumbing materials, steel pipes, window and door frames and fittings.

Engineering and transport that includes components for automobile industry, machine tools and plant maintenance industries, metal working, aluminum rolling and extrusion.

Chemical Industry including down-stream petro-chemicals, industrial chemicals, nitrogenous fertilizer manufacture, pharmaceutical products, and films.

Electrical and Electronics as distinct from assembly of components, switches, fuses, switch boards and transformers, scientific instruments; school and medical laboratory equipment.

Other areas of investment opportunities in Nigeria are agricultural and processing of agro-allied products, oils and gas with renewed emphasis on gas and solid mineral exploitation-precious stone, gold, coal, bauxite and tin, etc. Privatizations, financial management and consultancy services, iron & steel, stone cutting and polishing are among other areas of investment opportunities in Nigeria.

When we come to Ethiopia according to UNCTAD (2000) abundant, low-cost, disciplined and trainable labor force, the size of its domestic market and the numerous river basins affording great potential for irrigation and hydropower generation are Ethiopia's comparative advantages. And also for potential investor's key opportunities exist are state privatization programs, agriculture, agribusinesses and processing, mining and resource development, infrastructure development, manufacturing and tourism.

And also, according to the UNCTAD (2002) the following are five dynamic conditions that must altogether present and supporting one another, for sustainable investment opportunities and technological growth in Ethiopia's regional system. These five conditions are administrative and technical human capital in sufficient quality and quantity, adequate financial resources to develop institutional capacity, appropriate political and administrative powers sufficient to influence development programming, physical as well as technological infrastructures, and horizontal linkages between key institutions dealing with investment, technology and learning in Ethiopia.

According to the Ethiopian Investment commission report (2019), Ethiopia has registered a consecutive double digit economic growth for a decade and half. Public investment, particularly in infrastructure, has been the principal driver of its recent economic growth, which helped the country to achieve concrete results in socio-economic development spheres of the nation.

Ethiopia has been attracting high amount of FDI in recent years. According to recent World Bank report, Ethiopia tops east Africa in attracting FDI, with almost half of the inflows to the east African region. The existing suitable development policies, the government's special attention to the sector, competitive and trainable labor force are among the major factors that enabled the country to become successful in attracting FDI. As one of the largest recipient of FDI in Africa, Ethiopia has attracted several global brands highlighting competitive investment opportunities.

The government of Ethiopia has taken serious measures in liberalizing the economy, removing structural or regulatory constraints for development. The "Home-grown Economic

Reform Agenda” launched in September 2019, aimed at unlocking the country’s development potentials, further advances past gains and takes improvements where there were gaps in the country’s development endeavors. This new initiative endeavors to attract private investment in the sectors of agriculture, manufacturing, mining, tourism, and Information and Communication Technology-(ICT). Also the strategic sectors for investment, as identified by the government, are agriculture, textile and apparel, leather and leather products, pharmaceuticals, agro-processing, ICT, power, mining, and tourism. (EIC, 2019)

2.6. MAJOR INVESTMENT OPPORTUNITIES IN HARARI REGIONAL STATE

According to Harari Investment Office Report (2019), the priority areas of investment that the regional government most wants to attract domestic investment as well as foreign direct investment (FDI) in different sectors include:

SERVICE SECTOR

Education in one of the service areas that will attract private investment in the country because, the primary school gross enrollment ratio(GER) increased from 94.4 in 2008/2009 to 104.9 in 2019/20, registering 11.12% growth. During the same period the secondary school GER from grade 9-10 increased from 32.4% to 51.1% and grade 11-12 from 6% to 26.4% (Ministry of Education, 2020).

Thus, the education sector of investment such as primary school, primary and secondary school, secondary schools, grade 9 – 10, grade 11 – 12 (college preparatory), 10^{+1} and 10^{+2} (vocational training schools) are the opportunities for private investment in the region that the investment office has given priority areas (Harari Investment Office Report, 2019).

In the health sector similar achievements were registered. The health coverage has increased from 77.6% in 2014 to 89.8% in 2020 E.C (FMOH, 2020). And thus, the Harari region has given priority for the investors in relation to health services include hospital that has a capacity to serve as referral hospitals, higher clinic, medium level clinic, lower level clinic

and specialized clinic (Harari Investment Office Report, 2019).

Tourism attraction is another opportunity for service sector in Harari regional state because the region is an old historical area and one of Islamic center after Mecca and Medina. The older part of Harar city which is known as Jugal has been registered as world heritage. It signifies unspoiled ancient times and amazing religious and architectural heritage.

The main tourist attractions in the area include Jegol Wall which is the ancient walled city of Harar is surrounded by the historical Jegol buildings that had been constructed in the 16th century, Harari Residential houses that are the architectural works of the Harari peoples is the Traditional houses called “Gay Garrach” which is believed to be unique to the region, museums which include a military museum, a museum housed in the house of 19th century, French poet Arthur Rimbaud house, the Harari national museum, and the first private museum of the country, Mr. Abedella Shirif Private Museum and Hyenas theater show places is also another tourist attraction for the region.

These tourist attractive conditions also require different hotels and restaurants for tourists in the region. Thus, are also opportunities for hotel investment construction and operation of star designated hotels, international and specialized restaurant and lodges in tourist and holiday hubs, tour operation and facilities (Harari Investment Office Report, 2019).

INDUSTRIAL SECTOR

Private industry in Ethiopia is not growing as fast as it should in other sectors of investment, even by the standards of Sub-Saharan Africa countries (World Bank, 2004). The establishment of agro processing and other industries in Harar that will make use of either abundant agricultural producers of surrounding areas, or the surface and underground resource as raw materials both for the local and for export to neighboring countries is a profitable prospect for any investor specially when it is seen in the light of the investment incentive by the regional government. Thus, in the industrial/manufacturing sector, there are also opportunities for private investments in the region (Harari Investment Office Report, 2019).

CONSTRUCTION SECTOR

Most of the mineral resources occurring in the region are those that can be used for construction. The major such resources found in the region are granite, sandstone, limestone/marble and the dominant minerals associated with these rocks. Thus, these resources can be the inputs for the construction sector in the region and thus there are opportunities available for private investment in the construction sector (Harari Investment Office Report, 2019).

