THE EFFECT OF INVESTMENT ON LOCAL ECONOMY: EVIDENCE FROM BENCH SHEKO, KAFFA, SHEKA, AND MAJANG ZONE

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Abstract

The aim of this study is to empirically examine the effect of investment on the local economy in the Bench Sheko, Kaffa, Sheka, and Majang zone using both quantitative and qualitative research approaches. The qualitative research approach is used to assess the effect of investment on the local economy in terms of job opportunities, tax revenue, technology transfer, infrastructure provision, and value chain creation of investments operated in southwest Ethiopia by using interviews and questionnaires. The data were collected from 195 investments operated from Bench Sheko, Kaffa, Sheka, and Majang *zone. The study found that all service, manufacturing, and agricultural investment sectors contribute more to the local economy by providing job opportunities, tax revenue, technology transfer, infrastructure provision, and value chain creation. Specifically, the study found that the agricultural investment sector transfers more technology to the local community than the service sector and manufacturing sector investment. In addition, agricultural sector investment creates more value chains than service and manufacturing investment sectors. Therefore, the study concluded that all investment sectors have a role in the local economy of the Bench Sheko, Kaffa, Sheka, and Majang zone. Thus, the Zone investment offices should create a conducive environment for investors to come and invest in the area.*

Keywords: Job opportunity, tax revenue, technology transfer, local economy

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Investment refers to the purchase of several goods and services that can be used for the production of other goods and it increases the productive capacity of the economy. Developed countries have excess capacity to invest. Investment is an essential activity for sustainable growth and increases the productive capacity of the economy. Investment plays a significant role in the world that is it increases employment opportunity, raises the level of output, increases export to the international market, increases the level of per capita income, reduces poverty, and raises urbanization Singh, S. N. (2019). Moreover, investment contributes to economic development and poverty reduction while creating jobs, new supply, and a better business competitive environment. As a result, it will eventually improve the economic growth of the recipient country Saidatulakmal and Abdillahi (2021).

Investment is an act of current spending for expected future return. It expands the productive capacity of a nation and plays a crucial role in the economic growth and development process. Investment has been regarded as one of the primary engines of growth (Wade, 1989) and the proposed solutions to SSA economic and geographic disadvantages (Sachs, 2004).

Investment plays an important role in economic growth. Public investment in basic infrastructure can be an essential precondition for capital accumulation in the private sector. Also, public investment in education, health facilities and other public goods which benefit society but for which private incentives are lacking may improve human capital formation and environment in which private sector can thrive, which in turn may lead to economic growth. For example, study by Diamond (1989) finds that capital spending on education, health, and housing has a positive effect on economic growth. However, public investment could also lead to a crowding-out of private investment which would have negative implications for growth (Swaby, 2007). Crowding-out may occur when additional public investment requires raising future tax and

domestic interest rate, or if the public sector produces investment goods that directly compete with private goods (Phetsavong and Masaru Ichihashi, 2012).

Investment plays an essential and vital role in expanding the productive capacity of the economy and promoting long-term economic growth (Jongwanich and Kohpaiboon, 2008). Levine and Renelt (1992) have argued that investment in capital goods is the most robust and vital determinant of economic growth. Gross domestic investment boosts economic growth by increasing physical capital directly and indirectly through technological spillovers (De Long and Summers, 1995).

In addition, the utilization of additional physical and financial resources, which would otherwise be available to the private sector, may also depress private investment (Blejer and Khan, 1984 and Aschauer, 1989).

The crowding-out effect could also occur when a distortion of public sector is too large. In order to finance a rising capital spending, the government needs more financing which in turn generates higher interest rates; therefore, minimizing the private sector's ability to access to monetary markets (Phetsavong and Masaru Ichihashi, 2012). Apart from public investment, private investment may bring technology and create employment and help to adopt new methods of production while enhancing productivity by bringing competition in the economy. Thus, with rising macroeconomic uncertainties such as inflation, needs to grow at a faster pace in poor countries, because it plays a crucial role in providing much needed macroeconomic stability in these countries. Investment in new plants and machinery raises productivity growth by introducing new technology, which will also lead to faster economic growth (Ipumbu and Kadhikwa, 1999.

Bernal et al. (2004) note that improvements in the investment climate in developing countries are key to increasing the flow of investments and, consequently, a higher level of economic growth and development. However, in the poorest developing countries, such as Ethiopia, businesses frequently operate in investment climates that undermine their incentive to invest and grow. In line with this environment, Ethiopian investors complain about poor infrastructure, particularly power shortages; poor transport; poor telecom connectivity of business locations, and lack of efficient tax administration (Saidatulakmal and Abdillahi, 2021).

Thus, it is imperative to undertake a study on the effect of investment on the local economy in Bench Sheko, Kaffa, Sheka, and Majang zone. This in turn will contribute highly to the region as it paves a way to examine investment status in the area.

1.2. Statement of the problem

One of the ways in which we connect the future is through investments. Investment is the planning what secures most of the people from the uncertainty of future. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price. Investment plays a crucial role which differentiates the developed, developing and underdeveloped countries. Investment is considered as one of the principal and important factors in economic development of a nation. Investment as it brings about fullers' utilization of available resources, it powers the way for large scale production and technical progress, increase specialization, creates increase the country GDP, increase the countries product for export and it substitute imports of a country. The role of indusial sector is to raise productivity per head physical output per heads) and to develop the economies that become nationally integrated flexible and cable of self-generated and self-sustained (Sangeetha, 2013).

