International Business & Economics Studies
ISSN 2640-9852 (Print) ISSN 2640-9860 (Online)
Vol. 5, No. 2, 2023
www.scholink.org/ojs/index.php/ibes

Original Paper

The Domestic Private Investment in Ethiopia: Contribution, Constraints, Trends and Determinants

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Received: February 26, 2023 Accepted: April 3, 2023 Online Published: April 7, 2023

doi:10.22158/ibes.v5n2p70 URL: http://dx.doi.org/10.22158/ibes.v5n2p70

Abstract

The intended purpose of this study was to investigate the contribution, constraints, trends and determinants of private domestic investment in Ethiopia by taking annual data set of 34 years spanning from 1987-2021. The objective was achieved by collecting secondary data. Accordingly, domestics private investment has contributed a lot for the growth of the national economic despite the constrains. The domestic private investment in Ethiopia has faced severe trend due to trends in economics system in the country, i.e., pre-1974, 1974-1991 and Post 1991. The determining factors in this study included private investment, foreign direct investment, inflation rate, access to credit, GDP per capita, lending interest rate, human capital, exchange rate, public investment, taxation and political stability. Accordingly, GDP per-capital, political stability, public investment and lending interest rate have significant positive long run effect on private investment, while human capital and exchange rate have negative long run effect. Public investment and political stability have positive significant effect while lending interest rate and exchange rate have negative significant effect in the short run. Finally, expansion of infrastructure, increasing income generation mechanism for citizens, appreciation of domestic currency and creating fertile investment climate are some of the recommendations forwarded.

Keywords

domestic private investment, contributions, constraints, trends, determinants and Ethiopia

1. Introduction

Without a question, one of the main drivers of growth in all economies is investment (Khan, 2005). Its efficacy, however, depends on strong complementarities with other growth-process components, particularly technological advancement, skill development, and the growth of innovative capability.

These factors make investing a logical starting point for governments looking to create a strong development strategy. However, the relationship between investment and these other development drivers is not one that happens naturally. It calls for, among other things, a supportive macroeconomic climate as well as particular institutions and policies aimed at promoting savings and luring and directing investment to crucial economic sectors, thereby enhancing the contributions of investment to the development of skills, technological change, competitiveness, and economic growth (Workie, 1997).

Investment expenditure on durable products with relatively long useful lives and that incorporate the most recent technical advancements can also increase a nation's productive capacity. Additionally, adjustments to investment spending may have an impact on the market for capital goods, which may alter employment and personal income levels. Gross fixed capital formation is a highly volatile component that causes significant fluctuations in a country's economic activity, even though it typically makes up a much smaller portion of an economy's total expenditure than consumer expenditure (Olga Kosma, 2015).

Due to changes in political systems and processes, Ethiopia's private investment has demonstrated a variety of growth and performance patterns. Private investment as a percentage of GDP at market prices was approximately 10.5% and increasing by an average of 6% per year during the Imperial period (1960/61–1973/74). The existence of an import substitution strategy, market-oriented financial sector policies, a developing stock market, and a free market where prices were solely determined by supply and demand are some of the factors that contributed to private investment's relatively strong performance during this time (Alemayehu & Befekadu, 2002).

Due to the socialist doctrine promoted by the military government that replaced the monarchy in 1974, this encouraging trend was, however, reversed. As a result, from 1974-1975 to 1990-1991, a centralized economic system existed, with the state playing a significant part in all aspects of the economy. During this time (1974-1991), the ratio of private investment as a percent of GDP declined to 4.5 percent. When compared to Sub Saharan African (SSA) nations, where the average rate of private investment to GDP was 10.6%, this number is significantly lower (IMF, 1995). The proportion of private investment in GDP at Market Price increased to about 8% between 1992/3 and 2004/05. Despite this success, the private sector's performance has not been deemed adequate in light of the twelve years of policy incentives and adjustment efforts aimed at making private investment the primary driver of economic development. The IMF noted that this subpar performance could be seen in comparison to the average private investment shares of SSA nations (12.5%) (2012). And between 2004/05 and 2013/14, Ethiopia's average real private capital formation, as a percentage of real gross capital formation, was 4.21 percent, compared to 3.43 percent for real state capital formation. This demonstrates the low proportion of private sector investment in overall investment, which necessitates efforts to increase its share from the present level (Addis Ababa Chamber of Commerce Report, 2013).