AGRICULTURAL SECTOR

The land use types of the region consists of sedentary crop cultivation (mixed crop-livestock production) and agro pastoralists mainly in the drier areas. The irrigated land can be viewed as lands transformed or developed or mixed farming of variety of grain crops, fruits, coffee and chat in addition to being used for production of grain crops under rain feed conditions. Of the land areas of the region, 47.70% is potentially cultivable. Thus, in this agricultural sector, the opportunities available for private investment includes the urban agriculture which contains animal breeding, dairy, fattening of ox, sheep and goat, poultry, processing and preserving of fruits and vegetable, processing and preventing of meat products. Agro processing is also another part of the agriculture which includes dairy and dairy product processing, abattoir service for processing the flesh of poultry, ox, sheep, and goat intended for export, coffee processing, processing of fruits and vegetables, honey and wax processing, hide and skin processing, corn flex processing, corn oil processing and corn starch processing (Harari Investment Office Report, 2019).

INVESTMENT INCENTIVES

It is fact that investment incentives are one of the opportunities for investment which may attract investors to invest in the region and therefore, in addition to the investment incentives provided by the Federal Government of Ethiopia, the Harari regional state also offers additional incentives to investors who would like to invest in the region. Any investor who would like to participate in private investment depending on type and character of investment project he or she submits will be provided investment incentives attributed to income tax, custom tax (duty) and land.

LAND INCENTIVES

The regional administration has classified in the following form in order to provide land incentives for investors who wants to take part in the following investment areas (Harari Investment Office Report, 2019):

- For types of investment project designed to address existing gaps in the social sector as shall be prioritized by investment board of the region.
- For types of investment that will considerably reduce or assist the poverty reduction effort by the Virtue of the beginning labor intensive.
- For types of investment designed to make use of agricultural produces as their main input (Raw materials) and produces products with added values intended for exporting and as a result earns foreign currency.
- For types of investment designed to save foreign currency by producing the basic consumer goods formally imported from aboard.
- For types of investment designed to create forward and backward economic linkages in the sector.
- For types of investment designed to promote creative (innovation) among the society by providing venues for getting acquainted with specialized new know-how and technological skill.
- For types of construction project which are design to use and as a result acquaint the society with low cost construction technologies.
- For types of investment designed to reduce the prevailing shortage considerably.

EXEMPTION FROM INCOME TAX

The following investment activities are eligible for income tax exemptions in Harari regional state where an investor engaged in manufacturing, or agro-industrial activities or in the production of the item of agricultural products determined by the federal investment board initiated to income tax exemptions provided that they export 50 % of their products, and supplies at least 75 % of their products to an export as a production input, then such an investor shall be eligible for tax exemption for 5 years. An investor engaged in the above activities and who export less than 50 % of their products or supplies and also those who supply only to the domestic market shall be eligible for income tax exemptions for two years (Harari Investment Office Report, 2019).

Income Tax Exemption for Expansion or Upgrading

According to the report of the investment office (2009), an investor taking part in the activities specified in Article 4, sub article 1 of the investment code, who exports at least 50% of their products, and increase, in value, their productivity by 25%, shall be eligible for 5 years income tax exemption.

Exemption from Payment of Custom Duty

An investor shall be allowed to import duty free capital good and construction materials necessary for the establishment of a new enterprise or for the expansion or upgrading of an existing enterprise. In addition, an investor granted with the custom duty exemption prevailing shall be allowed to import duty-free capital goods necessary for his enterprise. And an investor eligible for duty-free importation of capital goods pursuant to this regulation shall be given the same privilege for spare parts whose value is not greater than 15% of the total value of the capital goods to be imported goods (Harari Investment Office Report, 2019).

2.7. CHALLENGING FACTORS OF PRIVATE INVESTMENT

Administrative and policy related factors like policy distortions and rent seeking, direct government involvement in some investment areas, corruption and dysfunction of the judiciary system, malpractices in granting licenses of investment activities, favoritism in tax revenue collection, arbitrary and inappropriate enforcement of business regulations, bureaucracy and policy implementation delay have brought major hindrances on the investment activities. Among these factors, operational inefficiencies of those government institutions are considered as the main obstacle by majority of private investors in the study area (Molla and Ayele 2019).

According to a study conducted by Waktola (2020), shows that growth rate of real GDP, availability of credit, and public investment among others, have positive impact on private

investment. On the other hand, macroeconomic instability (liberalization), lending rate, and consumer price index (CPI) have negative impact on private investment.

According to Sisay (no date), estimation results show that private investment in Ethiopia is influenced positively by domestic market, return to capital, trade openness and liberalization measures, infrastructural facilities and FDI; but, negatively by government activities, macroeconomic uncertainty and political instability.

Frimpong (2019), study seeks to present an empirical assessment of factors that have either stimulated or dampened private sector investment in Ghana for the past several decades. Employing modern time series econometric techniques such as unit root tests, co-integration and error correction techniques within an auto regressive distribution lag framework the study reveals intriguing results. Results suggest that private investment is determined in the short-run by public investment, inflation, real interest rate, openness, real exchange rate and a regime of constitutional rule, while real output, inflation, external debt, real interest rate, openness and real exchange rate significantly influenced private investment response in the long-run.

According to Abadi et al. (2019), study conducted in Tigray region found out that even though investment environment in the manufacturing sector is improving there are still problems and bottle necks in the areas of financial access, marketing, infrastructure facilities, incentive provision, land provision process and getting the required land size, and bureaucracy.

Nnanna (2007) on his studies of strengthening the investment climate he has identified the following constraints of investment.

Lack/Poor State of Physical Infrastructure: It is fact that both domestic and foreign investors are uncertain and afraid of investing in countries where basic requirements, such as roads, health services like hospitals and other utilities are insufficient. It is common for investors to face another high cost in a country where there is lack of adequate infrastructure. Thus such type of facing another high cost increases the costs of doing business in a country

and also reduces the rate of return on investment, thus it leads to turning away and wind up their business for both types of investors.

Lack of Skilled Manpower: It is fact that in the areas where there is no or very small labor availability investment is also lower. Among important factors determining foreign direct investment inflow into a given country and also domestic investments, some of them are labor availability and relatively low labor costs, high skills and efficiency.

