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SUBMITTED BY:  
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RESEARCH TOPIC:

ASSESSEMENT ON FACTORS THAT CONTRIBUTE TO  
LOW INVESTMENT ACTIVITIES IN  
JIMMA ZONE.

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## ABSTRACT

*Ethiopia has great potential for the investment sector because of its favorable conditions, its fertility of land, mineral and forest resources, different climatic conditions, water resources are some of the factors that make Ethiopia desirable for investment.*

*Despite these factors (resources), there are very few investment activities in the country. Taking Jimma Zone as a small part of the country also, there are poor investment activities despite the same favorable conditions as the general country.*

*In this research study it has been tried to identify the causes for low investment activities in Jimma Zone, and their consequence on the overall economic development in the area.*

*Data were collected from different governmental and non governmental, public and private organizations, people being engaged in different investment activities in the area and unsuccessful investors. Questionnaire and interviews were used as the main methods of data collection techniques, and finally, the result of the data was investigated using different mechanisms such as ANOVA tables and the finding was compared and discussed with relevant literatures.*

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# CHAPTER 1

## INTRODUCTION

As investment is one of the key points for the growth of an economy, it is not doubtful to deal with its problems for hindering it. In any investment sector, when making decisions, an investor should consider three points of an investment's required rate of return. I.e.,

- Required Rate of return
- Rate of expected inflation
- The risks involved, that can have an effect on the anticipated wealth and spending (sear and truempor, 1993).

However, in the case of Jimma zone, it is difficult to say that the factors hindering investment activities are confined to these only. There are immense attributes (both internal and external factors) that cut down the growth of the zone in the investment sector.

Broadly speaking, as market is one basic factor for the hinderance of an investment activity (sears and truempor explained that an efficient market is one in which investment has higher expected return and also has lesser level of risk), it is also in evitable to deal with the market characteristics and market conditions when ever we deal with investment. But, in many cases, even though the market is profitable, fearing the risk involved makes business men far a part from the sector, i.e, if markets are reasonably efficient in risk and expected return sense, investors overriding objectives, investors portfolio diversity is possible to meet their investment goals.

In any case, investment activities in Jimma zone are found to below, and this research study has tried to find out some of the basic problems for the low investment situation.



## 1.1 Literature Review

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

Helfert (1997) has defined investment as "a fixed and initial operating resource used for the production of goods, the provision of services and the development of science and technology capability. Helfert also advises an investor that when it evaluates investment should invest internally ( within its own activities) before considering external investment (investing outside its activities). Accordingly an investor engaged in an oil drilling investment should consider weather it issued expand this activity before starting (selecting) other activities say manufacturing activity for investment.

Gitman (1997), defines investment as sizable outlays of funds that commit a firm to some course of action, the firm lies on specific procedures to analyze and select those investments properly.

Shaum's (1998) has set the process for evaluating and selecting long term investment and classifies investment decisions as :

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



Before starting an investment activity, one investor must know and analyze in what area he is going to invest, the available funds he/she has for investment, the economic and political situations the country, availability of raw materials for running its activity, and finally he must put a standard of evaluating the profitability of the investment.

- Investment decisions are basically major decisions to be adopted with the enterprise (Birritu, May 1996).

According to Helfert, the analyst decisions about new investment involves a particularly complex set of issues and choices that must be resolved by management. Effective analysis of business investment requires both the analysis and the decision-maker be very conscious of and specific about the **many dimensions** involved.

In addition, an investor(s) engaged in the investment activity must see whether the investment is contributing some advantage for the nearest society and the nation in general. Thus, the following investment objectives may be full filled by an investor:-

- To achieve an increase in the variety, quality and value of the supply goods and services of the country.
- To create wide employment opportunities to the nationals.
- To encourage the expansion involve, in variety and quality of the export of the nation.
- To encourage the production and utilization of domestic raw materials, production machinery, equipments and other goods.
- To achieve, protect, develop, enrich and utilize the natural resources of the country and others.