A consensus among economists has recently emerged regarding the beneficial impact of sustainable

investment on economic development. In addition, the investment environment affects how long an investment will last (World Bank (WB), 2004). The macroeconomic, political, institutional, and policy context of a nation are collectively referred to as its "investment climate," and it, along with structural factors, decides how well private investment and economic development perform (WB, 2004a).The United Nations (UN, 2005) claims that the availability of basic physical infrastructure, such as telephone, water, electricity, and roads, as well as access to information and advisory services, as well as increased labor productivity, effective tax administration and tax rates, financial access, the availability and affordability of urban land, business regulations, and trade facilitation services, among other factors, can further be used to explain investment climate Tadesse (2011).

For a panel data set covering the majority of African countries, Ndikumana (2014) constructs a composite measure of financial intermediation and tests the effects of financial development on domestic investment. The results conclusively confirm a positive relationship between domestic investment and financial development. In the same vein, Ghura and Goodwin (2000) find that private investment in sub-Saharan African countries is significantly influenced by financial development. Using a balanced panel of 20 sub-Saharan African countries to test the saving-investment nexus, Adeniyi and Egwaikhide (2013) find that financial deepening matters little for this nexus. However, when saving is interacted with financial development measured by credit to the private sector, they find that the interaction term exerts a positive and significant influence on investment. This suggests an important role for financial development in mobilizing domestic savings to finance investment. Overall, the evidence supports a positive association between financial development and domestic investment in Africa as in other regions (Ndikumana, 2014).

With panel data from the years 2000 to 2012, Esubalew (2014) conducted studies on the macroeconomic factors that affect private investment in the east African area. Macroeconomic variables like changes in output, real per capita growth, fiscal and monetary policy, as well as the exchange rate, are said to be the most important determinants for the changes in private investment in eastern African countries over the research period.

Using time series data from 1981 to 2010 and OLS methods, Adugna (2013) investigated the factors that influence private investment. She found that public investment, economic growth, and interest rates all have a positive and statistically significant effect on the performance of private investment. Hailu and Debele (2015) used time series data from 1975 to 2011 to study the effects of monetary policy on private investment in the example of Ethiopia. They used autoregressive distributed lag models and co integration based on ECM. Their study's main conclusion was that economic growths, the value of the birr currency, and public investment have a large long-term impact on private investment in Ethiopia.

However, this study differ from the aforementioned studies in that, most of the previously done papers have tried to investigate the determinants of private investment in Ethiopia. On contrary, this study has included contributions, constrains, trend and the determinants domestic private investment in Ethiopia.

Therefore, general Objective of the study has been to investigate the contributions, constrains, trends and the determinants of private investment in Ethiopia for the period ranging from 1987 to 2021. More specifically, the study has attempted to;

- Assess the contributions of private domestic investment for the period of 1987-2021.
- Assess the constrains of private domestic investment in Ethiopia for the period of 1987-2021.
- Examine the factors Determinants of private domestic investment for the period of 1987-2021.
- To examine the trend of private domestic investment for the period of 1987-2021.

With this motivation, this article can make many contributions to knowledge across the country, Ethiopia. It can provide relevant information on the relevance of institution, economic and social infrastructure investment on the private investment. Similarly, this article can be useful for policy makers in designing and formulating policies that would create an enabling environment for the flourishing of private sectors investment so as to boost growth of the economy. In the same token, this article can also help to initiate other researchers to carry on further and deep rooted studies in the endeavor to remove bottlenecks for private investment flow and thereby enhance their contribution for economic growth process. Furthermore, this article will enhance other scholars to carry on further study through providing relevant evidence on the determinants of private investment in Ethiopia. In conclusion, it can be a source of empirical findings for many studies.

2. Research Methodology

2.1 Description of the Study Area

Ethiopia is a country in the Horn of Africa (Figure 1). It is bordered on the north by Eritrea; on the east by Djibouti and Somalia; on the west by Sudan and South Sudan; on the south by Kenya.

Figure 1. Map of Ethiopia.

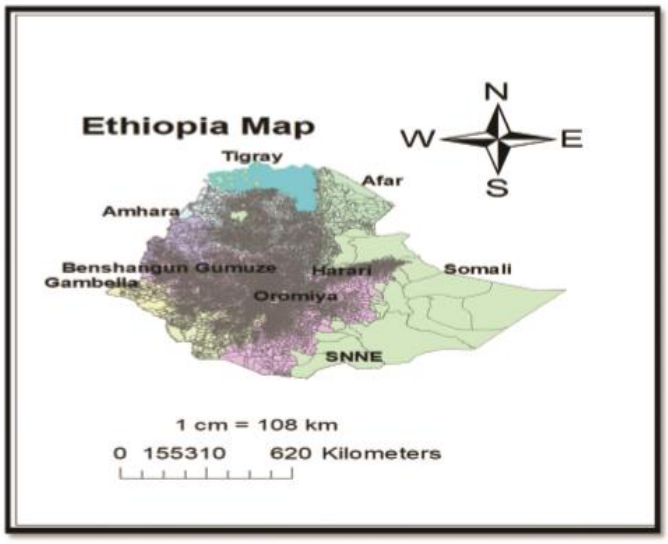

Figure 1. Map of Ethiopia

Ethiopia has a high central plateau with elevations ranging from 1,290 to 3,000 meters (4,232 to 9,843 feet), with the highest peak reaching 4,533 meters (14,872 ft.). Ethiopia is Africa's second most populated country, with an estimated 80 million people living on a land area of 1.1 km2.

