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CHALLENGES AND OPPORTUNITIES OF PRIVATE INVESTMENT IN TIGRAI

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ABSTRACT

The main objective of this research is to identify the major challenges that affect FDI and domestic private investment and the opportunities in Tigray. The study used both primary and secondary sources of data. Investment faces challenge such as lack of business management, quality product, bureaucracy, Staff dishonesty, foreign exchange fluctuation, good governance, Market access, lack of loan provision and taxation. Therefore government has to solve the problems faced the private investment step by step with its stakeholders by providing financial access, improving infrastructure, increasing the transparency of governance in taxation, bank loan and land provision as well as providing market information. Besides, investors should have to update themselves with current technologies, knowledge and skills to solve the problems face them in producing quality product, management skills and to minimize the external challenging factors by developing strategies in advance. The investment condition of the region is average. This shows it needs more efforts to attract investors by promoting the potential opportunities of the region for investment as well as by solving the challenges prevailing in Tigray.

Key Words – FDI, domestic private investment, business management, Tigray

INTRODUCTION

The theories of investment date back to Keynes (1936), who first called attention to the existence of an independent investment functions in the economy. Keynesians have traditionally favored the accelerator theory of investment while disregarding the role of factor costs (Asant, 2000).

As Samilah (2010) has stated, the recent theoretical studies present the effect of uncertainty on investment depending on the value of uncertainty. For low level of uncertainty the effect on investment is positive. But if the uncertainty level is very high, it has negative impacts on investment. The relationship between level of uncertainty and investment is inversed. It is represented by inverted curve (Samilah 2010).

Macro economics has until recently, focused on the positive short term relationship between the rate increases the price and output level. In short run, the relationship between growth and inflation is positive. When the price of goods increases, the output level will increase. That means if the price of an item increases, investors are encouraged to produce more items (Jorgenson, 2001)

As Edgerton (2011) stated, increasing inflation wear away the principal on the fixed income securities and other types of investment. Steady price creates conducive environment for investors. It enables them to estimate, their worthiness by investing their capital in different sectors.

Investment climate constraints serve to depress the potential rate of return on investment, increase risk and/or prevent the entrepreneur from capturing the returns on offers (Fiestas and Sinha, 2011).

As Dawit (2010) has stated, low resource availability, uncertainty, weak governance, corruption unfavorable investment policy, and lack of finance are the main challenges of private investment in Mekelle.

These challenges factors are directly or indirectly challenging to the existing investors and to the potential investors in the regional state of Tigray (dawit, 2010).

Tigray has relatively comparative advantage to attract investment in tourism, beekeeping, and leather products. As Cannon (2009) has stated, Tigray is endowed by different historical sites. The northern truest path called as "historic rout" "encompasses the most important ant truism sites in Ethiopia is located almost exclusively in Tigray and its border regions.

Even though the number of investors increases from time to time, the numbers of investors at implementation and operation stage are very small. As data by Bureau of Investment of Tigray shows only 29.9 percent of 4309 are at operation

Many empirical studies were conducted to identify the factors that influence private investment (both FDI and domestic). The determinants of private investment vary from study to study as well as from country to country. Some study argues factors affect FDI in Africa are not the same in Asia. Studies conducted (Solomon, 2008) on 80 developing countries conclude level of the country development determine the investment follow in the case of FDI. Among these factors are political stability, human capital, urbanization, infrastructure, skilled human labor; less corruption and country openness are necessary variables to determine FDI.

Nikola and Spatafora (2012) argued that, FDI is affected by institutional quality, the share of GDP. Similarly, Lesotho(2006) has states, investments depends on the rate of growth, interest rate public investment, exchange rate, inflation rate and availability of credit. In the case of Ethiopia (Solomon, 2008), real economic growth, the policy of export orientation and liberalization encourage FDI. Macro economic instability, poor infrastructure deters the investment. Kefay (2005) and Gebrehiwot (2013), have concluded similarly macroeconomic issues, policy and infrastructure are determinants of private investment.

