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SOCIO CULTURAL, GEOGRAPHIC AND MARKET RELATED FACTORS AFFECTING PRIVATE INVESTMENT IN EAST GOJJAM ZONE OF AMHARA REGIONAL STATE, ETHIOPIA

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ABSTRACT

The aims of this study is to examine Socio-cultural, Geographic and Market Related Factors affecting private investment activities in East Gojjam zone with the intention of providing valuable information about the investment environment of the zone to the potential investors. Descriptive type of research design has been used in this study by giving more emphasis on qualitative data analysis method. On the other hand, quantitative research analysis has been used to provide numerical measurement and analysis of the magnitude and extent of the problem and trend of private investment in East Gojjam Zone. The study used both primary and secondary data. Pre-designed self-administered questionnaire has been used to collect primary data. The investment bureau documents have been used in gathering the secondary data in this study. In order to obtain primary data, a total of 310 questionnaires were distributed to investors found in East Gojjam zone and 305 of them were filled and returned to researcher. The outcome of this study revealed that, Socio cultural factors such as Community's attitude, Community's religion and belief, Community's working habit and Community's Socio-cultural norms and Geographic factors such climate condition and topography condition does not affect private investment. These variables are considered as opportunities of private investment in East Gojjam Zone. Market related factors such as stock market development, market growth, product price, inflation and raw materials supply have brought major hindrances on the investment activities in East Gojjam zone. Among these factors, inflation and raw materials supply are considered as the main obstacle by majority of private investors in the study area.

KEYWORDS

geographic factors, market related factors, private investment, socio-cultural factors.

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1. INTRODUCTION

1.1 BACKGROUND OF THE STUDY

According to the report of United Nations Conference on Trade and Development (UNCTAD) (2002), Investment is one of the primary engines of growth in all economies. However, its effectiveness rests on strong complementarities with other elements in the growth process, most notably technological progress, skills acquisition and the development of innovative capability. The link between investment and these other determinants of growth, however, is not an automatic process. It requires among other things a favorable macro policy environment and specific policies and institutions aimed at encouraging savings and attracting and directing investment to key sectors in the economy thereby enhancing the contributions of investment to skills formation, technological change, competitiveness and economic growth.

The study findings of Nnabuike (2015) revealed that the major socio-cultural factor which affected investors especially operators of MSSEs was crime rate as identified by more than half of the respondents in the study area. In all the responses, crime rate was identified to be a major socio-cultural factor. It needs to be noted that high crime rate is a contextual issue peculiar to the states covered in the study (Nnabuike O. Osadebe, 2015). Investment is highly attracted to urbanized regions of the home country. The lack of investment into agricultural regions has resulted in a migration of the local population from rural to urban areas placing housing and employment pressure on the local cities (Jovana T., 2005).

According to the report of World Bank Development report (2005) well-functioning financial markets and good infrastructure promotes investment by connecting firms to their customers and suppliers and helping them to take advantage of modern production techniques and organizational structures. By impeding new entry into markets (by either domestic or foreign firms), these inadequacies also limit competition, thus dulling incentives to innovate and to improve productivity.

Macro stability, property rights, enforcement of contract, bankruptcy laws and whether the public sector borrows heavily to crowd out the private sector influence the development of the financial sector. So, due attention must be given to the socio-cultural, geographic and Market related factors affecting private investment.

1.2. REVIEW OF RELATED LITERATURE

1.2.1. INVESTMENT DEFINED

Investment is the source of manufactured goods that will be used to produce other goods. It is the major foundation of enhancement in the level of literacy, improvement in technology and increase in the capital stock (Hashmi et al 2012).

On the other hand, private investments in the form of domestic investment and foreign capital are used as an important prerequisite for the economic growth in a country because it allows entrepreneurs to develop their business through empowering economic resources to create goods and services for a better economic growth (Nainggolan et al. 2014).

1.2.2. FACTORS AFFECTING PRIVATE INVESTMENT

1.2.2.1. SOCIO-CULTURAL FACTORS

Socio-cultural factors can influence both positively and negatively entrepreneurial emergence in a society. The socio cultural environment has all its dynamics to influence the environment as well as individual values which directly influence his decisions and actions in all endeavors. (Akhter and Sumi, 2014).