Ethiopia's climate, as well as that of its neighboring countries, varies widely. The agro ecology of highland Ethiopia is temperate, whereas the lowlands are hot. The country is entirely within the tropics, although the elevation of the land compensates for its proximity to the equator. The temperature in Addis Ababa ranges from 2,200 to 2,600 meters (7,218 to 8,530 feet), with a maximum of 26 degrees Celsius (78.8 degrees Fahrenheit) and a minimum of 4 degrees Celsius (39.2 degrees Fahrenheit).

Ethiopia's location gives it strategic dominance as a jumping off point in the Horn of Africa, close to the Middle East and its markets. Bordering Eritrea, Somalia, Kenya, South Sudan, and Sudan, Ethiopia is landlocked, and has been using neighboring Djibouti's main port for the last two decades. However, with the recent peace with Eritrea, Ethiopia is set to resume accessing the Eritrean ports of Assab and Massawa for its international trade.

With about 109 million people (2018), Ethiopia is the second most populous nation in Africa after Nigeria, and the fastest growing economy in the region. However, it is also one of the poorest, with a per capita income of $790. Ethiopia aims to reach lower-middle-income status by 2025.

Ethiopia's economy experienced strong, broad-based growth averaging 9.9% a year from 2007/08 to 2017/18, compared to a regional average of 5.4%. Ethiopia's real Gross Domestic Product (GDP) growth decelerated to 7.7% in 2017/18. Industry, mainly construction, and services accounted for most of the growth. Agriculture and manufacturing made lower contribution to growth in 207/18 compared to the previous year. Private consumption and public investment explain demand-side growth, the latter assuming an increasingly important role.

Higher economic growth brought with it positive trends in poverty reduction in both urban and rural areas. The share of the population living below the national poverty line decreased from 30% in 2011 to 24% in 2016. The government is implementing the second phase of its Growth and Transformation Plan (GTP II) which will run to 2019/20. GTP II aims to continue expanding physical infrastructure through public investments and to transform the country into a manufacturing hub. GTP II targets an average of 11% GDP growth annually, and in line with the manufacturing strategy, the industrial sector is set to expand by 20% on average, creating more jobs.

2.1 Data Collection and Methods of Analysis

The main aim of this article is to review the Ethiopian's perspectives towards Domestic Private Investment. The data of this article were accessed through literature review. The paper collected the secondary data from various studies in Ethiopia. The secondhand information was collected from the existing papers concerning about the contributions, constraints, trends and the determinats of domestic private investment across the country. Thus, the main sources of this article were journal articles, conference proceedings, theses, and the reports of the government and NGOs.

As a result, about 43 papers were used for evaluations. Based on the subjects, the times and the

locations of the studies; these papers were found appropriate for the explanation of this article. So, the data from those articles were strongly criticized in order to get the better findings. Meanwhile, there are many methods involved in analysis of the data collected from the published works. The data was explored by thematic based methods, and comprehension method.

3. Results and Discussions

3.1 Definition of Investment

Investment has been defined variously by different authors. Reilly and Keith (2009) defined investment as the current commitment of money for a period of time in order to derive future payments or benefit that will compensate the investor (Asante, 2000). In Economics class the term refers to the purchase of a physical asset while in a Corporate Finance course the term could apply to any asset including market securities. Private Investment therefore, is in investment by individual people or firms as opposed to the government as an entity (Fabozzi, 2009).

3.2 Domestic Private Investment

The accumulation of capital in any developing economy requires the mobilization economic surplus, in the case of private investment from domestic source there must be growing surplus above current consumption that can be tapped and directed into productive investment channels. This involves abstinence from present consumption for the future use. The importance of financial institutional in this case lies in their making available the means to utilize saving. It means the existence of a more developed capital market and financial intermediaries will in the collection and distribution of inevitable founds (merrier, 1995). However, in most developing countries an increase in voluntary private saving through a self-imposed cut in current consumption is unlikely because of the low level of income and the high average and marginal propensity to consume. Moreover, much of the low level of saving are seldom channeled in to productive investment activates. This low level of saving in these counters result in the low level of investment. As a result, instead of relying on involuntary domestic private investment these counters will normally have to look for foreign sources.