RESEARCH OBJECTIVES

General objective

The main objective of this research is to identify the major challenges that affect FDI and domestic private investment and the opportunities in the region.

Specific objectives

This research will have the following specific objectives.

1. To pinpoint the challenges that obstructs both FDI and domestic private investment in the region.

2. To identify the opportunities that helps the investors to be successful.
3. To evaluate the tendency of private investments in the region.
4. To assess how private investors are handling their firms.
5. To identify powerful factors for private investment decision making.

3. RESEARCH METHODOLOGY

This chapter emphasizes the study design used to respond the research questions. It gives information about study design, selection of the study area, type and source of data, sampling technique, the study population and selecting the sample, and method of data analysis and the description of the selection and computation of the sample size.

3.1. SELECTION OF THE STUDY AREA

Tigray is located in the northern part of Ethiopia. It borders Afar region to the east, Amhara region to the south, and the countries Sudan and Eritrea to the west and north respectively. Tigray covered surface area of 53,638km². The topography of the region is a combination of highland plateaus, mountains and lowland plains. The elevation range from 500meters above sea level in the west (Humera) to nearly 4,000 above sea level in the Tseibet Mountains in the south. As the other part of Ethiopia, the climate varies with the altitude, the low land areas of Humera being notably warmer than the high lands of Mekelle. As the census carried out in 2007-2008, the population of the region is 4.5 million. About 20percent of the population is lived in urban area but 80percent of the population doweled in the rural area. Above 95percent of the population are Tigrayan.

Tigray as of the other regions of Ethiopia is striving to achieve its five year transformation plan and trying to attract potential investors to invest and benefited from the growth. According to the Tigray Investment Office record more than 72percent of the private investor are licensed at Mekelle city, Central zone, south eastern zone and Eastern zone. (Bureau, 2014).

Thus, examining the challenges and opportunities both FDI and domestic of private investment in these zone could have a representation to the regional investment situations. The other criterion is the convenience for information collection to the researcher and limitation of financial problem not to cover all the regional zones.

3.2. STUDY DESIGN

To conduct the research descriptive studies has been applied. Descriptive enables to portray an accurate events or situations. In addition to that, this method is convents' when there are structured questionnaire and interview. When a researcher want to undertake attitude, opinion indifferent phenomena, it is advisable to use descriptive method (Mark& etal, 2007).Therefore this research used descriptive method to collect data from respondents about the challenges and opportunities of private investment in Tigray. In this research both qualitative and quantitative research methods were used. The qualitative approach helps to analyze deeply the organizational condition as to its strength, weakness, and external favorable condition and threats. Quantitative methods helped to bring out empirical data that both balance and validate the qualitative analysis and conclusions.

3.3. SOURCES OF DATA

The study used both primary and secondary sources of data collection. In order to realize the target, the study used questionnaire as instrument to collect the primary data. This was completed by the owner managers/or operators of the enterprises. Besides, a face-to-face interview with the selected government investment officers both at regional level and Mekelle zone of the investment office has been used.

In addition to that, secondary data had collected from files, reports, office manuals, circulars and policy papers are included to provide additional information where they are appropriate. Besides, variety of books, published and/or unpublished government documents, had been reviewed to make the study fruitful.

3.4. SAMPLING

According Bureau of Urban development, trade and industry of Tigray, there are 4309 private investors in Tigray (Bureau, 2014).Currently, there are seven zones in Tigray. For this research purpose four zones are chosen based on purposive sampling method for the sake of simplicity and budget constraints as well as investment concentration. Zones selected for this research are, Mekelle, Southeastern zone, Eastern and central zone. Most social science studies accept from 5percent to 10percent as an error. As a result of this, the researcher used, Yemane's sampling technique method (Yemane, 1967).As afore mentioned the total number of investors are4309.Of this total investors 234 are foreign investors. From the total investors 150 investors had been

taken as sample based on the following formula. As to the foreign investors 8 investors took as sample. Every wereda of the region does not have an investment office. Towns in the first, second, third stage has investment office. Therefore the sample had been taken from all towns that have investment office in the selected zones.