Investment is very essential to mobilize human and natural resource to more productive, efficient and effective utilization of available resource by allocating them in investment activity. It is also important to produce goods and services and create employment opportunities for the society. As investment plays a great role in economic development, the government of Ethiopia has given emphasis concerning this activity. Its purpose was to develop the investment activity by giving major incentives for investors and promotion of investment opportunities both for domestic and foreign investor so as to increase the number of participants in this activity (Degefe and Nega, 1992).

For less developed Countries (LDCs) like Ethiopia, the fundamental challenge in their economy is how to achieve a large increase in output over a long period of time and improve the standard of living of their people so that there will be a dramatic change in their economic, political and social conditions. To achieve this target, various tools are considered. Among these tools promoting investment is the most common one. Though investment is the primary engine of

growth, all investments undertaken in an economy cannot be taken as productive and crucial to economic growth (Teshome, 2014).

To the best of the researcher's knowledge upon review, the only studies which directly deal with the effect of investment on the economic growth of Ethiopia are Anwer (1999), Ahmad et, al (2012), Getu (2014), and Singh, S. N. (2019). Moreover, Saidatulakmal and Abdillahi (2021), Georgeta Vintila and Andreea-Raluca Mocanu (2023), Zewdu et, al (2022), and Ezo Emako (2022) studied the effect of foreign direct investment on economic growth in Ethiopia. None of the above studies investigated the effect of investment on the local economy. Thus, the current study fills the gaps by investigating the effect of investment on the local economy.

1.3. Objectives of the study

1.3.1. General objective

The general objective of the study is to assess the effect of investment on local economy evidence from Bench Seko, Kaffa, Sheka, and Majang zone

1.3.2. Specific objectives

- To investigate the effect of service sector investment on local economy
- To examine the effect of agricultural investment on local economy
- To identify the effect of manufacturing investment on local economy

1.4. Research questions

1. Service sector investment has a significant effect on the local economy
2. Agricultural investment has a significant effect on the local economy
3. Manufacturing investment has a significant effect on the local economy

1.5. Significance of the study

Theoretically, the study contributes to the expanding body of research conducted on the effect of investment on the local economy and adds to the financial literature because it is the first of its type to examine the effect of investment on the local economy of Bench Sheko, Kaffa, Sheka, and Majang zone. From a practical point of view, the result of the study provides useful insights

to the Ethiopian investment commission, south West region, and the investment office of Bench Sheko, Kaffa, Sheka, and Majang zone for setting sound investment policy.

1.6. Scope of the study

The study delimited its scope only to those investments in Bench Sheko, Kaffa, Sheka, and Majang zone with the objective of investigating the effect of investment on the local economy. In addition, this study delimited to measure the local economy with the number of job opportunities created by the investments, tax revenue generated by the investments, technology transferred by the investments, infrastructures provided by the investments, and value chain created by the investments. The data were collected from the investment office of Bench Sheko, Kaffa, Sheka, and Majang zone and investors also.

1.7. Limitations of the study

The main objective of the study is to identify the effect of investment on the local economy of Bench Sheko, Kaffa, Sheka, and Majang zone. The local economy indicators selected for the study were limited to only job opportunities, tax revenue generated, technology transfer, infrastructure provision, and value chain created. Finally, the results of this study are not generalized to investments out of the study area.

1.8. Organization of the paper

This paper is organized into five chapters. Chapter one deals with the introduction part in which the statement of the problem, the objective of the study, research questions, significance of the study scope of the study and limitations of the study are discussed. Chapter two introduced the review of literature in which both theoretical as well as empirical studies related to the paper are reviewed. Chapter three deals with the issue of research methodology in which research design, research approach, sample design, sampling technique, sources of data and collection methods, and data analysis and presentation methods will be adopted are discussed. Chapter four is discussed about the data analysis and the final chapter deals with conclusions of the study findings and policy implications.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Theoretical Literature

The term “investment” means something different to economists than it does to most of the rest of the world. For example, if you ask your banker about investment, she will probably start talking about stocks and mutual funds that she would like you to purchase, or new kinds of deposit accounts that her bank offers. To an economist, these purchases of financial assets are not investments from a social point of view because financial assets do not represent real net wealth for the economy as a whole. Instead, they reflect credit relationships within the economy. Financial assets such as loans and bank accounts represent contracts to pay interest and repay the principal on borrowed money **(**Ayenew, 2022).

Stocks represent partial ownership of a corporation, implying a right to vote on the governance of the corporation and to receive dividends as determined by the directors that the shareholders elect. In either case, the financial asset of one individual in the economy is offset by the financial liability of another person or corporation. Thus, when we aggregate the wealth of all members of the economy, these assets and liabilities cancel and financial assets disappear. Thus, if you “invest” in a financial asset, someone else is “disinvesting” at the same time, so aggregate, or social, investment does not rise (Hussain, & Haque, 2016). Economists usually reserve the term investment for transactions that increase the magnitude of real aggregate wealth in the economy. This includes mainly the purchase (or production) of new real durable assets such as factories and machines.