3.3 Basic Theories of Investment

There are various investment theories, and economists have a wide range of opinions about the factors that influence business behavior. As a result, some of the most popular investment theories are reviewed in this section of the research.

3.3.1 Classical Theory of Investment

The classical school generated that capitalist make investment because they expect to earn profit in the future depends on the good deal on what profit are now. For example, Adam smith in his book, the "wealth of the nation" explain this fact, by arguing that, investment were made because the capitalist expected to earn profit on them and the future expectation with regard to profit depend up on present climate of investment as well as the actual profit. However, this rate of profit tends to fall with economic progress, when the rate of capital accumulation increased competition among capitalist, and

tend to lower profit, and hence lower Investment (Jhingan, 1988).

3.3.2 Keynesian Theory of Investment

The Keynesian theory of investment places emphasis on the importance of interest rate in the investment decisions. But other factors also enter in to the model Changes in interest rate should have an effect on level of planned investment under taken by private sector businesses in the economy. A fall in interest rate should decrease the cost of investment relative to the potential yield and as a result planned capital investment project on the margin may become worthwhile. A firm will only invest if the discounted yield exceeds the cost of the project. According to him expectation of future demand for firm's output, velocity of investment, uncertainty and other non-economic variable political, socioeconomic variables and human instincts are possible determinants of investment (Bethlehem, 2010).

Keynesians pointed out the importance of human instincts in investment decision making, owing to the intractable problem surrounding the computation of future return to investment in the world of uncertainty. Investment is worth under taking if the present value of the future stream of return is greater than or equal to the initial cost of capital. Keynes observed that investment spending is highly volatile due to uncertainty associated with the return of investment. According to him, this explains the business cycle. He further asserts the government expenditure in infrastructure and education has a positive effect on investment, but if government involves directly in the productive activities, that will discourage private investment (Gemechu, 2017).

3.3.3 Accelerator Theory of Investment

After Keynes the accelerator principle was the dominate theory of investment during 1950s and 1960s. The accelerator theory asserts that investment spending proportional to change in output and is not affected by the cost of capital, $It=\alpha (Yt-Yt-1)$ (Dornbush & Fisher, 2011). The model begins with the assumption that a firm's desired capital output ration is roughly constant. This implies that the desired capital stock for any period "t" is proportional to the level of output in "t", $K^*t= \delta yt$ where δ is the desired capital level of output ratio. Suppose that firms Invest in period "t" in order to bring their capital stocks to the desired level K^*t+1 in period "t+1". Then if depreciation is zero for simplicity, $It=Kt+1 -Kt$. But since $Kt=K^*t$ then $It=\delta (YT+1-Yt)$. Thus the simplest accelerator model predicts that investment is proportional to the increase in output in the coming period.

3.3.4 The Neo-Classical Theory of Investment

The underling restrictive assumption of the accelerator theory initiated Jorgenson (1969) and, Hall and Jorgenson (1971) to suggest the neo- classical theory of business of fixed investment in which net investment is proportional to the gap between actual and desired capital stock. This Model combines the user cost of capital and the accelerator effect to explain the investment behavior (Seyoum, 2007).

The neo-classical theory of business fixed investment considers the rate of investment to be determined by the speed with which firms adjust their capital stocks towards the desired level. The desired capital stock is bigger than the larger expected output the firm plans to produce and the smaller the rental user

cost of capital (Dornbusch & Fisher, 2011). This theory suggests that net investment is proportional to the gap between actual and desired capital stock. The relation given by ***It = Kt-Kt-1=δ (K*-Kt-1)*** Where *It*= net investment at time "t".

- ✓ ***Kt*=**the existing capital stock at the end of the period "t".
- ✓ ***Kt*-1**= the capital stock at the preceding period
- ✓ ***K**** = the desired level of capital stock.
- ✓ ***δ*=** Measure the fraction of gap between the actual and desired level of capital stock that is closed to each period.

From the above equation, the desired capital stock (K*) is positively related to the level of expected output and negatively related with the user cost of capital, which in turn depends on real interest rate ,expected rate of inflation, and depreciation rate. The basic notion behind this theory is that the larger the gap between the existing capital stock and the desired capital stock, the more rapid a firms rate of investment. But this theory criticized due to the assumption of perfect competition, exogenously given output, static expectation about future price, output and interest rate (Serven & Solimano, 1992).

3.3.5 The Disequilibrium Model of Investment

This theory based up on the idea that investment depends on profitability and output demand Condition. In this model investment decision have two stages. Firs it is decision to expand the Level of production capacity, and second; it is the decision about the capacity intensity of the

additional capacity (Serven & Solimano, 1992). In the words of Serven and Solimano (1992), the first decision depends on expected degree of capacity utilization in the economy, which provides an indicator of demand conditions. Which the second decision depend on relative prices Such as the cost of capital and labor, the investment decision takes place in a setting in which firms may facing current and expected sales constraint. Therefore, investment depends both on profitability and on prevailing sales constraints which determines the rate capacity utilization.