The study results of Clobanu and Bahna (2015), even though their study focused on social, cultural factors affecting mergers and acquisition, showed that social factors like the education and health expenditure, literacy rate or life expectancy and cultural factors like bureaucracy, informal payments, legal system and other, are significant in explaining the number of mergers and acquisitions in the world.

Examining the work of Sinha and Fiestas (2011), crime and corruption are considered as the main socio-cultural factors which hinder of private investment. There is strong evidence that, at the macro level, these factors reduce the rate of private investment, job creation and growth.

1.2.2.2. GEOGRAPHIC FACTORS

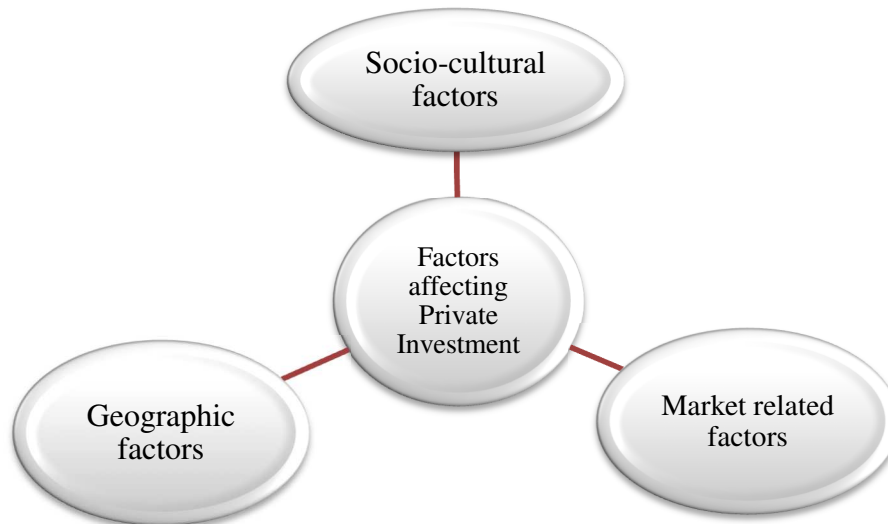
A study conducted by Guerin S. (2002) entitled The Role of Geography in Financial Integration: Foreign Direct Investment revealed that the existence of significant information costs in financial flows, which may explain why country portfolios are still home-biased and financial integration is restricted to developed countries and only a few developing countries. Ultimately, the geographical location of a country may determine its financial integration in to the world economy Investment is highly attracted to urbanized regions of the home country. This factor leads to an uneven flow of investment into urbanized areas of the home country, neglecting the primary industry and the rural population. The lack of investment into agricultural regions has resulted in a migration of the local population from rural to urban areas placing housing and employment pressure on the local cities (Jovana T., 2005).

1.2.2.3. MARKET RELATED FACTORS

Naje (2013) argued that there is positive relationship between efficient stock markets and economic growth, both in short run and long run and there is evidence of an indirect transmission mechanism through the effect of stock market development on investment. They are seen as providing a service that boosts economic growth.

Udo (2013) investigated a research entitled Determinants of Private Investment in Nigeria: An Empirical Exploration. The study pointed out that size and growth rate of market is among the determinants of private investment in Nigeria. Domestic inflation rate of raw materials, limited availability and access to bank credit, high interest rate, fiscal deficits, public investment rate, and poor provision of infrastructure, political and economic stability, investment climate and institutional factors are also considered as the determinants of private investment in Nigeria.

Najeb (2013) suggested a positive relationship between efficient stock markets and economic growth, both in short run and long run and there is evidence of an indirect transmission mechanism through the effect of stock market development on investment. They are seen as providing a service that boosts economic growth.