Political Crises: Due to recent year's political crisis in sub-region, many investors have developed an opinion that investing in West Africa is unsafe. For example in Cote d'Ivoire, the organization of elections worsened social tensions and provoked confrontations causing many deaths. And also Sierra Leone and Liberia are just recovering from years of political crisis.

High Cost of Financial Transaction: Excessively high corporate taxes, high interest rates are not in line with the requirements of productive investments, inadequate depreciation allowance systems that lead to high costs, uncompetitive wage rates and rigid labor codes.

And using research findings and based on best international practice, the researcher has forwarded the following measures to further strengthen the investment climate in West Africa.

In order to attract more investors countries will need to advertise the available profitable opportunities more effectively. And the investment climate for domestic investors has to be improved. And also for the business sectors there is need to reduce transaction costs. It will be achieved by decreasing business registration costs and reducing the number of required procedures in countries. By reforming bureaucracy and taking legal action on corrupt activities corruption will be minimized.

In addition to the above recommendations, there is also a need to increase the investment in human capital on health and education, including institutional and on the job training that will overcome obstacles to productivity and higher earnings by the labor force whereas ill

health, illiteracy, lack of skills and adaptation to technology, poor incentives and immobility should be reduced (Nnanna, 2007).

According to World Bank group (September 2005) the key investment constraints in Mali includes corruption, infrastructure deficiency, factor markets, and regulations.

Corruption: Many entrepreneurs especially in the manufacturing sector consider corruption as a major issue. According to the report the cost is non-negligible, on average almost 3.5 % of firms' annual turnover disappears into informal payments in Mali. And the country finds itself among the countries that consider corruption to be the most severe constraint to the investment climates.

Infrastructure deficiencies: In Mali among the constraining factors of investment significant infrastructure deficiencies is the one which is constraining the firm efficiency in the country. Even though there are three distinct types of infrastructure services in Mali, they are perceived as low quality with industrial waste disposal service. 60% of the firms consider this as a major constraint because it causes serious environmental, health, and storage issues. And also 45 % rail-bound transport and 43 % road network are regarded as significant problems by the surveyed firms. In addition to these, supply of electricity remained a serious issue in the year 2004 in Mali.

Regulation: In Mali regulations and their enforcement are so far another serious cause of uncertainty and concern for investors. In the implementation of regulations and the ability of the judiciary system entrepreneurs have a relatively low confidence which may affect the investment negatively.

Factor market: Issues relate to financial, labor, and land markets are considered as constraints in the factor market. Among barriers to firm growth in Mali access to bank finance is the one. Even though it has to be, bank loans are not the main source of firms' working capital and investment financing in Mali. In addition, the collateral requirement is also high, on average it is amounts to 136 percent of the value of a loan. Relatively low level of qualification of workforce is also another constraint in Mali. And the training provided

does not always match the needs of the workforce requirement. In relation to health issues malaria remains non-negligible in Mali and leads to absenteeism.

It is fact that these problems discourage firms from initial establishing or expansion of their business. And according to the report further reforms and measures are therefore necessary to qualify a more competitive business environment. These reforms should have to target at fighting corruption, improving infrastructures, reducing the regulatory burden, and improving the working of factor markets. And therefore priority should be given to reforms in the following areas:

In the areas of corruption reinforcement the governments internal and external control mechanisms and provision of appropriate financing and guarantee complete autonomy to the newly created Office of the General Auditor, implement microeconomic measures like limiting employment duration for selected sensitive positions and effectively enforcing and reinforcing a corruption punishment system with high penalties are among the reforms that needs priority in relation to corruption problem in Mali.

In the areas of infrastructure ensuring sufficient industrial waste disposal service, develop and sustain a well-organized railway connection between Dakar and Bamako, and also modernize and better maintain the current road network and certify timely completion of existing projects are among the reforms that needs priority in relation to infrastructure in Mali.

In the areas of Regulatory Framework improving and simplifying the fiscal system, distribute fiscal information to firms more extensively, and also improve the capacity of the internal revenue service, decreasing the weight and cost of regulatory procedures by limiting the number of agencies dealing with firms.

In the areas of Labor Market improving distribution of labor market and related information to the users, to reduce absenteeism maximize the fight against malaria, and increase the output of the education system and professional training organizations to increase the overall level of qualification of the labor force.

In the areas of Financial Market by promoting the establishment of stable financial statements by small and micro enterprises improving firm access to bank financing, reviewing the rules of the auditor or accountant professions, and certifying the effective enactment of the current legislation are among the reforms that needs priority in relation to financial market in Mali.

In the areas of land market improving access to land by modernizing the current procedures to the world's best practices are among the reforms that needs priority in relation to land market in Mali (World Bank group, September 2005).

Administrative Barriers to Investment

Emery et.al, (2000), on their studies on administrative barriers to investment in Africa, they have tried to group the administrative barriers or obstacles to investment in Sub Saharan Africa into four categories. These are general approvals and licenses required of all firms, specialized or sectoral approvals required of firms in particular sectors, requirements to gain access to land for business facilities, and licenses or other requirements once firms are operational.

General approvals, license and registrations: According to the study all governments in sub-Saharan Africa need investors to complete a certain number of administrative steps when going to operate or enter into investment. These steps typically include registering the company or name of the business, obtaining work permits and residence visas if they are foreign investors and expatriate employees, registering with the required agencies like tax authorities, getting general business licenses from the investment office or required body, and getting access to available investment incentives or other benefits that may be obtainable under the investment law or other legislation.

According to their studies the types of obstacles encountered at the initial stage of the general approvals, licenses, and registrations includes unhelpful, even destructive, bureaucrats unable to provide forms, being late beyond the time necessary to secure approvals or signatures, complications stemming from the need to administer poorly

designed incentives schemes, poor modernization and lack of capacity in registration or regulatory bodies, to process applications there are sequential steps required from the agencies, and also there are unnecessary and excessive costs arising from complex requirements in company formation.

Specialized Approvals: this is related to the need of special permission or licensing from various government bodies. In the sectors where there is high restriction on entry, there are additional procedures for getting licenses. These processes of getting licenses for operations tend to be more. Even though there are many specialized licenses, the study has tried to give four sectors as representative of many of the others. These are industry, fisheries, forestry, and tourism. The administrative procedures and licensing requirements in these specialized sectors represents the wide range of bureaucratic constraints faced by potential investors.