Investment is an act of current spending for expected future return and it plays its own role in the economic growth within a state. Here, there are different factors applied for the purpose of economic growth, which is acted, by the government but the performance of the government is very limited and it cannot achieve growth independently. According to this point, the government gives the opportunity for investment. So, investment can get the opportunity in order to play its own role in economic growth. In addition to the government’s economic activities, the

contribution of the investment sector is high and this helps the economy by creating employment opportunities, income generation, market stability, and in general poverty reduction. Sustained economic growth in terms of employment opportunities and income generation is necessary for poverty reduction and requires an enhanced investment sector resulting in economic growth, reduction in poverty, and improved quality of life for the majority of the population (Ayenew, 2022).

2.1.1. Investment and the Local Economy

Investment has been regarded as crucial for growth since the formal onset of economics by the optimistic classical economist Adam Smith (1776). The belief of economists including the views of classical optimists and pessimists, Baiashvili, & Gattini, (2019), Keynesian, neoclassical, and endogenous growth theorists has been consistently the same in that the level of income and living standard of nations is a function of investment and capital accumulation. With the exception of the neoclassical view, all the above blocks of thinking agree that economic growth depends on the rates of saving, investment, and capital accumulation.

2.1.2. The Role of the Service Sector in Economic Growth

The misconception of services as being non-productive has led to the neglect of the service sector in both economic theory and applied economic research. The service sector is a crucial component of every country's economy, and it has been identified as a sector capable of becoming a significant driver of sustained growth in Africa (Ghani & O'Connell, 2014). It accounts for a significant proportion of gross domestic product in most countries and makes a significant contribution to the share of total employment. A productive service sector is known to strengthen the performance of other sectors in the economy such as manufacturing (Khanna, et al., 2016). This is because the sector enables and facilitates the functioning of most sectors (manufacturing, industrial sector, etc.), as most of these sectors rely majorly on the service sector to supply needed functions such as banking, accountancy, information, and technology. The service sector provides supplementary outputs to manufacturing firms that are dependent on external sourcing of basic inputs such as transportation, financing, design, and communication. The service sector also influences the development of businesses by increasing productivity and value-added.

2.1.3. The Manufacturing Sector and Value Chain Creation

Gross value of production by manufacturing sector worth about 113 billion Birr in 2012/13 and value added generated is estimated to reach 32 billion Birr in the same year, which was about 4% of the value addition to the entire economy in the same year. This report also indicated that, the largest value addition was come from the food and beverage subsector, which was around 8 billion Birr in 2012/13, followed by non-metallic mineral subsector (4.3 billion Birr) and metal and engineering subsector (3.9 billion Birr) while the smallest contribution came from textile and apparel industry (396 million Birr). The Ethiopian large and medium size manufacturing sector is dominated by food and beverages. It accounted for the largest proportion of the overall large and medium manufacturing value added between 2000/01 and 2010/11. However, according to this author, the value-added share of the food and beverage industries declined by about 3.6 percentage points between 2000/01 and 2010/11. (ADB, 2014)

2.1.4 Agriculture and Economic Growth

Healthy, sustainable, and inclusive food systems are critical to achieving the world's development goals. Agricultural development is one of the most powerful tools to end extreme poverty, boost shared prosperity, and feed a projected 9.7 billion people by 2050. Growth in the agriculture sector is two to four times more effective in raising incomes among the poorest compared to other sectors. Agriculture is also crucial to economic growth: accounting for 4% of global gross domestic product (GDP) and in some least developing countries, it can account for more than 25% of GDP. But agriculture-driven growth, poverty reduction, and food security are at risk: Multiple shocks – from COVID-19-related disruptions to extreme weather, pests, and conflicts – are impacting food systems, resulting in higher food prices and growing hunger. Russia's invasion of Ukraine has accelerated a global food crisis that is driving millions more into extreme poverty, and around 205 million people across 45 countries have so little food that their lives are at risk (World Bank, 2022).

2.1.4. The Manufacturing Sector and Employment

Output The last indicator that was used to see the structure of the manufacturing sector in Ethiopia is the types of output produced by the manufacturing sector in the area. There are four major categories of manufacturing output in Ethiopia: Consumer goods, Metal, Non-metal and chemical. The share of the types of output produced by the manufacturing sector indicates the development of the manufacturing sector in the country.

2.2. Empirical Studies

This part of the study summarizes various studies conducted in different countries, which are related to the effect of investment. The researcher starts reviewing empirical studies, which are, done outside of Ethiopia, and finally, the researcher reviewed those empirical studies conducted in Ethiopia.

Abdul Karim & Khoo (2015) conducted research on the Relationships between Private Investment, Employment, and output in the Manufacturing Sector in Malaysia. The purpose of their study was to evaluate the influences of private investment inflows on employment and output across manufacturing industries. The study covered a time period from 1980 to 2010 for the variable of private investment inflows and from 1981 to 2011 for the variables of employment and output. There were seven cross-section units to represent seven categories of industries for the analysis. Using a regression technique, the estimated coefficients of private investment flows had statistically significant influences on the levels of employment and output. Using the Pearson Correlation technique, there was a positive correlation between employment and output. Private investments are encouraged to accelerate output growth and employment enhancement in the sector.

