

The Politics of Private Sector Investment in Local Economic Development: Local Governance and Regulatory Frameworks in *Gurage Zone*, Ethiopia

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Abstract: Private investment is one of the prominent approaches to local economic development. The focus of this study is the exploration of the political elements of private investment in local economic development activities in the backgrounds of local governance. A combination of quantitative and qualitative research methods challenged the idea that private investment, considered economically, contributes to local economic development, an assumption that isolates private investment from the surrounding environments. Therefore, the study found out that private investment in *Gurage Zone* has been showing an inconsistent trend in terms of its contribution to land development, employment creation, and capital generation. This inconsistency is reflective of the nature of private investment which is a depoliticized, delocalized, and de-bureaucratized program highly isolated from the local realities. This again is related to the detrimental effect of local governance structure which is fragmented, asymmetrical, poorly structured, and de-contextualized, thereby creating weak-bureaucratic services, inefficient partnership, and poorly structured governance platforms. Thus, the study concludes that private investment in *Gurage zone* is being restrained because of its isolation from the local realities, political imperatives, bureaucratic networks, and resource contexts, supposed to be controlled by the local governments.

Keywords: Private Investment, Local Economic Development, Local Governance, Regulatory Frameworks

1. Introduction

Private sector investment is no doubt important to improve local economic development. With respect to initiating economic projects, taking the responsibility of planning, and participating in public-private partnership programs, private sectors play crucial roles to some extent [27]. Nevertheless, a growing set of literature sketch a strong link between the activity of private investors in a specific spatial and governance domains and the investment fundamentals of private investors, both local and international [26].

Though some studies tend to show the general decline of private sector's investment in *Gurage Zone* (*Gurage Zone* is found in Southern nations Nationalities and People's Region in Ethiopia), there is a dearth of research that explains the relationship between private sector investment and the resulting

impacts on local economic development, measured by employment increment, land cultivation, and capital generation. To improve the private sector's investment performance in alignment with local governance platforms and planning processes, it is so worthwhile to critically analyze the impact of the private sector's investment on local economic development. And, this requires deeply assessing the impact of the political environment on the activities of private investors. The complex relationship between private investment and the local government's political responsibilities in the context of local economic development has to be studied from the governance and regulatory framework perspective. The basic gaps in this regard are: The challenges of the private sector's investment are not well investigated and the role of private sector's investment on local economic development is not investigated [10]. Thus, the basic rationale of this study is to deeply investigate the role of private

investment in local economic development, thereby finding out how the political function of local governments is influencing the activity of private investors.

In *Gurage Zone*, the practice of private investors in various local economic development activities is not properly integrated with the local governance structures [1]. Private investors start up their business projects on various areas; nevertheless, they do not sustainably intervene in local development programs; they either close up their business venture or become stagnant [4]. The political environment for private investors does not appear attractive. The planning process of local economic development excludes the involvement of the private sectors [10]. It is against this specific problem i.e. the political problems of private investment vis-à-vis local governance that this study is designed to wrestle with. The intention is that private investment has to be explored in the light of the local regulatory frameworks and local government programs to address the following basic objectives.

- a) To investigate the role of private investors in local economic development i.e. capital generation, land development, and employment creation in *Gurage Zone*.
- b) To examine how local governance has been influencing the activities of private investors in *Gurage Zone*.

2. Conceptualizing Private Investors, Local Economic Development and Local Governance

At the center of the basic doctrines of local economic development is a non-submissive, non-dominant, non-hierarchical, and symmetrical regulatory framework which boosts the potential of local resources through appropriate localization of development interventions. In this respect, the concept embraces fundamental economic and political principles by which the local economic platforms are reflective of real societal concerns and government responsibilities, the combination of which is a sustained and all-inclusive development outcome [3, 21]. On the other hand, local government refers to an autonomous government unit which has the mandate to manage and override the development of a certain bounded geographic district. Therefore, the rationales are that spatial and physical developments, organization of community actors, maintenance of security and development legitimacies are guided and controlled through legal and organizational principles that are to be guarded by the local government actors [21]. As local economic development is largely constitutive of human resource development, promotion of creativity, expansion of stakeholder involvement, and implementation of organizational and regulatory frameworks, local government as the main actor in such processes shapes the dynamics of local economic development [13]. As a result, the role played by the private investors in local economic projects is within the confinements of local governance structures, which are constituted by the existence of regulatory frameworks, decentralization of power and resources, and organizational

platforms. Henceforth, exploring and understanding the activities of private investors in local economic activities whether in terms of corporate responsibility, joint initiatives, sustainability or symmetrical expansion requires giving due attention to the existing local governance structures.