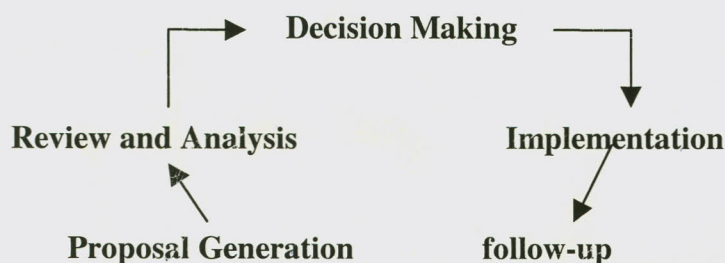
For judging the attractiveness of one investment , an investor should first consider; the amount to be expended on the investment, the potential benefit of the investment, the time period and any final recovery of capital.

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

- a) **Pay back period:-** measures the length of time required to recover the amount of initial investment. According to this method, the investor chooses an investment activity with the shorter pay back period.
- b) **Accounting Rate of Return (ARR):-** this measures the profitability from the conventional stand point by relating this required investment (average investment) to the future annual net income. According to this rule, the investor has to choose the project with the higher rate of return.
- c) **Net present value (NPV) method:-** NPV is the excess of the present value of cash inflows generated from the investment over the amount of the initial investment and the rule says, accept an investment activity with the positive net present value.
- d) **Internal Rate of Return (IRR):-** IRR is defined as the rate that equals interest with the present value of future cash inflows. In this method, the investment decision is accepted if IRR exceeds the cost of the total investment.
- e) **Profitability Index (PI) method:-** It is the ratio of the total present value of future cash inflows to the initial investment; i.e.  $PV/I$ . The rule says accept the investment if the profitability index is greater than 1.

Other factors to be considered in investment activities include; Risk associated with the investment, inflation rate, tax policy of the government, etc

To summarize all the points, the investment decision and activities can be viewed as consisting of the following five distinct but interrelated steps:





## CHAPTER 2

### Objectives of the Study

#### 2.1 General Objectives

The main objective of this research study is to identify factors that contribute to law investment activities in Jimma Zone, Oromia Region in order to recommend some reasonable solutions for the future period.

#### 2.2 Specific Objectives

- To determine the general attitude of the population and the government towards investment activities in Jimma Zone.
- To determine the impact of law investment activities on the overall economic development in the Zone.

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## CHAPTER 3

### Methodology

#### 3.1 Study area

This research study was conducted in Jimma Zone, Ormomia Region. Jimma Zone is located in south western Ethiopia, covering an area of 16, 185 kms. It has a dense and its annual rainfall ranges from 1200 to 2500 km. It is one of the main coffee growing areas in the country. According to the 1984 National and Housing census, the population of the Zone is about two million, 90% of which live in the rural areas. About 51% of the urban population live in Jimma town, capital of the zone. Substantial agriculture is the main means of livelihood.

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The zone is divided in to 11 Administrative districts (waredas), each "woreda" is sub divided in to urban centers (town) and villages are organized into urban and rural "kebeles" respectively forming the smallest administrative units in the country.

#### 3.2 Study Design and Time

The study was conducted between the end of January until the mid of February months, i.e. data collection periods. It was designed to get a clear understanding of investment activities in Jimma Zone, the factors for the presence of low investment activities in Jimma Zone associated with their consequence on the overall economic development in the zone, and finally it will assist in formulating recommendation on how to improve these low investment activities in line with the present technology and information system.



### ***3.3 Method of Data Collection***

Method of data collection involved interviews (both structured and unstructured) and questionnaires (both open ended and close ended questions), collection of documentary sources and others.

### ***3.4 Source of Data***

As the data collection source, both primary and secondary data were included. In case of primary data collection, both open ended and close ended questions were prepared in questionnaire form. These questionnaires helped in getting information from current investors. Both structured and unstructured form of questions were also prepared to get data from different governmental organizations, especially Jimma zone investment Bureau relating to investment.

As the secondary data source, an appointment with various officials were made for time adjustment purposes.

Secondary informations from governmental and non governmental organizations like Jimma public library, Jimma Chamber of Commerce, Jimma Trade industry and Tourism Office were collected. Careful analysis of the documents was made during collection in order to avoid out dated and irrelevant documents.