1.2.3. CONCEPTUAL FRAMEWORK OF THE STUDY**CHART 1: CONCEPTUAL FRAMEWORK OF THE STUDY****1.3 IMPORTANCE OF THE STUDY**

This study has a great importance for the potential investors in order to make informed judgments whether to invest and to inform the concerned bodies to know Socio-cultural, Geographic and Market related factors affecting private investment activity here in East Gojjam Zone. This study can also significantly contribute to other studies to be made in different areas by providing image on the Socio-cultural, Geographic and Market related factors affecting private investment activity. Moreover, this research can provide basic concepts to the currently available literatures of investment. In general, investors may use this research to identify the basic Socio-cultural, Geographic and Market related factors affecting private investment activity to invest their capital and researchers to guide future research work to be undertaken in this area.

1.4 STATEMENT OF THE PROBLEM

According to the report of the Oakland Institute(2010) Ethiopia has created a very attractive investment climate in recent years by providing potential investors with various tax breaks, access to affordable land, a relatively efficient investment process, very affordable land rents, suitable agro-climatic conditions, low labor costs (labor is cheap and abundant), outstanding incentives, including tax holidays and no duty, relaxed regulations, corruption is low relative to other countries, abundant amounts of "undeveloped" land, strategic location (with respect to markets), abundant water resources, ability to export privileged access to other markets, streamlined investment process.

The Socio-cultural, Geographic and Market related factors of private investment have been substantially studied by different researchers, (Morisset, and Jacques 2000; Basu and Srinivasan, 2002; Salish, and Mohammed, 2003). These and other researchers investigated their study on this area and identified the Socio-cultural, Geographic and Market related factors in different countries and areas. However, almost all of these studies conducted on developed and large areas. From such findings it is difficult to generalize the same result in East Gojjam zone. As per the researcher knowledge research studies on the Socio-cultural, Geographic and Market related factors private investment environment in East Gojjam zone remained an ignored area of study. Thus, with these serious shortcomings of the current literature, this study will contribute to the existing literature.

East Gojjam zone is among the zones found in Amhara Region which has attractive natural resource. However, with such ample resources availability and investment potentiality within the zone, the investment activities had been carried out was not sufficient as expected.

By considering the above situations, the researcher was motivated to conduct this study to identify Socio-cultural, Geographic and Market related factors affecting private investment activity in East Gojjam zone and to remind the concerned body about these issues.

1.5. OBJECTIVES OF THE STUDY**1.5.1. GENERAL OBJECTIVE**

The general objective of the study is to examine Socio-cultural, Geographic and Market related factors affecting of private investment activities in East Gojjam zone with the intention of providing valuable information about the investment environment of the zone to the potential investors.

1.5.2. SPECIFIC OBJECTIVES

In addition to the general objective, the study has the following specific objectives:

1. To identify the Socio-Cultural factors affecting of private investment activities.
2. To examine the Geographic factors affecting of private investment activities.
3. To investigate Market related factors affecting of private investment activities.

1.6. RESEARCH METHODOLOGY**1.6.1. RESEARCH DESIGN**

The researcher employed descriptive type of research design by giving more emphasis on qualitative data analysis method. Qualitative research analysis has been applied to explain the Socio-cultural, Geographic and Market related factors affecting private investment in East Gojjam Zone and to obtain systematic sequence

of information to get into the depth of research problems. On the other hand, quantitative research analysis has been used to provide numerical measurement and analysis of the magnitude and extent of the factors affecting private investment in East Gojjam Zone.

1.6.2. SOURCES OF DATA

Data for this study were collected from both primary and secondary sources of data. Primary data were obtained from selected investors in East Gojjam Zone and East Gojjam zone investment and trade bureau. Secondary data were obtained mainly from different reports of East Gojjam Zone office, which are relevant to the theme of the study.

1.6.3. METHODS OF DATA COLLECTIONS

Pre-designed self-administered questionnaire has been used to collect primary data. Pre-designed self-administered questionnaires have been employed and filled by the managers of the investment sectors in East Gojjam Zone to identify the Socio-cultural, Geographic and Market related factors affecting private investment in the zone. Interviews have been used to collect data from East Gojjam zone investment and trade bureau. The investment bureau documents have been used in gathering the necessary data in this study.

1.6.4. SAMPLE SIZE AND SAMPLING TECHNIQUES

The researcher employed both purposive and stratified sampling techniques to select the actual sample size from the total study population. Two individuals were selected purposively from East Gojjam zone investment and trade department for interview purpose. Based on business type strata, stratified sampling techniques have been used to select sample respondents from the study population in each sector of investment.