In this study, an exploration of private investment in the context of local economic development is executed by heavily relying on the fundamental axes of local governance. In this study, local governance is taken to refer to the following critical points: Regulatory frameworks, such as the establishment of various focal persons and steering committees, decentralization of power and authority across sub-districts, and organizational platforms by which various stakeholders, mainly the community and the private investors, are organized. Local governance, as a participatory development framework and enabling political climate, provides an agglomeration force for local economic practices by providing the most feasible organizing principles of the dynamic local economic concerns [27]. Therefore, it is such organizing doctrines that make local governance crucial for local economic development practices.

3. Materials and Methods

This study is about understanding the nature of local governance practices, surrounding private sector investment in local economic development practices. Accordingly, the study applied quantitative and qualitative approaches separately. First, understanding the trend of private sector involvement from 1983 to 2018 requires a quantitative analysis. Thus, a quantitative approach, specifically descriptive statistics were employed. Second, private sector investment in local economic development was explored qualitatively (using thematic analysis) in the light of local governance structures, developing basic themes from the target groups of the study. In this regard, therefore, the issues to be studied require understanding the procedures, processes, and hierarchies by which investment is governed at various sub-district levels [15]. Besides, such private investment practices are subject to the existing local governance structures which control, govern and guide all investment projects. Henceforth, such web of governance structure in which private investors are shaped and governed requires systematic and deep exploration of various units.

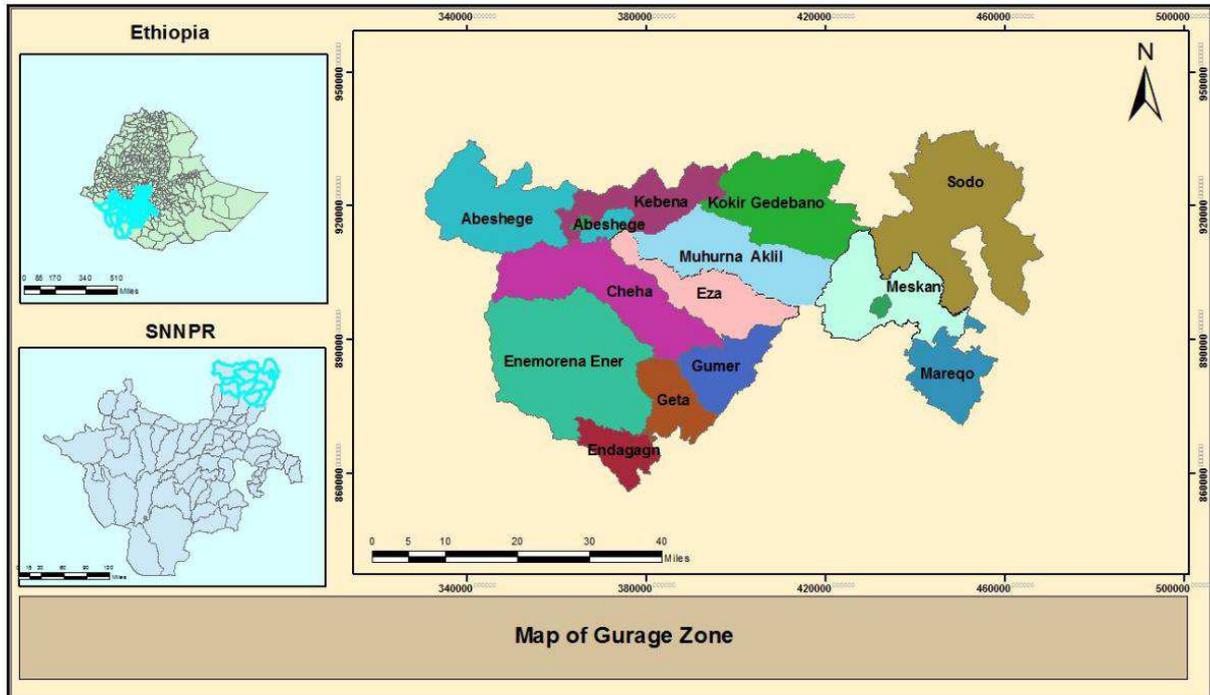
The data utilized in this study involves both primary and secondary ones. To understand the trends of private sector investment in local economic development practices, different secondary data were employed: A time series database of investment from *Gurage Zone* Investment Department, annual reports, research outputs, and journal articles. On the other hand, to address the second question, regulatory and local governance issues vis-à-vis private investment, interviews and focus group discussions were held with various responsible bodies, directors, vice directors, and experts. Interviews were conducted until data-saturated. As a result, a total of 66 individuals were interviewed from the Zonal level responsible officials, sub-district level experts

and officials. Besides, three focus group discussions were held. It was held to cross-check and validate the data collected from individual interviewees. Besides, focus group discussion was helpful to comprehensively understand the structures and hierarchies of decentralization of governance responsibilities across various districts and sub-district levels in governing private investment. Besides, focus group discussion was also held, apart from district and sub-district level officials, with various private investors. These investors were selected purposively because of their engagement in various local governance issues, and through snowball

sampling based on the recommendations of government officials. Therefore, district level officials and experts and sub-district level responsible officials were assembled together to have an authenticated and validated data about private investment and local governance.