### ***3.5 Data analysis and Interpretation***

Once the above procedures were accomplished, the need for processing and interpreting the information remained. Firstly, in this part, hence the problem of the study was defined, the next step became defining the population. In this specification of the population, all investors activating in the zone were taken in to consideration. Thus, the names and respective addresses of the investor in the zone were randomly taken from

Jimma town advisory council and Jimma zone investment Bureau. As it is common in all business world, the population are heterogeneous in nature.

As the number of the population are large and time constraints, sampling method of data collection was preferred. But, it is hoped that the questioner i.e., prepared and the samples included will have the probability to encompass an the rest population.

Widely, I can predict that as the respondents are closely tied to the business experience and old enough, the size of the sample, the duration taken to survey the problems is fair enough for the study of the project.

Next, the data was processed and analyzed. Raw data were examined to the purpose of making it accurate in the control editing. As most of the respondents are not related with the quantitative questions, most of the data were not processed by computers.

Finally, the collected data were analyzed using different methods such as ANOVA Tables, pie charts, etc. and the finding was compared and discussed with relevant literatures.

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## CHAPTER 4

### Major findings

The findings of the research study have been assessed using questionnaires, interview and other methods. The questionnaire contained both subjective and objective, open ended and close ended questions.

In order to make the data clear and facilitate communication, data obtained through the objective part of the questionnaire are tabulated in raw data below.

#### A) General Information of the respondents

##### I. Age:

	<40	>40, <50	>50
Frequency	12	10	3
%	48	40	12

##### II. Sex:

	Male	Female
Frequency	21	4
%	84	16

##### III. Level of Education:

	12 complete	Certificate	Diploma	Degree
Frequency	14	3	8	-
%	56	12	32	-

**B. Data obtained relating to current investment activities of the investors:**

1) Sources of raw materials for the investors:

	Nearby market	Far places with in the country	Abroad
Frequency	22	3	0
%	84	16	0

2) Does the investor use any standard evaluation technique to evaluate his/her project?

	Yes	No
Frequency	0	25
%	0	100 *

3) Educational status relating to most employees of the investors:

	No formal education	Primary school	Secondary school	Post secondary school
Frequency	1	16	6	2
%	4	64	24	8

4) Does the investor use any modern technological equipment to run his operation (except simple machines)?

	Yes	No
Frequency ✓	0	25
%	0	100



- 5) Investor's feelings for being engaged in their investment activities in Jimma Zone.

	Very pleased	Pleased	Not pleased	Feel nothing
Frequency	6	11	8	0
%	24	44	32	0

- 6) What does the investor want to do of his investment activity (organization) for the future?

	Explaining it	To continue at this level	To start any other job in addition	Close it completely
Frequency	10	11	2	2
%	40	44	8	8

- 7) The investors' feelings towards the present Ethiopian government attention to the country in General and in Jimma zone in particular:

	Very encouraging	Encouraging	Discouraging	Indifferent
Frequency	0	10	15	0
%	0	40	60	0

- 8) The investor's attitude to the saying that "the present Ethiopian government's policy towards investment is very encouraging:

	Agree strongly	Agree	Disagree strongly	Disagree
Frequency	0	10	1	14
%	0	40	4	56

- 9) Investor's attitude towards the present Ethiopian government policy comparing to the past two governmental policies

	Very good	Good	Fair	Less	Uncomparable
Frequency	0	9	7	8	0
%	0	36	28	32	0

- 10) The investors' attitude towards the tax levied to him/her in relation to his/her income  
(on the tax policy in general):

	Very high tax	High tax	Fair tax	Low tax
Frequency	11	13	1	
%	44	52	4	

- 11) Does the investor contact any other investment coordinating agency in order to get consultancy services or any other reason?

	Yes	No
Frequency	10	15
%	40	60

- 12) Does the investor encountered serious difficulties like to get investment permission and licensee from the local government when he started his activities?

	Yes	No
Frequency	19	6
%	76	24

- 13) Where does the investor put his earnings obtained from the investment?

	Deposit in bank	Keep in his own	Use it for are investment purpose	Does not save any
Frequency	15	1	7	2
%	60	4	28	8



## CHAPTER 5

### Analysis and Discussion

To show what implications they have on the investment sector in the area, it is necessary to interperate the previous findings (tabulated in the above table) in to meaningful ways. Here, it has been tried to focus on each statistics of the data to communicate them to show what the investment sector seems in Jimma Zone.