Survey was undertaken by conducting a survey with 310 investors, using a pre-designed questionnaire. Stratified sampling technique was used to select the sampled investors in each sector. Private Investors covered by the survey have been classified into 5 strata that include service sectors, trade sectors, manufacturing sectors, construction sectors and agricultural sectors. The classification of the strata is based on the classification of investment sector of the zonal bureau of investment in East Gojjam Zone. Sample woredas were selected purposively from east Gojjam zone based on higher number of investment.

Generally, the actual sample size of any study is depending on the total population, the research budget and the available time to accomplish the study. Given these in to account, the study utilized the following sample size determining formula to set the actual sample size scientifically (Taro Yamane, 1967).

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

Where **n**= actual sample size, **N** = total population, **e** = Degree of accuracy usually set at 0.05

The formula states:

$$n = \frac{N}{1 + N(e^2)} = \frac{1365}{1 + 1365(0.05^2)} = 310$$

1.6.5. METHODS OF DATA ANALYSIS AND INTERPRETATION

The process of data analysis is assisted by making use of the computer aided software available, mainly for analyzing the quantitative data. The relevant computer software [SPSS Ver. 16] has been used as a tool to manage the quantitative data. The respondents' scores is summarized and analyzed using both simple statistical techniques such as tables, charts, percentages etc. and descriptive statistics like the mean, standard deviation.

2. RESULTS AND DISCUSSION

2.1. SOCIO-CULTURAL, GEOGRAPHIC AND MARKET RELATED FACTORS AFFECTING PRIVATE INVESTMENT

Socio-cultural, Geographic and Market related factors affecting private investment are depicted in the following part of analysis. The respondents were asked to give Likert scale value for these factors from 1- 5(strongly disagree to strongly agree) depending on the degree of challenge of these variables. If the mean score value of the analysis is below 3, it indicates the variables are opportunities of private investment in East Gojjam Zone while if it is above 3, the variable are factors which affect private investment in East Gojjam Zone. Accordingly, the mean value of each variable was computed and summarized below:

2.1.1. SOCIO-CULTURAL FACTORS AFFECTING PRIVATE INVESTMENT

CHART 2.1: SOCIO-CULTURAL FACTORS AFFECTING PRIVATE INVESTMENT

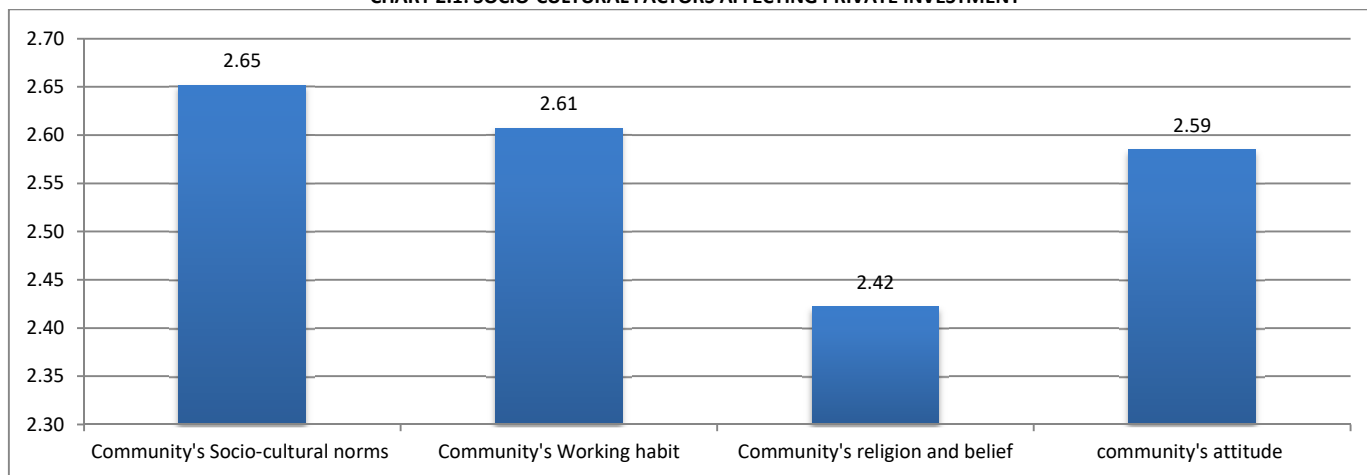
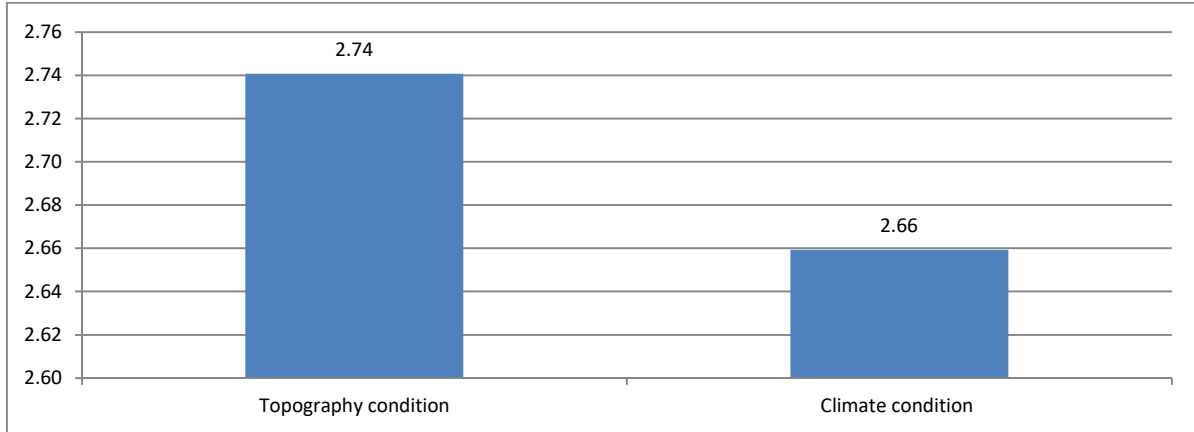


Chart 2.1 above; indicates the mean score values for Community's attitude, Community's religion and belief, Community's working habit and Community's Socio-cultural norms are 2.59, 2.42, 2.61 and 2.65 respectively. All mean scores of Socio-cultural Factors Affecting Private Investment are below 3, which indicate respondents disagreed that those factors do not affect private investment. So, East Gojjam Zone has good opportunity of Community's attitude, Community's religion and belief, Community's working habit and Community's Socio-cultural norms towards private investment. This outcome supports the outcomes found by Akhter and Sumi (2014) which, advocates socio-cultural factors can influence positively entrepreneurial emergence in a society.

2.1.2. GEOGRAPHICAL FACTORS AFFECTING PRIVATE INVESTMENT

CHART 2.2: GEOGRAPHICAL FACTORS AFFECTING PRIVATE INVESTMENT



As chart 2.2. above shows, the mean score for climate condition and topography condition are 2.66 and 2.74 respectively as geographic factors which affects private investment in East Gojjam zone. These mean scores values of Geographic Factors Affecting Private Investment are below 3, which indicate respondents disagreed that these factors do not affect private investment even if, East Gojjam zone is far from the central part of Ethiopia by 299 K.M. So, East Gojjam Zone has good opportunity of climate condition and topography condition towards private investment as responded by respondents.