4. Study Area Description

This study is delimited to investigate the role of private sector investment for local economic development in *Gurage Zone*.



Source: *Gurage Zone Administration*, 2018.

Figure 1. Map of *Gurage Zone*.

5. Results and Discussions

5.1. The Lean of Private Sector Investment in Local Economic Development Projects

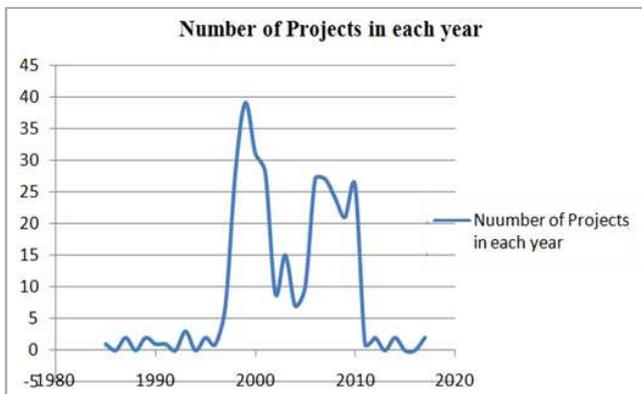


Figure 2. Private sector investment projects from 1985 to 2017.

Source: Computed by the Author from the database of *Gurage Zone*

Investment Report, 2018

The intervention of the private sectors in the local economic development programs as evidenced by land development, employment creation, and capital generation has not been consistent over the last 32 years. At the center of the inconsistency of private sector participation in various local economic activities has been the politics of investment. Discouraging bureaucracy, ineffective policy implementation, poor governance provisions, and weak joint development initiatives at the local level have been some of the constraining factors.

There has been an inconsistent level of private sector investment in various local economic activities. From the 1980s towards the end of 1990s, there has been a limited private sector investment in *Gurage zone* until it began to rise in 2000. Then, there has been a modest decline and increase from 2000 to 2010 when it began to fall dramatically. From 2010 onwards, private sector investment has been limited in *Gurage Zone*.

Furthering or sustainability of investment at the local level is at the heart of local economic development given the fact that endogenous and agglomeration effect of private investment is critical to enhance, multiply and expand investment in a certain region. Nevertheless, the proliferation of private investment in *Gurage zone* is suffering from a declining trend, the factors being ascribed to managerial, marketing, and financial system constraints. [4] Identified that the expansion of small and medium level enterprises in *Gurage zone* is declining owing to weak managerial capacity, poor marketing experience, inefficient utilization of local resources, inadequate and unguaranteed credit provisions, inadequate infrastructural services, and etc. Apart from this, a study conducted by [1] found out that the expansion of small and medium scale enterprises are constrained by socio-cultural settings, technological marketing, and political imperatives. Therefore, the rate of proliferation of private investment projects in *Gurage zone* is a reflex of the existing social, managerial, technological, and financial platforms.

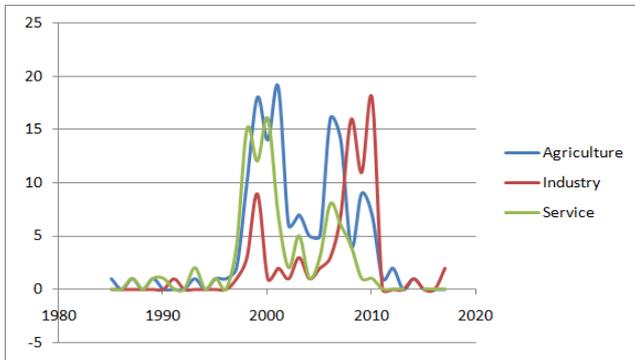


Figure 3. The trend of private investment project expansion across various sectors in *Gurage Zone*.

Source: Computed by the author from the database of *Gurage Zone* Investment Report, 2018.

The declining course of private investment in *Gurage zone* is also related to market value chain dynamics [18]. The chain of business exchange signaled by resource sharing and mobilization, production and further processing is too weak. Driven by drying of opportunity to escape financial risks, minimize transportation expenses through local resource accession, and share from integrated market centers, the private sectors neither expand nor function for a long period of time. Zone Investment Director noted that there is a weak structural and institutional system among various private investors to work together (Interview, 2018). Besides, the development of an integrated system of business interaction among various private investors is also stressed as one area of emphasis to boost local economic development [11].