Concerning Data relating to the general information of the respondents, the following information were obtained;

- **The age distribution** of the respondents showed that most of the population engaged in investment activities in the zone were found to be between the ages of 30-40 years.
- **The sex distribution** of the respondents showed that, 80% of the population were found to be male. This figure shows that investment activities in the area is not activated in equal distribution by male and female.
- **Educational status:-** Educational level of the investors was found to be dominated by 12 Grade complete (56%), followed by Diploma graduates (32%) and then certificates (12%), and finally it was found that there is not any degree holder investors included in the sample. From these figures, it can be implied that the educational status of the investors is not enough to run an investment activity and to give right decisions of the right activity, since it is not simple to do these in investment world, As Helfert described, "the analyst decisions about investment involves a particularly complex set of issues and choices that must be resolved by management", which may requires the person's tallency and conscious of many dimensions in investment decisions and activities to show that investment decision and activities a complex process.

Moreover it was found that most of the investors are beginners that have not any investment activities in any other places before they started their current activity (88%)

and the period they started investing was very short which also may have a negative consequence on the development of the investment sector in the area.

Data obtained concerning current investment activities in the zone showed that;

- About 84% of the respondents use their near by market as the source of their raw materials which has a positive impact on the investment sector in reducing cost of transportation for investment and using the near by resources than waste.
- Moreover, almost all of the investors use their near by market to sell their produces than transporting it abroad or taking it to far places from their operational areas.
- Educational status related to employees of the investors was found that most of their employees are with educational level of primary school, i.e., grade six complete (64%) and the rest below or having no formal education, with a little number of 12 grade graduates and post graduates. According to these figures, it can be concluded that there is lack of qualified (educated) man power in running the activities in investment sector in the area. Thus, these employees may lack capability to operate machines, use equipments correctly and efficiently, and may not be capable to go with the current technological and methodological changes timely, which may also have a negative impact on the development of investment sector in the area.

The other issue needed to be considered when dealing about investment activity in any place is what the local, government is doing concerning investment sector in that area, what the policy of the government looks like in the area, the attitude the government has for investors concerning incentives and promotions, etc. in and other related issues, since these issues have a strong impact (positively or negatively) on investment sector. Thus, investors' feelings towards the present Federal Democratic Republic of Ethiopia (GFDRE) and other regional governments for the investors and towards investment activities in the general country, and in Jimma zone in particular was considered.

According to the data obtained from the respondents, the present Ethiopian government's attention towards investment is discouraging (by about 60% of the respondents), and only



40% of the respondents showed its encouragiance. Data was also obtained relating to the present government's policy relating for investment sector. Accordingly, it was found that only 40% of the respondents would agree if one says "the today's Ethiopian government policy for investment is very encouraging". The rest, 60%, would disagree strongly or disagree with the statement.

Data was also obtained regarding the suitability of today's government policy comparing with the past two government policies for investment. It was found that only 36% of the respondents suited the today's policy and the rest believe as it is fair or it is less suitable compared to the past government policies.

The above data can be summarized in the following table

S.N <sup>o</sup>	Information Required	Data Obtained			
1	Present government's attention towards investment:	Very encouraging	Encouraging	Discouraging	Indifferent
	Number of respondents (%)	-	40	60	-
2	The present government's policy towards investment.	Very encouraging	Encouraging	Very discouraging	Discouraging
	Number of respondents (%)	0	40	4	56
3	The present government's policy towards investment (comparing to the past two government policies).	Very good	Good	Fair	Less
	Number of respondents (%)	0	36	28	32

Table-1 Investors attitude towards the overall attractiveness of government towards investment in Jimma Zone.

Generally, according to the above data, it can be concluded that the overall government attractiveness for investment in the country and in Jimma Zone in particular is not good,

\* and most of the investors currently investing in Jimma Zone do not seem happy. Thus, it was found that only 24% of the investors currently investing in Jimma Zone are very pleased, 44% pleased and 32% are not pleased for they are being engaged in investment activities in Jimma Zone.