Requirements to gain access to land for business facilities: These barriers start from issues that range beyond red tape and unresponsive bureaucracies because the question of access to land comes after getting licenses from the required body. And here there are important political and social issues involved with rental or selling public lands to private investors, mostly foreign investors.

Operational Requirements: This red tape starts after a firm has begun, or is about to begin, operations in a country. These are generally a combination of approvals or licenses, registrations related to beginning operations, and regulatory requirements based on sectoral issues. According to the study the main types of operational requirements includes import and export procedures, foreign exchange controls, and labor and social security.

Here in Ethiopia, according to UNCTAD (2002) on its report on the investment and innovation policy review of Ethiopia, it has identified and classified the challenging factors as internal economic and external economic challenges that are identified from private investors in Ethiopia.

Internal economic challenges

In many parts of the country there are poor infrastructure mainly in relation to transportation facilities, interrupted power and telecommunications, over regulation of the economy, the continuation of state control over essential aspects of international business operations such as imports of equipment and fuels, scarcity of modern administrative skills and culture in the local private and public sectors and there is absence of a qualified business development framework and gaps in other essential economic development services to both local and international investors in the country UNCTAD (2002).

Moreover there is also another continuing challenge posed by uncertainty in the region. Particularly, the recent conflict with Eritrea had adverse effects on the external perceptions of both countries UNCTAD (2002).

The external economic challenges are directly related with the factors affecting FDI in Ethiopia, and since this study will not incorporate the foreign direct investment it is unnecessary to talk about these external economic challenges.

In addition to this from field visits to five tanneries, ten leather goods/garments manufacturers and two footwear manufacturers, done by the (UNCTAD, 2002) they have tried to identify the following constraints in Ethiopia. Due to high interest rates, major innovation related problems are linked to production process control and lay-out and excess production capacity, most enterprises, especially State-owned enterprises, are currently faced with profitability, cash-flow and indebtedness problems particularly among tanneries.

Businesses that are using local raw materials have difficulty exporting owing to poor manufacturing capability, there is little sign of formal research and development within the companies, though, there are clear signs of advanced activities in some firms. In addition to these very few enterprises have awareness as to the existence of the Quality and Standards Authority of Ethiopia which shows that awareness works have to be done by the required body.

2.8. Research Gap

In Ethiopia, Studies were conducted with regard to opportunities and challenges of private investment in the past. Molla and Ayele (2019) in East Gojjam Zone, intended to provide valuable information about the investment environment of the zone to potential investors and found that the major bottlenecks of investment were administrative and policy related factors such as, policy distortions and rent seeking, direct government involvement in some investment areas, corruption and dysfunction of the judiciary system, malpractices in granting licenses of investment activities, favouritism in tax revenue collection, arbitrary and inappropriate enforcement of business regulations, bureaucracy and policy implementation delay; infrastructure related factors such as, inadequate supply of water and electricity, inadequate transport and communication system, unavailability of health and educational facilities; macroeconomic variables such as unavailability of foreign exchange reserve and exchange rate fluctuations; market related factors such as, inflation and raw material supply where among the challenging factors.

On the other hand socio cultural factors such as, Community's attitude, Community's religion and belief, Community's working habit and Community's Socio-cultural norms; geographic factors such as, climate and topography condition were considered opportunities in the zone.

Singh (2019) studied private investment and business opportunities in Mettu town, with the aim of assessing the contribution of private domestic investment towards business opportunities and employment creation, and found that the effect is significant with the service sector providing 78.12% of the employment created despite different challenges of investment such as, high interest rate, lack of capital, high taxation and poor infrastructure.

Yehuala (2019) aimed to investigate the challenges and opportunities of private investment in Addis Ababa Kality sub-City focusing of Manufacturing sector, and results indicate that infrastructural challenge, quality problem, lack of access to market, absence of skilled man power and low labor productivity, in-satisfactory credit access, in appropriate legal framework and Bank regulations to get capital for projects are the major challenges.

On the other hand, cheap labor force, excellent climate and, industrial park development are the opportunities for private manufacturing firms in Addis Ababa kality sub-city.

Abadi et al. (2015) assessment of challenges and opportunities of private investment in Tigray region in different woredas the case of manufacturing sector and found that even though investment environment in the manufacturing sector is improving, there were still problems and bottlenecks in the area of financial access, marketing, infrastructure facilities, incentive provision, land provision and bureaucracy.

Past research studies reviewed above show that not much research has been done with regards to opportunities and challenges of private investment in Ethiopia in general and no previous research done in Harari region in particular. Through a series of informal discussion with major actors in the region and review of literature, it has not been studied and well documented to as great extent within the context of challenges and opportunities of private investment despite its major importance to economic growth. Therefore, currently, no information is available to this regard in the region.

Also we can see above despite similarities in some challenging factors, there finds differ based on their focus area and scope and therefore it is difficult to generalize the same results in Harari regional state. Therefore, this study was conducted with the intention to fill this gap and its findings provide valuable information to the regional government policy makers and investors as well as researchers interested in this topic area for further study.

CHAPTER THREE

3. RESEARCH METHODOLOGY

In this chapter, the research design, population and sampling techniques, type of data and instruments of data collection, procedures of data collection and methods of data analysis are discussed.

3.1. Research Design

Research design is the framework or plan of a study used as a guide in the collection and analysis of data. A research design is a blueprint for aggregation measurement and data analysis. Research design is simply the framework or plan of a study used as a guide for data collection and analysis. In fact, it is a map developed to guide research, but also expresses a framework for data collection and analysis (Altasseb, 2015). The research design guides how the study is conducted and provides guidelines for the entire study.

This research chooses descriptive research design. Descriptive researches are used to provide quantitative explanations that help us logically simplify large amounts of data in a manageable format. As defined by (<https://research-methodology.net/descriptive-research/>), Descriptive research is used to describe the characteristics and behavior of the sample population. The descriptive design aims to define and identify the characteristics of variables. Therefore, the research result will provide an accurate understanding of the features that will inspire further research. In this design, quantitative data such as frequencies and means become essential (Sekaran and Bougie, 2009 as cited in Riwijanti, 2013).