3.3.6 Tobin's q Theory of Investment

James Tobin, one of the Noble-prize winners, formulated an investment theory based on financial Markets. Tobin argued that firm's investment level should depend on the ratio of the Present value of installed capital to the replacement cost of capital. This ratio is called Tobin's Q q**= market value of installed capital/ replacement cost of installed capital.** The market value of installed capital is priced in the stock market and is the number of shares outstanding times their market price. The replacement cost of installed capital depends on the situation in the capital goods sectors. If the demand for capital goods is strong, the price of capital goods will rise. If q>1, then firms have an incentive to increase their capital stock because capital once installed and producing goods and services is priced more highly than its cost. If q<1, then firms should reduce the capital stock, close plants. Hence, investment decision is clearly risky since it is dependent up on estimates of the future which, are by their nature subjective and uncertain (Burningham, 2001).

3.4 Contributions of Private Domestic Investment

One of the indisputable stylized facts of economic development has been the wide disparity in economic performance across countries of the world. Over the past 40 years, economic performance of a small number of countries has been remarkable; with per capita GDP increasing fivefold. At the same time a number of counters have experienced starting decline in per capital GDP (Boston & Sumlinski, 2000). Investment is considered as one of the principal and important factors in economic development of nation. Investment as it brings about fuller utilization of available resource; it paves the way for large scale production and technical progress, increases specialization, creates employment opportunities helps to have a more diversified economy, etc. and also, it can be considered as a source and mechanism to bring about economic growth. Due to this fact many economist agree on the fact that every nation should invest in order to achieve sustainable economic growth. As Nurkse (1984) stated, the

vicious circle of poverty in LDC'S can be broken though capital formation or investment. Due to low level of income in such countries demand, production and investment are deficit. This result in the deficiency of capital good that removed by capital formation. Thus, the supply of machinery increases the scale of production and creates social and economic overheads (ibid).

As stated by classical and new classical economists and by the market of Keynes, investments in capital equipment not only increase production but also employment opportunities (fisher, 1972). According to them the importance of investment is twofold. First, output in the future depends upon the maintenance of production. The second one is the maintenance of full employment or full utilization of the available of resource, requires, that aggregate investment plus aggregate consumption equal to the total output that would be produced if all individual who wished to work could find employment (ibid). Salaries work in 1956 introduced a different perspective on the role of investment in economic growth. The production function he postulated has a long tradition in economic-output is produced by combining capital and labor under constant returns to scale. According to his model positive level of investment is needed to the labor force. Countries with higher level of capital investment and higher level of capital per workers will have higher level of capital output.

3.5 Constraints of Private Investment

A favorable business environment offers companies the chance and motivation to invest profitably, generate new employment opportunities, and increase output, which boosts private investment and economic development. However, businesses frequently function in investment environments in developing nations that undermine their motivation to expand and invest. The research identifies seven investment climate constraints that have an impact on the rate of private investment as well as the persistence and expansion of companies (Ignacio, Fiestas, & Sunilsinha, 2011).

Macro level, Stability: (economic, social and political) deters Investment by making future rewards more uncertain or undermines the value of assets. Studies show that grater the level of instability, the lower rate of private investment and grow the instability also increase the risk of firms going bankrupt,

suffering slower grow thorn contracting if political conflict ensues. Fiscal and monetary policies that reduce inflation, policies that help to establish a competitive exchange rate, political and social stability are needed to sustain high rate of investment and growth.

Crime and Corruption: represent a substantial risk to earning attractive returns to Investment and increase the cost of doing business, whether through the payment of bribes, the direct loss of goods or crime prevention. There is strong evidence, that at macro level, these factors reduce the rate of private investment, job creation and growth. At the fir level; there is some evidence to show that these factors reduce the growth of output, investment and job creation. Greater transparency and accountability, simply action of administrative procedures and merit based human resource movement in the public administration make it possible to curb corruption.

Business Regulation and Licensing: whereas firms need to be regulated and licensed, if the cost they incur in complying with regulation are unnecessarily high, businesses entry and fir growth will be lower. The literature points enter growth when countries improve their run in the

World Bank's doing business index spatially if they move from being one of the worst performs to being amounts the best.