Hussin and Ching, (2013) examined the contribution of economic sectors to economic growth in Malaysia and China from the years 1978 to 2007. They employed the augmented Dickey–Fuller (ADF) unit root test, and their result showed that the service sector generated the highest contribution to Malaysian's economic growth, while the manufacturing sector provided the biggest contribution to China's economic growth. Tang and Selvanathan (2007) determined the causal link between foreign direct investment and tourism in China. They used the Granger causality test and VAR, and their result provided evidence that there is unidirectional causality from foreign direct investment to tourism. They concluded that this causality has contributed to the rapid growth of tourism in China in the past 10 years.

Jamaliah (2015) studied on the effect of investment to value added production, employment absorption, and productivity and employee's economic welfare in manufacturing investment sector in west Kalimantan Province and found that private investment has significant and positive effect on the production added value and employment absorption. Moreover, the study

found that production added value has significant and positive effect on the employees' productivity and employment absorption had insignificant effect on employees' absorption.

Ochai & Mukasa (2012) used panel data analysis to investigate the effects of investment climate factors on manufacturing firms' growth in Uganda. There are low levels of manufacturing sector share in Gross Domestic Product (GDP) in most African countries. The results show that firm size, firm age, and average education are the main determinants of firm growth in a sample of Ugandan manufacturing firms. These results have important policy prescriptions to increase firm growth of output. In Aurangzeb and Ul-Haq (2012), the impact of investment activities on Pakistan's economic growth was examined by using yearly data for the period of 1981-2010. A multiple regression technique was used to analyze the relationship between the dependent variable (GDP) and independent variables (public investment, private investment, and foreign direct investment). In their results, all independent variables have a significant and positive impact on the country's economic growth. The Granger causality test found the bi-directional relationship of GDP with foreign direct investment and public investment while the unidirectional relationship of GDP was found with private investment.

Hansda, (2015) in his study determined the service intensity of various sectors of the economy. He employed the panel regression analysis, and the result of his analysis showed that the service sector is more of a growth-inducing sector than the industrial or agricultural sector. Therefore, in order to sustain the overall growth process, the services-led growth augurs well for the Indian economy in so far as the growth impulses originate in service vis-à-vis industry or agriculture.

Mujahid and Alam (2016) analyzed the process of growth in the service sector and assess its potential contribution toward growth in the case of Pakistan. He employed the VAR technique, and the result of his analysis proved that there is a significant relationship between service sector and trade liberalization, and the present analysis demonstrates that trade liberalization policy is beneficial for Pakistan's service sector growth.

Tandrayen-Ragoobur, (2010) examined the impact of the service sector on the economic growth of Mauritius. They adopted the ARDL model, and the result of their study revealed the existence

of long-run causal relationship from the service sector to GDP per capita while short-run causality runs from per capita GDP to service sector performance. Their findings further confirmed the stability of the relationship between service sector development and economic growth for small island economies like Mauritius.

Ayenew (2022) conducted his research on the relationship between investment and economic growth the main objective of the study was to analyze the relationship between investment and economic growth. The Granger causality has been used by the study to assess the relationship between investment and economic growth finally the study reveals that more investment provides production capacity, more opportunity for jobs, and high wages resulting in higher income so, investment causes GDP.

Emmanuel & Kehinde (2016) carried out research on Domestic Investment and Economy Growth in Nigeria: An Empirical Investigation. They tried to show the causal relationship between domestic investment and economic growth. They deployed the Granger causality test to determine the causality between domestic investment, and economic growth in Nigeria for the period of 1980-2016. The model was subjected to a Co-integration test in order to determine the long-run relationship between domestic investment, and economic growth in Nigeria for the stated period. The results showed that there exists long-run significant relationship between the considered variable and domestic investment. The study also found that domestic investment positively influences real gross domestic product (real GDP). Finally, the study recommended that the government of Nigeria should create a conducive environment for domestic investment to rise through the adoption of macroeconomic policies that will boost investment prospects.

Ahmad et. al. (2012**)** the importance of investment for economic growth in Pakistan. Time series data analyses have been used over the period of 1971-2011and the data are secondary in nature. The study used economic growth as a dependent variable while investment was an independent variable. Finally, the study reveals that investment has a positive relationship with economic growth.

According to Teshome (2014), Trends of the manufacturing sector in Ethiopia Trends refer to the change in the number of manufacturing establishments in the country. The number of manufacturing establishments in Ethiopia showed an increasing trend. In 1980, the number of manufacturing was only 408. After ten years, in 1990, the number of manufacturing sector declined to 288. Due to economic policy change and lack of market incentives, the number of manufacturing sectors declined by 41 percent between 1980, and Around 120 manufacturing sectors became out of the market within ten years. In 2000, a new number of manufacturing sector joined the sub-sector which was around 500.