3.2. Research Approach

The descriptive research design uses both qualitative and quantitative research method, which is mixed-method data analysis. Data were collected from both primary and secondary data sources. Qualitative research method was applied to explain the challenges and opportunities and to obtain systematic sequence of information to get into the depth of the research problem and quantitative research method was used to provide numerical measurement and analysis of the magnitude and extent of the problem.

3.3. Population and Sampling Technique

According to the Harari regional state Investment office report of the 2019, the total populations of private investors in the regional state who are registered, licensed and started operation till 2019 are Six hundred eighty four (684).

The study employed stratified sampling technique to select the actual sample size from the total study population. The study population was identified based on different sectors classified by the regional office that have investment license and started operation which includes service sector, manufacturing sector (industry), construction sector, agricultural sectors of the region. This is because the populations within the strata are homogeneous with respect to the characteristics on the basis of which it is being stratified.

After the data are stratified, simple random sampling design specifically lottery method was used to select the sample respondents because each element in the population will have equal and independent chance of being selected in the sample. And when drawing the sample, the way of selecting a sample was without replacement.

The researcher took a total of 252 respondents out of total population of 684 investments in the region as shown below. The sample size for the study was calculated using the formula recommended by **Yamane (1967)** as cited by (Wickramasinghe, 2007).

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

Where,

- n is sample size
- N is total population
- e² is probability of error

Therefore the sample size for this study is:

$$n = 684 / (1 + 684(0.05)^2)$$

$$n = \underline{\underline{252}}$$

With N = 684, e = 5% (at least 95 % confidence level), thus the sample size is 252

Since the study is stratified sector wise, the sectorial classification of the total population is shown below:

Table 3.1 Sectorial Classification of Samples

Sector	Population	Units
Service *	171	$(171/684) \times 252 = 63$
Manufacturing (Industry) **	162	$(162/684) \times 252 = 60$
Construction ***	282	$(282/684) \times 252 = 104$
Agriculture	69	$(69/684) \times 252 = 25$
Total	684	252

* Service: includes hotel, merchandising/trade, education, health

**Manufacturing/industry: including mining

***Construction: includes Real estate and construction

3.4. Type of Data and Instrument of Data Collection

The study has used both primary and secondary data source. The primary data were collected from selected investors in Harai regional state by using survey questionnaire and an interview with the regional state investment office. Secondary data was collected from different reports of the regional state investment office, which are relevant to the study.

3.5. Procedures of Data Collection

The study has made use of survey questionnaire adopted from Molla and Ayele (2019); Yehula (2019) and modified by the researcher in the context of Harari regional state. The questions include in the questionnaire are both open and close ended. The open ended questions were mainly to gather information on the opportunities of private investment and close ended questions were used for the demographic structure of investors and to identify the challenging factors.

The survey instrument employed in this study was a three page questionnaire distributed to the different investment sectors in the region. A total of 39 questions were included in the questionnaire by dividing them in to two parts. The first part of the questionnaire contains 8 questions which includes general information about individual investors, what attracted them to invest in the region and necessary improvements required by the investment office of the region. And the second part of the questionnaire was grouped into six categories base on challenging factors having a total of 31 questions.

A Total of 252 questionnaires were distributed and out of these 246 questionnaires were collected representing a response rate of 97% percent. From the collected questionnaires some open ended questions were incomplete.

3.6. Methods of data analysis

Data were analyzed using descriptive statistics with the tool, Statistical Package for Social Science (SPSS Version 26) computer program mainly to run the questionnaire. The respondents' scores were summarized and analyzed using both simple statistical techniques such as tables and percentages, and descriptive statistics like mean were used. Other source such as journal articles, previous studies of researchers, reports of the investment office and other Internet sources were used to analyze the data.

Finally, based on the results and outputs of the descriptive analysis, the study was interpreted and concluded by looking both the problem and objective of the study to show the meaning and explanation of the research and by answering the research questions as well.

CHAPTER FOUR

4. RESULTS AND DISCUSSION

This chapter consists of the results and discussion on the finding from the data collected from investors by survey questionnaire. In this section the findings were analyzed using descriptive method of analysis. The total questionnaires distributed were 252 and out of the total 246 were collected and 6 were not collected. This enables meaningful analysis of a data with 97% response rate. To analyse the research finding statistical package for the social science (SPSS version 26) was used. This chapter will emphasize on the empirical findings and discussion on the descriptive analysis of the data.

4.1.CHARACTERISTICS OF SAMPLE RESPONDENTS

Table 4.1 Characteristics of sample respondents

Respondents (n = 246 investors)	Characteristics	Frequency	Sample Description in %
Year of establishment of the organization	- Less than 5 years	43	17.40 %
	- 5 to 10 years	103	42.20 %
	- More than 10 years	93	37.60 %
	- Missing	7	2.80 %
	Total	246	100 %
Age of respondents	- 18-24 Years	0	0 %
	- 25-54 Years	171	71 %
	- 55-64 Years	64	23%
	- 65 and Above	11	4%
	- Missing		
	Total	246	100 %
Gender	- Male	178	72.4 %
	- Female	68	27.6%
	- Missing		

	Total	246	100 %
Type of business organization	- Manufacturing/industry	58	23.5%
	- Service	49	20 %
	- Merchandising	14	5.7%
	- Construction	101	41.1 %
	- Agriculture	24	9.7 %
	- Others	0	0%
	- Missing	0	0 %
	Total	246	100 %

Source: Questionnaire Result (2021)

From (table 4.1) above we can see that 42.2% of investor's organization year of establishment is between five to ten years and 37.6% are above 10 years. This indicate that majority of the organization are within the developmental stage of their organizational life cycle where by having an opportunity to grow. In addition the age groups of the respondents, majority of them which are 71% are between 25-54 years. According to <http://Indexmundi.com>, the age structure of Ethiopia from 25 to 54 is stated as a prime working age. Therefore, the region has investors who have the ability work and excel in their field of business which is a great opportunity for the region. In terms of gender 72.4% of respondents are male and 27.6 % female.