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

$n = \text{sample}$

$N = \text{population size}$

$e = \text{An error}$

$$\text{Then the sample} = \frac{4309}{1+4309(0.08)^2} = 150$$

N. B. Here the error is assumed to be 8percent

The zonal sample distribution is shown as follows:

zone	No. of investors	Sample
Central	582	$\frac{582}{3121} \times 150 = 28$
Eastern	540	$\frac{540}{3121} \times 150 = 26$
South eastern	22	$\frac{22}{3121} \times 150 = 1$
Mekelle	1977	$\frac{1977}{3121} \times 150 = 95$
Total	3121	150

4. RESULTS

The main objective of this research was to identify the major challenges that affect FDI and domestic private investments and the opportunities of investment in Tigray .To achieve this objective of the primary data and secondary data were used. The primary data were collected from the investors who have a certificate of investment from the offices of investment. 150 investors were assumed to be involved in responding the questioner but 145 questioner were collected .In addition to that interview was conducted .The interview was conducted to substantiate the data collected by questioner with regional investment office and zonal investment office as well as chamber of commerce.

Even though the number of investors moves up and down from time to time, their number is increasing. The distributions of the investors in the region are mostly concentrated in Mekell. But in terms of capital amount, central zone takes the largest share. Above 45percent of the investors have invested or take investment certificated from Mekelle, flowed by western zone. But the investment area in the western Zone is all most dominated by Agriculture.

The investment distribution between central zone and eastern zone is proportional .But the number of investors in north western, southern and south eastern are small .This shows there should be an efforts to increase the number of investors in all zones, Investment in construction take the lead followed by industry. While service is the least area in terms of investment number, it is the first in the case of capital amount. Services are the most dominant area in job creation opportunity.

Investment under operation is very small. Of the total investors only 29.9 percent are under operation the rest are in the phase of pre implement and implementation.55.37 percent of the investments are under pre implementation.

Almost the age of investors varies from three to seven years .Investors who have an age above seven years are only 24.8 percent. From this it is possible to conclude almost the investors are at growth and starting stage.

The number of employees which created by the investors is concentrated below fifty .Therefore most investors are able to create job opportunities for small numbers.

Profit availability, affordability of initial capital, security of investment and better prospect for the future are the opportunities that attract investors to the region but availability of skilled man power, incentives and support of government are less in terms of capital attraction they can be considered as challenge rather than opportunities.

Finance is challenging factor for investment in Tigrria. Investors faced a problem such as delaines and bureaucracy to get loan. In addition to that, the size of the loan allowed to investor is low.

The market area for majority of the investor is Tigrai. This is an opportunity for the investor because this helps them from incurring additional costs such as transportation cost, flotation cost as well as other administrative costs. Majority of the investors don not face a market problem.

Except profitability, wage rate, political situation and governmental policy uncertainty factors such foreign exchange rates, land access, general economic condition, government regulation, infrastructure, interest rate, red tap are challenges for investors, specially bank lending, tax rate, interest rate and shipping cost are leveled as the highest challenges for investment.

Investors at pre implantation stage are mostly challenged by lack of finance, land access, bureaucracy, lack of appropriate support and lack of experience. But the most challenging factor for investors under implantation are materials imported from abroad used for construction and shortage of foreign currency as well as the fluctuation of price of the material depending on the depreciation of the Ethiopian birr. Similarly, the problems of investors under operation are lack of management experience, training, demand, and cost of production. These shows the problems are differing with phase or status of the investment.

The problems mentioned by FDI are the existence of unequal treatment from the government, government reluctance to encourage the FDI by different incentives and lack of infrastructure specially internet service.

The institutional support and good governance of the region are at their lowest stage .But the investment condition of the region is average.

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