In 2009, the total of the manufacturing sector in the country reached 2,179. As compared to three decades the numbers in the manufacturing sector changed by more than 1,700. But the change was irregular. During 1980 and 1991 the manufacturing sector experienced a declining trend. After the economic reform program was introduced in the country, the growth rate of manufacturing growth was at a slow pace till The growth of the manufacturing sector was faster and more sustainable in the country since 2000 which showed an annual growth rate of 19 percent as compared to 3.2 percent of an annual growth rate before The more involvement of the private manufacturers in the economy contributed for fast growth of the number of t manufacturing sector in the country.

According to Tadele et al. cited in Tekabe (2018) in Ethiopia, the proportion of the employed population in the working age population has increased by 0.5 percentage points between 2005 and 2013. The sectoral structure of employment reveals that the share of employment in agriculture has declined significantly from 80.3 percent in 2005 to 72.7 percent in 2013, declining by about 7.6 percentage points which indicated some sort of structural transformation. The service sector has assumed a great role in employment generation, where its employment share increased from 13.1 percent in 2005 to 19.9 percent in 2013. Labor productivity growth in the Ethiopian service sector is relatively high conversely; labor productivity growth in the manufacturing sector is relatively low.

Getu (2014) conducted his research with the title of the impact of private manufacturing investment a case study at Mekelle town. The main objective of the study was to determine the impact of private manufacturing investment. The analysis of t h e selection model

revealed that private manufacturing investment plays a significant role in creating job opportunities.

R. Murugesan (2016) studied Investment Opportunities in Service Sectors in India and found that service sector investment is much less as compared to its share of India's GDP. Gallo (2009) investigated The Economic Impact of Manufacturing in South Carolina Mileys and found that the manufacturing sector pays more than 50% of all property taxes. If these industries left these counties, the tax bill on the rest of the county residents could almost double. And finally, this report documents the tremendous economic impact that manufacturing has on the state's economy a major employer in the state with over 15% of total employment in the sector. In addition, the sector pays wages well above those of the state average.

Manufacturing is also important for absorbing workers with modest skills and providing them with stable jobs and good benefits as the sector where "the world's middle classes take shape and grow" (Rodrik 2011). Some employment-intensive industries seem particularly well suited for this purpose, such as garment industries in many low-income countries (Fukunishi2012). These industries provide wages that are generally higher, rural opportunities with low entry barriers for less educated workers (especially females) and a relatively easy promotion to better positions. Many individuals see manufacturing as a major source of good jobs. Besides offering higher wages, it typically provides better employee benefits and security than jobs in other sectors and tends to develop higher skills than equivalent jobs in the rest of the economy (Lavopa and Szirmai 2012).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Design

The foremost purpose of this study is to identify the effect of investment on the local economy of the Bench Sheko, Kaffa, Sheka, and Majang zone. To achieve this objective, descriptive survey research design was used.

3.2. Research Approach

There are three major categories of research approaches. These are qualitative, quantitative, and mixed research approaches. Qualitative research is an approach to exploring and understanding the meaning individuals or groups ascribe to a social or human problem. Quantitative research is an approach for testing objective theories by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures. Mixed methods research is an approach to an inquiry involving collecting both quantitative and qualitative data, integrating the two forms of data, and using distinct designs that may involve philosophical assumptions and theoretical frameworks. The research approach that was employed in this study is a mixed approach.

3.3. Source of Data and Collection Methods

Both primary and secondary data were used to conduct the research. The secondary sources of data were collected from the annual report of the zone investment office. The investment representatives were selected to fill out the questionnaires because they are in a better position to have all information related to the effect of their investments on the local economy. Moreover, interviews and FGD were also developed with the zone investment office administrative.

3.4. Population and Sampling Design

3.4.1. Population of the Study

The target populations of this study were all the investments operating in Bench Sheko, Kaffa, Sheka, and Majaing zone. According to the investment office of Bench Sheko, Kaffa, Sheka and Majaing zone currently, there are 382 registered investments in three categories agriculture, manufacturing, and service sector (zonal investment bureaus 2022).

3.4.2. Sampling Design

A sample is a proportion of the population whose results can be generalized to the entire population as defined by Amin (2005). To determine the appropriate sample size simplified formula, which was developed by Yamane (1967) was used:

$$n = \frac{N}{1+N(e2)} \quad \frac{382}{1+382(0.05)2} = 195$$

Where, **n** = sample size **N** = total population **e** = error term

As for this study, the researchers use a proportionate stratified simple random sampling technique where the numbers of elements from each sector were selected in relation to their proportion in the total population. Since it is important for the characteristic that becomes the basis of stratification to be related to the main variable to be explored, the stratification depends on the sectors of business investment (Bernard, 2012). Then after, the specified number of samples was selected randomly from each investment and included in the study. The total number of populations in the study area is 382 investments found in the Bench Sheko, Kaffa, Sheka, and Majang zone. The following table shows the list of investments and the number of samples that were included in the study.