The type of business in which the respondents are engaged in, majority of them 41.1% are in construction sector, 23.5 % in manufacturing sector, 20% in service sector, 9.7% in agricultural sector and 5.7% in merchandise sector. From this data we can infer that there is a great opportunity in the construction, manufacturing and service sector in the region indicating the priority areas for investment which concedes with the investment office report.

4.2. INVESTORS PERCEPTION WITH REGARDS TO DOMESTIC PRIVATE INVESTMENT

Table 4.2. Investors' perception with regard to domestic private investment

Perception with regard to attractiveness of the region for investment	Frequency	Percentage
Very Attractive	55	22.4%
Attractive	124	50.4%
Neutral	35	14.2%
Less Attractive	32	13.0%
Not attractive	0	0%
Total	246	100%

Source: Questionnaire Result (2021)

Here investors were asked on their perception on the attractiveness of the region with regards to investment by putting a scale ranging from very attractive to not attractive. Accordingly the majority of the respondents 50.4 % stated that the region is attractive for investment, 22.4% very attractive, 14.2% neutral, and 13% less attractive as stated in table 4.2 above. Therefore we can infer that Harari regional state is attractive for investment.

According to the report of the regional investment office report of 2019, the region gives tax incentive as well as duty free privilege with collaboration with the federal government which gives initiative for investors to invest. Also, with the interview conducted with the investment office representative who stated that many of the investors who invest were initiated by the tax holiday and duty free privileges offered by the government. Therefore, the data above can be further affirmed that the regional state is attractive for investment.

Table 4.3. Variables that attracted investors to start their business in the region

	Total number(246)	Frequency of response	Percentage
Land incentive by the region	246	7	3%
Tax incentive by the region	246	76	31%
Availability of sufficient infrastructure	246	63	26%
Availability of sufficient raw material	246	27	11%
The region being a known tourist destination in Ethiopian	246	84	34%
Others	246	98	40%

Source: Questionnaire Result (2021)

Table 4.3 above shows the factors that attracted investors to invest in the region. Respondents were allowed to choose more than one factor. And Out of the total respondents, majority of the respondents (40 %) responded on other factors to invest in the region. The other factors include being a domicile of the town and all their resources and assets being in the region. The other factors that attracted the investors to invest in the region which constitute 34%, 31% and 26% are the region being a known tourist destination in Ethiopia, tax incentive by the region and availability of infrastructure respectively.

According to the interview conducted with the regional investment office, these past two years they are facing difficulty with land where there is a large scale unlawful land seizure of areas which are designated only for investment. Therefore, the reality at hand states that land incentive offered by the region is at question which can affirm the finding above where only 93% or 239 out of 246 investors didn't get land incentive from the region.

The other question was with regards to encouraging factors that made them continue their operation in the region. In summary respondents stated that the region is potential market area for their products and operational costs are less.

4.3. INVESTORS PERCEPTION WITH REGARDS TO CHALLENGING FACTORS OF PRIVATE INVESTMENT IN THE REGION

The main factors which are considered in the investor perceptions with regards to challenging factor of private investment are depicted in the following part of the analysis. Factors are subdivided into six subdivisions; - financial factors, infrastructural factors, political factors, administrative factors, sociocultural factors and geographic factors. The respondents were asked to give liker scale value for factors from 1-5 (1=not challenging, 2= little challenging, 3= moderately challenging, 4= highly challenging and 5= very highly challenging) depending on their degree of challenge of the variables. According to the study conducted by Molla & Ayele, (2019) on opportunities and chllanges of private investment in Gojjam Zone, a mean score below 3 indicates opportunities of the private investment, while mean score above 3 indicates factors that are challenging to private investment. Therefore, here in this research a mean score below 3 indicates opportunities of the private investment in Harari region, while mean score above 3 indicates factors that are challenging to private investment.

4.3.1. FINANCIAL FACTORS

Table 4.4. Financial factors affecting private investment

	N	Minimum	Maximum	Mean
Credit extension service provided by financial institution	246	2.00	4.00	2.8577
Higher level of interest rate on loan	246	1.00	4.00	2.5935
High cost of investment	246	2.00	4.00	2.8171
Financial service provided by insurance companies	246	1.00	4.00	2.5528
Exchange rate fluctuation	246	1.00	5.00	3.8537
Unavailability of foreign currency	246	2.00	5.00	3.9837

High Inflation	246	1.00	5.00	4.0325
Valid N (list wise)	246			

Source: Questionnaire Result (2021)

The degree of challenge investors' face with finance related factors are included in the table 4.4 above. From the factors high inflation, exchange rate fluctuation, and unavailability of foreign currency are the main problems hampering the investment activity, with a mean score of 4.03, 3.98, and 3.85 respectively, which are close to 4.00 (highly challenging). These finding agree with the finding of Molla and Ayele (2019) where he stated that unavailability of foreign currency and exchange rate fluctuations are the main problems that hamper investment activity in East Gojjam zone.

On the other hand, higher level of interest rate, high cost of investment, high level of interest rate on loans and credit extension service by financial institution have mean value below three as shown in table 4.4 above. These indicate that the factors are not challenging implying that they are opportunities available for investors in the region.

4.3.2. INFRASTRUCTURAL FACTORS IN THE REGION

Table 4.5. Infrastructural Factors in the Region

	N	Minimum	Maximum	Mean
Interruption to telecommunication service	246	1.00	4.00	1.9228
Access to education facilities	246	1.00	3.00	2.0569
Access to health facility	246	1.00	5.00	2.2561
Transport availability	246	1.00	4.00	2.3699
Market accessibility	246	1.00	5.00	2.7642
Lack of appropriate IT infrastructure	246	1.00	3.00	2.7886
Access to electric facility	246	1.00	5.00	3.4618
Interruption of water supply	246	1.00	5.00	3.6553

Source: Questionnaire Result (2021)

According to the table above, the main factor associated with the infrastructural challenge are electricity and water having a mean score of 3.4 and 3.6, which are challenging factors

for investment in the region. The other factors interruption of telecommunication service, access to education, access to health facility, transport availability, market accessibility and lack of appropriate IT infrastructure all have a mean value below 3 indicating little challenge to private investment in the region. These results consistent with the study conducted in Tigray region by Abadi et al. (2015) where telecommunication, health and post office service were satisfactory and good whereby, supply of water and electricity were ranked as poor or challenging.