2.1.3. MARKET RELATED FACTORS AFFECTING PRIVATE INVESTMENT

CHART 2.3: MARKET RELATED FACTORS AFFECTING PRIVATE INVESTMENT

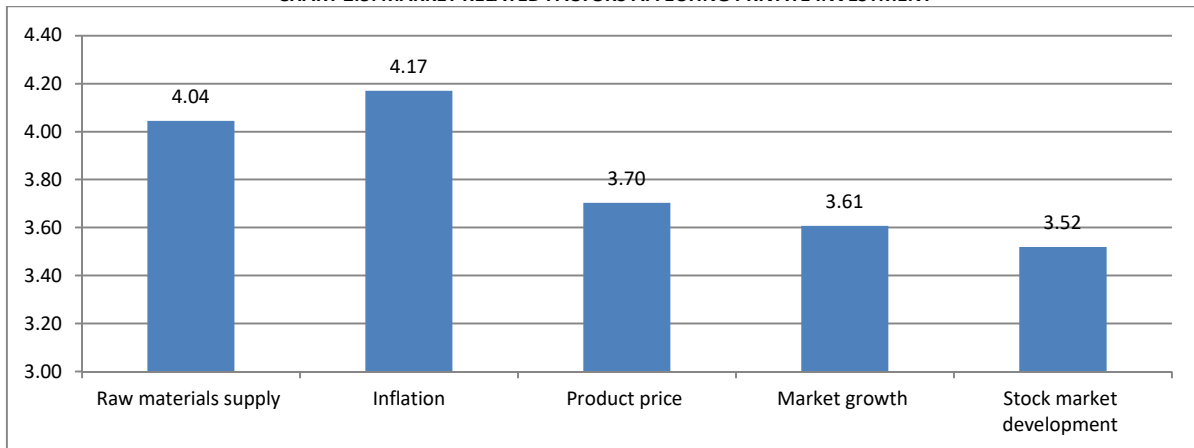


Chart 2.3 above; indicates the mean score values for stock market development, market growth, product price, inflation and raw materials supply are 3.52, 3.62, 3.70, 4.17 and 4.04 respectively. This value indicates that, respondents replied that respondents agreed that all those market related factors affect private investment in East Gojjam Zone.

Even though, the mean score value for all market related factors indicates as those factors which affects private investment in East Gojjam zone, the degree of effects of variables are different. The degree of effects of stock market development, market growth and product price is minimum as the mean score values for this factors are between 3 and 4 while the degree of effects for factors inflation and raw materials supply is strong as the vales are between 4 and 5.

To sum up the discussion on market related factors which affects private investment in East Gojjam zone, stock market development, market growth and product price affects private investment in East Gojjam Zone and inflation and raw materials supply strongly affects private investment in Esat Gojjam Zone. This outcome supports the outcomes found by Kodithuwakku et al. (2016), Naje (2013), Grace et al, (2016) and World Bank Development report (2005).

3. CONCLUSIONS AND RECOMMENDATIONS

3.1. CONCLUSIONS

Several studies have been conducted so far on the investigation of Socio-cultural, Geographic and Market related factors affecting private investment activities. And the outcome of these research studies was mixed from place to place. The purpose of this study is to examine Socio-cultural, Geographic and related factors affecting private investment activities in East Gojjam zone.

Socio cultural factors such as Community’s attitude, Community’s religion and belief, Community’s working habit and Community’s Socio-cultural norms and Geographic factors such climate condition and topography condition as does not affect private investment even if, East Gojjam zone. These variables are considered as opportunities of private investment in East Gojjam Zone.

Market related factors such as stock market development, market growth, product price, inflation and raw materials supply have brought major hindrances on the investment activities in East Gojjam zone. Among these factors, inflation and raw materials supply are considered as the main obstacle by majority of private investors in the study area.

3.2. RECOMMENDATIONS

The followings are some of the recommendations given by the researcher in relation to the findings of the research.

Socio cultural factors such as Community’s attitude, Community’s religion and belief, Community’s working habit and Community’s Socio-cultural norms. These variables are considered as opportunities of private investment in East Gojjam Zone. So, that the investment office shall do more on the Socio cultural beliefs of the community to make the more useful for private investment on East Gojjam zone.

Other bottlenecks of private investment in East Gojjam zone are stock market development, market growth and product price affects private investment in East Gojjam Zone and inflation and raw materials supply strongly affects private investment in Esat Gojjam Zone Therefore, it is better if the if the government launched secondary market in the country.

4. SCOPE FOR FURTHER RESEARCH

Regarding further research directions, this research highlights a number of issues that give directions on Socio-cultural, Geographic and Market related factors affecting private investment East Gojjam zone. Thus, by taking the previous studies and this study as a stepping stone, it could be possible to come up with a better insight. The outcome of this study can be more robust, if future researchers conduct a study on this area by: first, further increasing the study population and the sample size.

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