Table 3. 1: Number of Investments with the corresponding samples

No	Zone	Investment Sectors			
		Agricultural sector investment	Manufacturing sector investment	Service sector investment	Total
1	Bench-Sheko	75	55	23	153
2	Kaffa	52	27	17	96
3	Sheka	25	19	18	62
4	Majang	40	19	12	71
	Total	192	120	70	382

Source: *Zone Investment Bureau*

Table 3. 2: Number of investments with the corresponding samples

Investment type	No of investment	Percentage (%)	No Sample investment
Agricultural	192	50.26%	98.02
Manufacturing	120	31.41%	61.24
Service	70	18.32%	35.72
Total			**195**

3.5. Method of data analysis

Data analysis is the process of cleaning, changing, and processing raw data and extracting actionable, relevant information that helps businesses make informed decisions. After all the required and relevant data were collected and processed descriptive analysis which include table and percentage are used to achieve the objective. Moreover, econometric techniques were employed.

CHAPTER FOUR

ANALYSIS AND DISCUSSION

4.1. Introduction

As indicated in the preceding chapters, the study attempted to empirically examine the effect of investment on the local economy in Bench Sheko, Kaffa, Sheka, and Majang zone using both quantitative and qualitative research approaches. A total of 195 questionnaires were distributed to the investment representatives who completed and submitted the survey. The data collected was presented, analyzed and interpreted using (SPSS) software version 16.0. Hence, the variables were analyzed below.

4.2. Demographic Information of the Respondents

A) Sex composition of the respondents

Sex	**N**	**%age**
Male	131	67.20%
Female	64	32.80%
Total	195	100%

***Source**: Own Survey, 2023*

As presented in the above table chart to show the sex of the respondents presented, it is clearly seen that most of the respondents, (67.20%) of investment representatives who answered the questionnaire was male and the remaining (32.80%) were female. This indicates that the sex composition of the respondents is not uniform.

B) Age Category of the Respondents

Age	**N**	**%age**
20 – 29	6	3.07%
30 – 39	40	20.51%
40 – 49	113	57.95%
50 and above	36	18.46

***Source**: Own Survey, 2023*

As can be seen from the above table, majority of the respondents are within the age category of 40-49 years which accounts (57.95%) followed by those employees within the category of 30-39 years (20.51%). The remaining (18.46%) and (3.07%) of the respondents are under the age category of above 50 years and 20-29 years respectively. This indicates that most of the respondents are young and adult population.

Marital Status of Employees

Marital Status	N	%age
Married	**171**	**87.69%**
Single	**4**	**2.05%**
Widowed	**3**	**1.53%**
Divorce	**17**	**8.71%**

***Source**: Own Survey, 2023*

The marital status of the respondents in the above table shows that most of the respondents are married who accounts (87.69%) followed by divorce (8.71%). The remaining (2.05%) and (1.53 %) are covered by those who are single and widowed respectively. This shows that most of respondents are engaged in a marriage.

4.3. Analysis of the Survey Questionnaires Result

1) Job opportunity creation

No.	Item	Response	Frequency	Percentage
Service sector	Have you created a job for the local community?	Yes	36	100%
		No	-	-
Manufacturing		Yes	61	100%
		No	-	-
Agriculture		Yes	98	100%
		No	-	-

In the above table, 36(100%) of the respondents responded their service business has created a job for the people in the local community. This indicated that the service sector in the area is contributing to employment endeavors. From this, the share of the hotel industry is greater than that of the remaining sectors of gas stations, private schools, and private clinics. The result is consistent with Ahmed & Ahsan (2011); Kabeta & Sidhu (2016); Attiah (2019); Magoti & Mtui (2020).

From the above table, 61(100%) of the respondents responded that their sector created a job for the people in the local community. This showed that the manufacturing sector in the selected area is contributing to employment opportunities. From this, the share of coffee processing is greater than that of the remaining sectors of water bottling, construction, metal works, and stone grinding. The same result is revealed by Attiah (2019); Moyo & Jeke (2019); Udedechinyere, et al. (2018).

As presented in the above table, 98(100%) of the respondents responded that their sector created a job for the people in the local community. This showed that the agriculture sector in the selected area is contributing to employment opportunities. From this, the share of coffee plantations is greater than that of the remaining sectors of tea, spice, and fruit plantations. The result conforms with Diriba (2020); Ferreira, et al. (2022).

- **If your answer to the above question is 'yes', for how many peoples?**

From the response, it is concluded that the service sector created an aggregate of more than 1,157 employees (Hotel;549, Gas stations;96, Private schools;218 and private clinics;294). This indicates the contribution of the service sectors in employment creation which is one of the pillars of economic growth.

From the response, it is concluded that the manufacturing sector created an aggregate of more than 2,673 employees (coffee processing;1482, construction;698, metal works;344, stone grinding;113 and water bottling;36). This indicates the contribution of the manufacturing sectors in the employment creation of the selected zones is one of the pillars of economic growth.

From the response, it is concluded that the agriculture sector created an aggregate of more than 2,945 employees (coffee plantations;1925, tea plantations;840, spice plantations;86, and fruit plantations;94). This indicates the contribution of the agriculture sector in employment creation which is one of the pillars of economic growth.

2) Tax Revenue

No.	Item	Response	Frequency	Percentage
Service sector	Have you completely paid your tax last year?	Yes	36	100%
		No	-	-
Manufacturing		Yes	61	100%
		No	-	-
Agriculture		Yes	98	100%
		No	-	-

As indicated in the above table, all of the samples in the service sector have paid their tax to the government. This is a good achievement in the economic growth of the local community.