⑨ More over, about 44% of the respondents want to continue with their current investment condition activating in Jimma zone (with out expanding or closing it), because they do not have any other alternative to rely on, about 8% want to close their investment activities, 8% want to start other occupational activities in addition to what they are investing, and only 40% of the respondents want to expand their current operation of investing in this area, being expansion of project is considered as the suitability of the condition in this research study.

\* Data was also obtained concerning the tax policy of the government. Accordingly, 52% of the respondents commented there is very high tax levied on them in relation to their income, 44% commented as high tax, and only the rest suggested as fair tax.

Problems were also considered from mistakes in the activities of the investors in the zone serious problems assessed were the methods and techniques the investors follow to run their operation, the technologies and equipment's they use and the way they expend (use) their earnings obtained from their operations. Accordingly, almost non of the investors, non of the investors, and about 25% of the investors use one or more of the standard evaluation techniques, use modern technological equipments (except simple machines), and deposit their earnings in bank or use it for are investment purposes respectively. This implies that investment sector in Jimma Zone is not growing rapidly as the return from the investment becomes very small or only hand-to-mouth consumption.



## General Investment condition and Problems

In agricultural sector, even though the government has given emphasis on the development of agro-industry, the entire industrial performance in this zone is unsatisfactory. As most of the area is covered by coffee cultivating farmers, the whole trend in this zone is entirely on this sector. Due to the reason that coffee price and productively is fluctuating basically as a result of intervention as coffee market and unreliable weather condition, respectively, we can say that the entire investment sectors in the zone is not fully sustainable. Here most of the businessmen in Jimma zone are engaged in coffee washing, processing, wheeling or act as merchants to distribute it. Regarding to this effect, the banks, insurance and other business agents have been taking a great loss as a result of coffee productivity and its price.

Here as it was studied, the following pie chart illustrates low investment is dominated in similar (few) sectors in the zone.

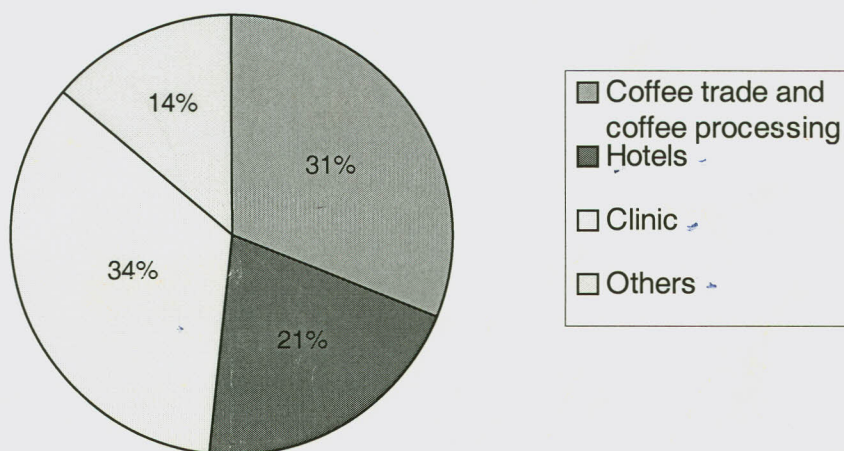


Figure showing share of investment sector by different activities in Jimma Zone.

The above pie chart further illustrates that there is small investment activity in the zone. In addition, among these, there is stiff competition that leads them to loss.

The other basic pit fall of investment in any region is that the absence of integrated infrastructures and other facilities as also true in this area. For example from all weather road of 2750 kms, only 238 km is asphalt and the rest gravel in the area.

Power supply, according to 1984, statistic data, there is only six town gets hydro electricity. The Gilgel Gibe electric installation which was started before seventeen years ago hasn't still completed that is still expected to generate 310 Mega Watt. This condition can be illustrated in the following table.