Inadequate infrastructural and human capital: Investors, both domestic and foreign, are naturally hesitant about investing in countries where basic requirements, such as roads, health services and utilities are inadequate. Because of the lack of adequate infrastructure, as stated above, it is common for investors to provide their own back-up generators, medical care and access roads, even in industrial estates provided by governments. These increase the costs of doing business and reduce the rate of return on investment; thus turning away both types of investors. Human capital investment on health and education, including institutional and on-the job training, as well as adult literacy programmers, could overcome obstacles to productivity and higher earnings by the labor force and ill health, lack of illiteracy, lack of skills and adaptation to technology, poor incentives and immobility could be reduced.

Institutions and the legal system: -There is strong cross country evidence in the literature that weak institutions, particularly for the protection of property rights, and an ineffective judiciary that is unable to enforce contracts, reduce investment and growth. This is supported by firm level evidence which shows that secure property rights and better contract enforcement enable firms to grow: increasing their incentive to invest longer term, feel secure in trying out new suppliers, and enter into more complex contracts. Better systems of registering property, improved security of land tenure and reforms that reduce the cost of contract enforcement, such as promoting alternative dispute resolution, are policies that support better institutions and legal systems.

Taxation: -Excessively high rates of tax exact a high cost in terms of lower private investment and growth. They reduce the incentive to invest because the after tax returns to investors are lower. In addition, the cost of compliance with the administration of taxes can be high. The literature shows that lower rates of tax can increase investment and growth. Higher rates of tax can decrease business entry and the growth of established firms, with the medium sized firms hit hardest, as the small can trade

informally, and the large avoid taxes. As well as reducing tax rates, policies that broaden the tax base, simplify the tax structure, improve administration and give greater autonomy to tax agencies help to reduce this constraint.

Financial Constraints: -Firms need to be able to access external finance to invest more. Moreover, the higher the cost of capital the lower the expected rate of return to the entrepreneur. There is a robust body of literature that shows that financial deepening, measured by the ratio of private credit to GDP, results in higher rates of growth and faster growth in the incomes of the poor, especially in the poorer countries with less well developed financial sectors. Studies show that firms able to access external finance are more likely to survive, invest and grow than those denied access.

3.6 Trends of Private Investment in Ethiopia

Pre 1974 (The Imperial Era): The economic strategy of the country during the period was export trade development aiming to earn more foreign currency to finance the import of more capital good to accelerate the overall development process. As a result of this economic strategy the participation of the private sectors both domestic and foreign investors grow up. In connection to that, the private investment was highly recognized by the government policy makers as supporting hands of the public development efforts. In realization of this situation, the agricultural and industrial expansion program of the 1954 and later on three-five years development plans starting from 1995 has been introduced. These policy measure, in effect, were able to attract both domestic and foreign investors to participate in various industrial and agricultural activates .For instance, during the 1950-1955, the FDI (foreign direct investments) inflow to the counters was about 63milion birr, In the later period during the 1955-60 and 1960-65, however, the amount of foreign capital inflow to the country was 86.5 and 128.5milion birr respectively.

Since the second half of the 1950, the participation of the private investment and the role the private sectors have grown up steadily. To this effect the Gross domestic Investment (GDP) of the country including the investment made by the public sectors were registered $690million birr in 1960-65 respectively (Workie, 1997). Such a good investment performance of the imperial period has been mainly attributed to the market friendly economic principle and the regime. As a result of the liberalized policy of investment. It was in the last years of the regime that the country has achieved the highest rate, about 13% domestic saving in the county.

Despite, the development efforts made by the private and public sectors, the overall performance of the economy in the imperial regime had been at low level. Among other the main reasons responsible for that were; the policy was in favor of foreign investors. This was because the government expected much from foreign investors, but this was likely to creates dependence on foreign capital, it encouraged capital-intensive technology, which does not go together with

country’s endowment, and the proportion of conspicuous consumption of the ruling class was very large which would have been used for product investments (Gemechu, 2017).

The DergueEra (1974-1991): The economic principal and direction of the country has totality diverted

to the socialist oriented economic this regime. For instance, proclamation no.26/1975 and 76/1975 stated that resource and privately owned economic, social and financial institutional were nationalized and operation of private activates were restricted to a few lines and imposed capital ceiling on them. As a result of such proclamation, the role of domestic as well as the foreign private sectors in the development of the country was exhibited minimal. The import and export activates, the FDI, joint venture business operation and other economic expose to the international market were limited. During this period the economic performance of the country has been declining; for instance, in the period 1975-79 a condition of economic stagnation and even in the same years an economic regression has been registered. The growth rate of real GDP was -6.3%and 9.7%in the year 1983 and 1984/85 respectively (Economic focus, 1999).