As indicated in the above table, all of the samples in the manufacturing sector have paid their tax to the government. This is a good achievement in the economic growth of the local community.

As indicated in the above table, all of the samples in the agriculture sector have paid their tax to the government. This is a good achievement in the economic growth of the local community.

- **If your answer to the above question is yes, how much is the tax that you paid last year?**

For the above questions, the respondents replied about the amount of money paid in the form of tax to the government. From their response, more than 19,243,624.68 br. is paid as a tax from the hotel sector. Gas stations, private schools, and private clinics contributed 3,251,326 br., 1,112,928 br., and 3,615,885 br. respectively. This shows how important the service sector is in the local economic growth.

For the above questions, the respondents replied about the amount of money paid in the form of tax to the government. From their response, more than 17,529,330 br. is paid as a tax from the coffee processing sector. Construction, metal works, stone grinding, and water bottling contributed 3,644,215 br., 2,394,928 br., 124,119 br., and 118,000 br. respectively. This shows how important the manufacturing sector is in the local economic growth.

For the above questions, the respondents replied about the amount of money paid in the form of tax to the government. From their response, more than 18,155,307 br. is paid as a tax from the hotel sector. Gas stations, private schools, and private clinics contributed 3,251,326 br., 1,112,928 br., and 2,593,126 br. respectively. This shows how important the agriculture sector is in the local economic growth.

3) Infrastructure provision

No.	Item	Response	Frequency	Percentage
Service sector	Have you provided an infrastructure for the local community?	Yes	21	58.33%
		No	15	41.67%
Manufacturing		Yes	39	64.16%
		No	22	35.84%
Agriculture		Yes	44	45.31%
		No	54	54.69%

From the table above, more than half (57.33%) of the respondents in the service sector agreed that they engage in the provision of infrastructure to the community in one way or the other. Whereas, 41.67% of the respondents replied that they aren't engaged in providing infrastructure to the community. This shows that though their role in this activity is good still it needs improvement.

From the table above, more than half (64.16%) of the respondents in the manufacturing sector agreed that they engaged in the provision of infrastructure to the community in one way or the other. Whereas, 35.84% of the respondents replied that they aren't engaged in providing infrastructure to the community. This shows that their role in this activity looks good and it requires additional effort to make them engage in this activity.

From the table above, more than half (45.31%) of the respondents in the agriculture sector agreed that they engage in the provision of infrastructure to the community in one way or the other. Whereas, 54.69% of the respondents replied that they aren't engaged in providing infrastructure to the community. This shows that though their role in this activity is good still it needs improvement.

- **If your answer to the above question is 'yes', in what form?**

Concerning the service sector, three of them built community schools, and some of them installed streetlights in the surrounding environment. Yet some others engaged in different community wise projects. This indicated that the service sector is engaging in somehow providing the infrastructure to the community.

Compared to the service sector, the manufacturing sector highly participates in the infrastructure provision activity to the community which in turn positively affects the local economy. With this sector, six public schools, a total of 76 KM of unpaved roads, three small water wells, and other small infrastructural facilities are built. And also, they bought three electricity transformers and made the surrounding community access electricity.

The agriculture sector is highly engaged in rural road construction where their investment is located and around seven public schools are built. Some investments in this sector covered the cost of electricity infrastructure to the surrounding community.

4. Technology Transfer

No.	Item	Response	Frequency	Percentage
Service sector	Are you working in technology transfer?	Yes	6	17.15%
		No	30	82.85%
Manufacturing		Yes	22	36.6%
		No	39	63.4%
Agriculture		Yes	75	76.56%
		No	23	23.44%

From the table above, it was concluded that the service sector is not that engaged in technology transfer to the community. Only 17% of the respondents replied that their business is rendering the technology transfer.

From the table above, it was also revealed that the manufacturing sector is somehow good in that transferring technology to the community compared to the service sector but still, the numbers are low. Only 36% of the respondents replied that their investment is rendering the technology transfer.

From the table above, it was shown that agriculture is better at transferring technology to the community compared to both the service and manufacturing sectors. Nearly 76.56% of the respondents responded that their investment is rendering the technology transfer.

- **If your answer to the above question is 'yes', in what form?**

Though their number is limited, some service sectors are engaged in technology transfer. For instance, only 3 private schools provide training for the public schools. This number still shows that the participation of service sectors in technology transfer is low.

Compared to the service sectors the manufacturing sector is more engaged in technology transfer. Such as, the construction sector provides training to small cooperatives. This number still shows that the participation of this sector in technology transfer is low.

Compared to both the above sectors, the agriculture sector is more engaged in technology transfer. For example, most coffee plantation introduces new varieties of the coffee plant. Spices and fruit plantations are also doing the same things continuously.

5. Value Chain

No.	Item	Response	Frequency	Percentage
Service sector	Are you participating in a value chain system?	Yes	-	-
		No	36	100%
Manufacturing		Yes	-	-
		No	61	100%
Agriculture		Yes	53	53.65%
		No	45	46.35%

As depicted in the above table, all of the service and manufacturing sectors are not engaged in the value chain system of the lifecycle of a product or process. However, the agriculture sector, even though it is not as expected, participates in the value chain process of the agricultural products in the community.