4.3.3. POLITICAL FACTORS IN THE REGION

Table 4.6. Political Factor Affecting Private Investment

	N	Minimum	Maximum	Mean
Government intervention	246	1.00	5.00	2.8171
Political instability of the region	246	2.00	5.00	4.0854
Valid N (list wise)	246			

Source: Questionnaire Result (2021)

According to table 4.6 above the political factors represented by government intervention and political instability in region indicate have a mean value of 2.8 and 4.1 respectively. These show that government intervention is less challenging to private investment in the region whereby political instability is very challenging for investors. The result for political instability in west Africa conducted by Nnana (2007) show the same result where political instability is a very challenging factor for investors.

4.3.4. ADMINISTRATIVE FACTORS IN THE REGION

Table 4.7. Administrative Factors Affecting Private Investment in the Region

	N	Minimum	Maximum	Mean
Licensing procedure by the government	246	1.00	3.00	2.0650
Courts and legal system of the region	246	1.00	4.00	2.1707
Corruption in implementing investment policies	246	2.00	4.00	2.5203
Level of awareness of the investment office employees on investment laws	246	2.00	4.00	2.8293
Poor tax administration and custom procedure	246	1.00	5.00	3.1301
High contraband in the region	246	1.00	5.00	3.1463
Valid N (list wise)	246			

Source: Questionnaire Result (2021)

According to table 4.7 above, the administrative factors such as poor tax administration and customs procedure, and high contraband in the region are the main challenging factors for investors having a mean value of 3.13 and 3.14 respectively. Corruption in implementing investment policies and level of awareness of investment office employees on investment laws have mean value 2.8 and 2.5 respectively indicating moderately challenge to investors. The other factors such as licensing procedures by the investment office and court and legal system of the region have a mean value of 2.06 and 2.17 respectively which are close to 2 indicating little challenge to investors. Therefore we can see that licensing procedures and legal system of the region are opportunities for investors in the region.

4.3.5. SOCIO-CULTURAL FACTORS IN THE REGION

Table 4.8 challenging factor with regard to socio culture in the region

	N	Minimum	Maximum	Mean
Gender driven problem	90	1.00	3.00	2.0444
Community religion,belief and socio cultural norm	196	1.00	5.00	2.5561
Community working habit	246	1.00	4.00	2.9878
Social factor in implementation of investment laws	246	1.00	5.00	3.9146
Ethnic conflict among dweller of the region	246	1.00	5.00	4.0285
Valid N (list wise)	72			

Source: Questionnaire Result (2021)

In table 4.8 above the mean score value for ethnic conflict among dwellers of the region and social factor in implementation of investment laws which is 4.028 and 3.914 indicating that majority of the respondents agree on its significant challenge on private investment. Other factor; gender derived problem, community religious belief and socio cultural norms, and community working habit with a mean score of 2.04, 2.55 and 2.98 respectively indicating respondents do not consider these factor as challenging to the private investment. So in Harari region with regards to the community religious believe and cultural norm, community working habit has a good opportunity for the private investors. This outcome supports the outcome found by Molla and Ayele (2019) conducted in East Gojjam zone. Conflict among dweller of the region and the social factor in implementing of investment laws shows significant impact on the private investment.

4.3.6. GEOGRAPHIC FATOR OF THE REGION

Table 4.9. Challenging factors with regard to Geography in the region

	N	Minimum	Maximum	Mean
Climate condition	246	1.00	3.00	1.6829
Availability of raw material in the region	246	1.00	5.00	2.8171
Shortage of skilled labour in the region	246	1.00	5.00	3.0244
Valid N	246			

Source: Questionnaire Result (2021)

In table 4.9 above the mean score for climate condition and, availability of raw material in the region and shortage of skilled labor in the region are 1.68, 2.81, and 3.02, and this indicate respondents consider these factors particularly the climate condition and availability of raw material in the region as less challenging factor on the private investment. So harari region has a good opportunity of climate condition towards the private investment as responded by the respondents. As the mean score of skilled labor in the region is 3.02, which implies moderate challenge on private investment in the region.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

The purpose of this study is to assess the opportunities and challenges of private investment in Harari region aiming to provide valuable information on the investment environment for potential investors and the regional investment office.

From the finding the opportunities include being a world heritage city which is a known tourist destination, tax incentives provided by the state, the availability of infrastructure, being a potential market area (center of trade) among the rural areas surrounding the region and less operational cost mainly labor cost. Accordingly again from the findings we can conclude that Harari regional state is attractive for private investment.

On the other hand challenging factors with regard to the financial factors the main obstacle noted in the findings are high inflation, followed by the unavailability of foreign currency and exchange rate fluctuation.

With regard to infrastructural related factors, interruption of electric and water supply were considered as the major obstacle by majority of the private investors in the region. Other factors such as access to health facility, access to education, lack of appropriate IT infrastructure, market accessibility as well as transport availability were considered less challenging as compared to the factors mentioned above.

Political factors such as political instability of the region significantly noted as a challenging factor to investment in Harari region. In contrary to this, government intervention with direct government involvement in some investment area was considered as a less challenging factor for the investment in the region.

Administrative factors such as poor tax administration and customs procedure and high contraband in the region have brought hindrance on the investment activities in Harari

region. Factor such as land provision and awareness work on investment laws and regulation by the investment office were considered challenging by investors. Other factors such as corruption in implanting investment policies, level of awareness of investment office employees on the investment law, licensing procedure by the investment office and court and legal system of the region had a lesser impact on the investment activity of the region.

Socio cultural factor such as the ethnic conflict among dweller of the region and social factors in implementing of investment law are the main problems that hamper investment activity in the study area. Other factors such as the community working habit, community religious belief and sociocultural norms do not affect private investment in the region. These variables are considered an opportunity of private investment in Harari regional state.

Geographic factors such as the climate condition and availability of the raw material in the region do not affect the activity of the investment in the region. Rather they are considered as an opportunity of private investment in Harari region.

5.2. Recommendations

The overall objective of the research was to assess the opportunities and challenges of private investment in Harari regional state. Thus, based on the findings the following recommendations were forwarded by the researcher.