The bad performance of the national economy during this regime may be attributed to a number of reasons. For example, the low levels of saving and investment rate of the period were the major factor responsible for that. The average saving registered during the year 1980-1990 was 7.2% and the rate of gross fixed capital formation in the same period was 14.3% of the GDP during1974-198to25%GDP during 1988-1990. This was due to the drastic military spending and expands government bureaucracy. Parallel with rise in the government consumption from 79.8% of GDP during 1974-1978to70.8%of GDP during1988-90 (Eshetu & Mekonnen, 1992). Because of the above mentioned problem this period was characterized as having very less or no private investment.

Post 1991: No doubt, the country's investment climate is getting friendlier with industrialist and investors in the new economic era. The investment climate of the country has changed radically since the market economy policy back in 1991. Ethiopia's abundant resources, diverse climate, huge labor force as well as security and peace plus other investment incentive have created good opportunities for domestic and foreign investors. Other incentive includes tax holiday, exemption from taxes on remittance of capital, loss forwards and customs duty exemption. Also on the list of incentive are improve infrastructure, easy access to law, public private sectors partnership forum and on e-stop shopping system of investment approval. Little wonder the Ethiopia investment agency and regional office licensed about 34,796 with aggregate capital of birr 200 billion. The authorities are opening-up the field for 4,913 of the projects, with capital of birr 4,913 of investors through privatization programmers that has sold off 247 public enterprises to private investors between 1994 and 2007.

Currently, government is up for-far-reaching measure to accelerate the privatization exercises. And some efforts are geared towards this direction. The former Ethiopia privatization Agency (EPA) merged with the previous public Enterprise Supervising Authority (PPESA), a body saddled with the task of improving the efficiency of decision making in the privatization process. The autonomous body is also to assist state owned enterprise to become commercially viable before selling or leasing them to private investors, 2007/2008 fiscal years, PPESA successfully transferred 16 enterprises to the private sectors in industry, 12 enterprises in agro-industry, and 4 enterprise in the service industry.

Despite these positive effects, in the present government where a very good and attractive policy is

formulated, though there is significant change in private investment, as compared to past time there is still fluctuation overtime. And according to statistical reports a considerable proportion of total approved investments projects fail to be implemented due to several reasons in which many of them are attributed to the negative effects of determinate of private investments.

3.7 Determinates of Domestic Private Investment

Investment is a risky activity that needs a favorable environment to be carried out in order to achieve higher returns. Investment spending is influenced by the country's political, social, and fiscal conditions, which also have an impact on the rate of return. However, the majority of developing nations frequently lose such an advantageous situation. Realizing this, nations are becoming more interested in the elements that affect the pattern and volume of private investment. The same variables listed here are the subject of numerous studies into what triggers private investment. At this part of the literature on the determinants private investments are grouped in to two, in accordance to their behavior, macroeconomic determinants and institutional and structural determinants.

Ambachew (2010) study on the determinants of domestic private investment in Ethiopia identified that domestic credit given to the private sector reduces domestic private investment because the credit may be diverted to non-productive activities. The study further identifies that the appreciation of the real exchange rate discourages domestic private investment and vice versa. In short, the high value of local currency constrains domestic investment.

A study by Workie (1996) on constraints to entry, operation and expansion of private investment in Ethiopia using investor level information showed that bureaucratic procedures, a lack of infrastructure, power supply problems and access to finance were the leading constraints for operations. The other areas of the business environment (such as political/policy uncertainty and labor regulations) were relatively less important. The survey ultimately confirmed that the availability of finance rather than the interest rate is a crucial determinant of private investment in Ethiopia. Macroeconomic instability and political/policy uncertainty were not found to be significant determinants of private investment.

Adugna (2013) undertook a study covering the period 1981-2010 using Ordinary Lease Square (OLS) regression to model the determinants of private investment in Ethiopia. Findings from the study showed that public investments in basic infrastructures and social overheads are essential for private investment. In addition, the rising real per-capital income of the people has a crucial positive effect on private investment by way of increasing market demand for goods and services. These in turn trigger private investment. Likewise, external debt has a favorable effect on private investment in countries like Ethiopia where there is a serious shortage of finance.

A study by Admasu (2002) on the macro and microeconomic determinants of private investment both at national and regional levels in Ethiopia showed that at the micro level the probability of individual's to invest is significantly and positively influenced by the level of education, access to land and investment incentives. The influence of bureaucratic red tape was also found to be negative and significant.

Moreover, Deneke (2001) concluded that unclear land policy, compounded by investors 'fear of political

instability, has impeded Private sector development. Getachew (1997) studied the determinants of private industrial investment in Ethiopia using descriptive statistics to analyze micro-level determinants. He found that the real interest rate did not have a significant impact on private investment in Ethiopia. The study revealed that private investment was positively affected by credit disbursement to the private sector in Ethiopia. It also found that severe constraining factors to private manufacturing investment were market, financial, infrastructure, policy, technology, and input related ones.