- **If your answer to the above question is 'yes', in what form?**

The agriculture sector participates in the coffee, spices, and fruit value chain process from pre- to post-harvest and marketing process. This in turn stimulates the economy.

4.4. Analysis of the Interview Result

As stated in chapter three, apart from the structured record review this study employed interview with the investment administrative. The interview was conducted with four investments administrative from Bench Sheko, Kaffa, Sheka and Majaing zones. The interviews question were focused on the effect of investment on local economy in terms of job opportunity, tax revenue, technology transfer, infrastructure provision, and value chain creation of Bench Sheko, Kaffa, Sheka and Majaing zone.

All the interviewees responded that all service sector investment, manufacturing sector investment and agriculture sector investment create job opportunity, tax revenue, technology transfer, infrastructure provision and value chain creation to the local community. Specifically, the interviewees responded that from investment sectors agriculture investment transfer more technology followed by infrastructure and service sector investment respectively. Moreover, the interviewees responded that agriculture sector investment contribute more tax to the government followed by manufacturing and service sector investment respectively. Finally, the interviewees responded that agriculture investment sector provides more infrastructures and create more value chain to the local economy followed by infrastructure and services sector investment sector respectively. Both the analysis from questionnaires and interview result was supported by the focus group discussions which found all the services sector investment, manufacturing sector investment and agriculture investment contributes to the local community in constricting schools, value chain creation, create job opportunity and transfer technology.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

This study examined the effect of investment on local economy evidence from Bech Sheko, Kaffa, Sheka and Majanng zone using both quantitative and qualitative research approach. Both approaches were used to assess the effect of investment on local economy in terms of job opportunity, tax revenue, technology transfer, infrastructure provision and value chain of investments operated in south west Ethiopia through using interview and questionnaires.

From the findings of this study, it is concluded that all sectors of (service, manufacturing, and agriculture) are contributing highly to local economic growth by creating job opportunities for the surrounding community and paying taxes which in turn allows the community access to different services. Comparatively, the agriculture sector is participating highly in the provision of infrastructure to the community. The agriculture sector, better than the other sectors, works on the activity of technology transfer. From this, most of the works are providing different varieties of coffee and fruit plants. It is also concluded that the service and manufacturing sector lacks participation in the value chain system of the products in the local community. On the contrary, the agriculture sector's participation is better. Investment thus contributes to the local economic growth.

5.2. Recommendations and Policy Implications

Based on the findings and the conclusions, the following recommendations are provided:

- As the service sector's status in terms of job opportunities and being a source of revenue to the government is better, still it is advisable to support the sector to flourish even much better as the sector is not that much engaged in the technology transfer, infrastructure provision, and participation in a value chain system. So, it is expected of the government to support the sector to contribute its share.

- The manufacturing sector's engagement in creating job opportunities and tax revenue is better than before. Whereas in the case of technology transfer, it is expected to transfer product and process knowledge between development and manufacturing and the government should support the sector to achieve this objective.
- It is advisable for the agricultural sector to engage highly in technology transfer as it helps increase agricultural productivity, cut production costs, and lower consumer prices.
- It is advisable for the Zonal investment office to create a conducive environment for investors to come and invest in the area like peace and security, incentives, and other factors. It also revisits the investment policy and follow up on the investments to collect more tax from them.
- There should be further research on the effect of investment on the local economy other than job opportunity, tax revenue, technology transfer, infrastructure provision and value chain creation. Moreover, there should be future investigation on the area using advanced econometric models.

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APPENDIX

MIZAN TEPI UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

Opinion Survey Questionnaire

Dear respondents;

This questionnaire is designed to collect data for the study entitled "The Effect of Investment on Local Economy: Evidence from Bench Sheko, Kaffa, Sheka, And Majang Zone". The questionnaire is meant to be filled out by representatives of the selected investments in the aforementioned zones. For the research to yield valid results, it is important that you answer all the questions as honestly and truthfully as possible. The answers must reflect your own opinion and perception with regard to the questions asked. In addition to this, the researcher wants to assure you in advance that the information collected from you will be used only for academic purposes and your personal information will be kept confidential.

Thank you for your willingness to participate in this study. It is greatly appreciated.

<u>Questionnaire</u>

Section I

Demographic Characteristics of the Respondents

1. What is your sex?

   Male ☐

Female ☐

2. What is your age in years?

A. 20 - 29

B. 30 – 39

C. 40 – 49

D. 50 and Above

3. What is your marital status

Married ☐

Single ☐

Widowed ☐

Divorce ☐

Section II

Questions Specific to the study Variables

4. Have you created a job for the local community?

Yes ☐ No ☐

5. If yes, for how many peoples?

_____

6. How much is the tax that you paid last year?

_____

7. Have you provided an infrastructure for the local community?

Yes ☐ No ☐

8. If yes, in what form?

_____

_____

9. Are you working in technology transfer?

Yes ☐ No ☐

10. If yes, in what form?

_____

_____

11. Are you participating in a value chain system?

Yes ☐ No ☐

12. If yes, in what form?

_____

_____

Interview Questions

1. What are the contributions of investment to the local community?
2. Prioritize the investments based on their contributions to the local community?