Town	Road inside twon			Water supply		Living homes				Light
	Paved	Gravel	Asphalt	Pipe	Ration	Kebele	Manicip -ality	Gov't	Private	
Jimma	15	11	24	3200	32	6209	89	633	8470	Ele. power
Agaro	17	7	9	560	42	1638	32	57	233	Ele. Power
Limu-Genet	2.5	4	-	258	8	711	10	-	213	-
Serbo	4.5	1	2.7	-	5	237	40	-	499	-
Toba	2	1	2	-	5	343	62	-	456	-
Shebe	1	2	-	-	8	357	15	-	625	-
Yebu	2	-	2	22	8	346	Un	-	Un	-
Asendabo	8	2	4	-	8	350	Un	-	Un	-
Sheki	2	1	-	-	6	187	-	-	692	-
Seka	7	3	-	-	8	242	-	-	801	-
Deneba	20	5	1.5	-	7	204	-	-	1100	Elec. power
Chira	2		-	-		225	-	-	534	-
ada	Un	Un	-	-		170	-	-	552	-
embe	2.5	-	2	35	-	354	-	-	502	Ele. power
Haro	3	-	2		-	401	-	-	Un	Ele. power
Sokoru	5	-	5		7	190	-	-	Un	Ele. Power

Table 2: Condition of infrastructural facilities in Jimma zone

\* Un = unknown

\* Ele.power = Electric power

Source: *Investment potentials and alternatives in Jimma zone (Nov.20, 1991 EC. Jimma).*



The other problem focused in the zone concerning investment was the distribution of investment and industrial sectors over the zone. Accordingly, it was found that the distribution of both investment and industrial sectors is not even. In some areas, investment and industrial activities are found in concentration to narrower areas. Especially, areas where there are population concentration and near road routes, investment activities are found to be concentrated. This situation suggests that the entire investment activity is dependent up on the internal supply and demand (consumption) and not for export activities.

In reverse case, other areas of the zone are found to be empty in investment sector even having more potential for investment. This condition may result from lack of awareness for other sectors in the vacant areas, facility and infrastructure problems, and insufficient survey on natural resources, and other problems which may indicate the share of the government in advertising, awaring people and incentive promotion for other investment activities less.

For illustrational purpose, it is possible to see how small scale industries are concentrated in Jimma zone.

Types of small scale industry	In zonal level	In Jimma town	%age in town
Floor mill	229	35	19
Coffee processing	27	7	25
Wood work	16	12	75

Table 3:- Concentration of small scale industries in Jimma zone.

Source:- Investment potentials and alternatives in Jimma zone (Nov. 20, 1991 E.C. Jimma)

## CHAPTER 6

### **Limitation of the study**

- Willingness most respondents to give the required and right responses.
- Inability to get sufficient information from government officials at the right time.
- Problems in accessibility of many of the addresses of the required investors during data collection period.



## CHAPTER 7

### Conclusion and Recommendation

#### *7.1 Conclusion*

In Jimma zone, even though the potentiality of the area has not been studied fully, according to some studies it is concluded that Jimma zone has great potential for investment. The general structure of landscape, and its scenic nature have made it to have different weather conditions, the good rainfall made it suitable for the growth of different types of crops (crops such as cotton, sugar cane, Edible oils, fruits and vegetables which are basis for investment developments in one place are grown in the zone. Jimma zone is also rich in different water resources, natural forest resources and wild animals which are again basis for an investment sector. In addition, there found many higher schools, colleges and one university in the zone which can produce qualified man power lending institutions, banks and insurances.

But compared to these potentialities investment sector is found in poor condition in the zone. In the zone, there are only 127 investors found engaged in different investment activities.

The development of investment sector for the future also seems one of the disgusting one. Factors that contribute to this low investment activities in the zone are a lot. But, the general problems are seen from the government side and the investors them selves.

The government has not made sufficient survey on natural resources, has not given much attention on the development of infrastructural facilities, has not strengthen the exchange of information and consultancy services for investors, and others.

Investors have also problems in the ability to generate new ideas for investment which makes them to engage on similar types of investment activities), inability to make survey

in the successfulness of an investment activity (such as market survey) before starting investing and others.

## ***7.2 Recommendation***

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

- Preparing and conducting pannals, discussions and meetings yearly, quarterly, or monthly concerning investment activities in order to bring together the government and those investors to solve investment related problems.
- Developing infrastactural facilities in key areas of investment especially in low developed areas.
- Providing sufficient information of investment possibilities to the public and awaring those investors about other investment alternatives.
- Training and developing investors in investment activity areas.
- / Those investors should be able to prepare them selves to create other investment opportunities in addition to what they are currently doing.
- etc.



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