Sisay(2010) carried on the study of the determinants of private investment in Ethiopia over the period ranging from 1950-2003 motivated by modified flexible accelerator model by applying multivariate single equation ECM estimation methodology. According to his study private investment in Ethiopia is positively influenced by the domestic market, infrastructural facilities and FDI and negatively by macroeconomic uncertainty.

Siraj (2014) tried to evaluate the inter-relationship between private investment and economic growth both in the long and short run. He argued that there is evidence of unia-directional causality between economic growth and private investment. The findings showed that both private and public sector investment have a positive significant impact on real output/economic growth while in the short run public investment has a negative impact on growth and private investment has a positive impact on private investment.

Esubalew (2014) carried on studies on the macroeconomic determinants of private investment in east Africa region with panel data set from the period of 2000-2012. According to his studies macroeconomic factors such as variation in the output and real per capita growth fiscal and monetary policy as well as exchange rate are the most determinant factors for the variation of private investment in eastern African countries over the study period. His study confirmed that domestic private investment is positively influenced by real GDP growth, financial availability as measured by credit to the private sector as the percentage of GDP and the development of human capital as measured by school enrolment has significant positive influence on the private investment of the region. On the other hand variable such as unstable macroeconomic environment, as measured by the inflationary situation, high external debt, fluctuation in the terms of trade, real exchange movement, public investment and real interest rate are found to hinder private investment significantly in East Africa.

Abduishu (2000) the impact of inflation on private investment is moderate in Ethiopia as he stated from the estimation results. These results have confirmed that inflation in Ethiopia in comparison to other Sub-Sahara African Countries and transitional economies was moderate. whereas, the estimation results has confirmed that resource constraints which captured by real GDP, credit availability and foreign reserve availability to private sector highly and significantly influence private investment .The sets of findings in the foregoing analysis of the various relevant literatures reveal numerous disparities especially in the empirical component. These may be associated to, among other things, the different settings of respective studies. It may additionally point to the imperfections of the methods used or quality of the data employed in the studies. Evaluation of this topic, therefore, becomes even more

important as efforts continue towards consistent or conclusive results.

4. Conclusions

In the growth literature, investment has been regarded as one of the primary engines of growth. Growth theories emphasize the importance of investment in determining the level of income (neoclassical) and the pace of economic growth (endogenous growth model). However, the Ethiopian private investment performance has been weak for long time. It had been stagnantly low until the end of the socialist regime. In spite of little improvement in the post-socialist era, the share of private investment in GDP has never been above 15 percent even until 2003. Yet, the reasons behind the weak performance have not been well studied. So, this study has been undertaken with the objective of assessing the contributions, the constrains, the trends and the determinants of private domestic investment in Ethiopia. In order to meet this objective of the study time series secondary data have been collected from different sources including central statistics agency (CSA), Ethiopian investment commission (EIC), Ethiopian economic association (EEA) national bank of Ethiopia (NBE) and the related articles. From the collected data, the study provided the conclusion that, the domestic private investment has a very great contribution in the accumulation of capital in the developing the nation's economy, increment of real gross domestic product. Pre 1974 (The Imperial Era (free market economy), 1974-1991 (Dergue Era, the command economy) and post-1991, which has been using free market economy**.** There should be appropriate policy tools and implementation to reduce the vulnerability of domestic industry from the external treats and extending efforts to augment the growth of the national output through investment in infrastructure, good governance and collaborated endeavor to develop human capital if there is need to realize the contribution of private investment to the economy. To see positive trends in domestic private investment, there should be a long run political stability and absence of conflict, the government should work hard against internal unset such as corruption, civil war, inefficient and rigorous bureaucratic administration to attract both domestic and foreign investors. It should establish rule and regulation for protection of private property right, good governance in the country. The government should create fertile macroeconomic environment having the stable price and exchange rate situation to enable the private investor to have the motive to invest and reduce uncertainty in the investment decision. The working capital requirements and the supplementary fund required by the private investors will have to be met efficiently and on sound conditions by financial institutions. For private investment to grow there is a need to extend the operation of financial institutions even in remote areas.

Acknowledgement

First and for most I am hereby expressing my sincere thanks to the Almighty heavenly God who has given me the courage and the patience throughout the course of completing this paper. My next heartfelt gratitude goes to Gambella University for the continuous encouragement and upgrading made in

developing staff research skill. I am also hereby expressing my grateful thank to Research Directorate of Gambella University, Faculty of Business and Economics and department of Accounting and Finance particularly for the greatest roles of supervision they provide to Academic staffs. With wholehearted, I am finally hereby expressing my heartfelt gratitude to all my friends relatives and colleagues who continuously encourage me to keep on working hard persistently in my academic career.

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