- According to the result of the study, there were many opportunities available for private investment in the region in different sectors that are classified under the factors that encourage investor to start a business in this region and factors that made them continue operation in good condition. But, promotional works done by the regional state was very low. These can be seen by the majority of the investors being a domicile of the region. Thus, the investment office is required to promote the necessary investment policies and give regular update to investors.
- Financial factors such as unavailability of foreign currency and exchange rate fluctuation can be reduced by means of import substitution by promoting local

products as well as encouraging local industries by providing the necessary assistance both in terms of finance and know-how which intern will have its share in reducing inflation.

- Infrastructures such as water and electricity are one of the main challenges for investors in the region. The regional government must find permanent solution to alleviate the problem by considering establishment of industrial parks where all the infrastructural facilities can be constructed in one area for a wide range of investors and create job opportunity for thousands of people in the region.
- The other main problem facing investors in the region are political factors as well as socio-cultural factors such as political instability because of ethnical conflict among dwellers of the region. Since the region is home to different ethnic groups with different religious beliefs, conflicts arise now and then which discourages Investment. Therefore the regional government must create platforms to create common understands among the different ethnic groups such as panel discussions, dialogues among ethnic leaders and religious leaders.
- The other challenging factors faced by investors with regard to administrative factors were poor tax administration and level of awareness of the investment office employees on investment laws. Here the government must work on capacity building with regard to its tax authority and investment office by giving regular training to employees as well as to the investors with regard to tax and investment laws and regulation.
- In general the region as being one of the major tourist destination in the country, the government as well as the investment office must work together with investors to exploit these potential market to the advantage of the investors as well as to the region.

- As a further study recommendation, other researchers' can consider constructing their own questionnaire where by other challenging variables can be added for further analysis. Also while analyzing, factor analysis or regression analysis can be used. In addition the scope of the study can be widened by including Foreign Direct Investment in the region.

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ANNEXES

SURVEY QUESTIONNAIRE

To be filled by Owners/Managers of Private Investment

Dear owner or manager of the organization

I am a student at St.Marry University College, school of graduate studied, MBA in accounting and finance. And I am undertaking a research study on the **Assessment of Opportunities and Challenges of Private Investment in Harari regional state**. The research is for academic purpose to achieve my partial fulfillment of master's degree in the field of study.

Therefore I would like your cooperation to provide me your crucial information because it has a very high value for the success of this study. I promise that your information will not be forwarded to any other third parties without your permission.

Thank you in advance for your time and consideration.

Part One:

1. Year of establishment of your organization _____
2. Age Group (✓)
 - 1) 15 – 24
 - 2) 25 – 54
 - 3) 55 – 64
 - 4) 65 and Above
3. Gender
 - 1)Male
 - 2) Female
4. Type of your business/organization
 - 1)Manufacturing
 - 2)Services
 - 3)Merchandising
 - 4)construction
 - 5)Agricultural
 - 6)others (please specify) _____
5. How attractive is Harari Regional State for Investment?
 - 1)Very Attractive
 - 2) Attractive
 - 3)Neutral
 - 4)Less Attractive
 - 5)Not Attractive
6. From the list below, what are the factors that attracted you start your business in this region? You can choose more than one factor.
 - Land incentive by the region
 - Tax incentives by the region
 - Availability of sufficient infrastructure
 - Availability of sufficient raw materials

- Availability of Demand for your product or service
- The region being a known tourist destination in Ethiopia
- If other, Please specify _____

7. What are the factors that encourage you to continue your operation in this region?

8. Is there any investment procedure that needs further improvement by the investment office or any other condition that may help you to continue in good operation? (would you please list out)

Part Two:

Questions related to the Challenging factors of Private investment in the regional state of Harari (please choose only one) and for the choice you select please mark (√) sign.

- 1. Not Challenging 2. Little challenging 3. Moderately challenging**
4. Highly challenging 5. Very highly challenging

A. Financial Factor	1	2	3	4	5
1. Credit Extension Service provided by Financial Institutions					
2. Financial service provided by Insurance companies					
3. High Cost of Investment					
4. Higher level of Interest rate on loans					
5. Unavailability of foreign Currency					
6. Exchange rate fluctuation					
7. High Inflation					

B. Infrastructural factors in the region	1	2	3	4	5
1. Market accessibility					
2. Transport availability					
3. Interruption of Electric power					
4. Interruption of Telecommunication service					
5. Interruption of Water supply					
6. Access to Health facilities					
7. Access to Education facilities					
8. Lack of appropriate IT infrastructure					

C. Political factors in the region	1	2	3	4	5
1. Government interventions					
2. Political instability of the Region					

D. Administrative factors in the region	1	2	3	4	5
1. Licensing procedures by the investment office					
2. Level of Awareness of the investment office employees on Investment laws					
3. Corruption in implementing investment policies					
4. Courts and legal system of the region					
5. Poor tax administration and customs procedures					
6. High Contraband in the region					

E. Social-Cultural factors in the region	1	2	3	4	5
1. Community working habit					
2. Social factors in Implementation of Investment Laws					
3. Gender Driven Problems					
4. Community Religion, Belief and socio cultural norms					
5. Ethnic Conflict among dwellers of the region					

F. Geographic factor in the region	1	2	3	4	5
1. Shortage of skilled labor force in the region					
2. Availability of raw materials in the region					
3. Climate Condition					

DECLARATION

I Wahib Abdishakur Bedri hereby declare that this study entitled ASSESMENT OF THE OPPORTUNITIES AND CHALLENGES OF PRIVATE INVESTMENT IN HARARI REGIONAL STATE, is for the partial fulfillment of the requirement for MBA in Accounting and Finance is prepared with my own effort. All information in this study has been obtained and presented in accordance with academic rules and ethical conduct. This study is my original work and has not been presented for a Degree of Masters program in this or in any other University and I have made it independently with the close advice and guidance of my advisor.

Declared by: Wahib Abdishakur Bedri

Research Advisor: Abreham G/Giorgis (Ass.Prof.)

Date: 14/06/2021

Date: 14/06/2021

Sig.: _____

Sig.: _____

ENDORSEMENT

This Thesis has been submitted to St. Marry University, School of Graduate Studies for examination with my approval as a University Advisor.

Abreham G/Giorgis

Advisor

Signature