The above graph demonstrates how investment dynamics has been dominated by the agricultural sector. The dynamics of private sector investment is closely associated with structural changes and transformations, particularly from agricultural to commercial and industrial investment. In spite of this, it seems there is a slight increase in industrial investment. In this regard, an examination of private sector investment across the three sectors, agricultural, industrial and service shows that there is a sluggish transformation of investment turns over from agriculture to industrial sectors. As a result, the vicious circle of investment in agriculture, owing to its poor technological and technical traditions, affects the level of value chains, marketing opportunity, capital generation, and employment expansion. The cumulative impact of such non-transformative investment is the withdrawing of investment programs from the zone. Though private sectors are utilizing technologies in *Gurage zone*, the level of transformation towards other sectors has been constrained by governance, institutionalization, and management related problems [12, 14].

Table 1. List of interviewees.

No	Organization/ association/	Number of interviewee	Status	Remark
1	<i>Wolkite Town Administration Office</i>	2	Directors, experts, coordinators	
2	<i>Wolkite Town Investment Office</i>	2	Directors, experts, professionals, coordinators, committee members	
3	<i>Wolkite Town Economic and Finance Office</i>	2	Directors, experts, professionals, coordinators, committee members, focal persons, field assistants, supervisors	
4	<i>Sub-district administration, Emdibir</i>	2	Directors, supervisors, field assistants, experts, coordinators, committee members	
5	<i>Sub-district administration, Butajira</i>	5	Directors, supervisors, field assistants, experts, coordinators, committee members	
6	<i>Sub-district administration, Agena</i>	2	Directors, coordinators	
7	<i>Sub-district administration,</i>	5	Directors, supervisors, field assistants, experts, coordinators, committee members	
8	<i>Sub-district administration, Abeshge</i>	6	Directors, supervisors, field assistants, committee members	
9	<i>Gurage People Self-help Association</i>	10	Directors, experts, researchers, coordinators	
10	<i>Gurage Zone Youth Association</i>	10	Leaders, experts, coordinators,	
11	<i>Sub-district administration, Mareko</i>	10	Leaders, supervisors, workers, field assistants, evaluators,	
12	<i>Sub-district administration, Ezha</i>	10	Directors, field assistants, directors, coordinators,	

Source: authors' data.

Private sector investment in various local economic fundamentals has been inconsistent and is now at a declining rate. Congruent with the findings of [30], this trend is associated with the existing local governance practices which are exclusive and inefficient. While the local government is responsible to provide a framework by which the survival, expansion, and transformation of private investors is realized, the existing governance provisions are poorly structured. This is in contradiction to what is planned and envisioned in the Growth and Transformation Plan I and II that emphasize the necessity of governance platforms to stimulate regional growth variables [20, 25]. As a result, the marketing structure, financial resource mobilization, management programs, and local social and political settings are not well integrated to facilitate private investment. This is destroying the political opportunity, local advantage and economic appetite for the private investors.

5.2. Private Investors' Contribution for Local Economic Development

5.2.1. Private Sector Investment and Land Development

Land development by the private sector investors has been showing inconsistency over the last 32 years. However, it is now declining as a result of many factors related to marketing, financial incentives, and resource mobilization.

One of the major factors that have been constraining sustainable private sector engagement in the land development program is a lack of sufficient support from the local government. Some of the interviewees and focus groups participants shared their experiences as follows.

Sometimes we are constrained by lengthy bureaucratic procedures to get the service of the local government. For example, while we try to present our bank statement, proof of land lease cost payment, and other preliminary requirements, there is a lengthy procedure. This long bureaucratic procedure discourages us from effectively doing our investment activity. This is because it forces us to lose some economic advantages of local resources and job opportunities (Interviewee and focus group participant).

The figure demonstrates that land development has been inconsistent across the years. Particularly, it has been limited from the 1980s to 1990 and from 2010 onwards. Land development by the private sectors has been rising only around 2000. It is elaborated in some of the secondary documents that limited land development by the private sectors has been related to the expansion capacity of investors, application of technologies, and local resource mobilization activities. On the other hand, the government bodies, investment experts, directors, and other professionals expressed the problem of inadequate land development by the private sectors as follows.

After we provide the land for investment based on submitted business plans, some of the investors tend to implement less than what is already detailed in the business proposal. For example, those that engage in the construction of various hotels, enterprises, supermarkets, etc. tend to enclose some part of their land which becomes vacant. Thus, vacant land is increasing. Not only this but also the land is inappropriately utilized in a way that affects the common good. For instance, the open land that is enclosed along with buildings or investment projects becomes waste dumping and idle asset (*Gurage Zone Investment Officer*).

One of the problems regarding land development is negligence by the private sectors to maintain and promote the quality of land through afforestation, beautification, and appropriate waste disposal cultures. For example, most of the investors in the agricultural and industrial sector failed to afforest and beautify their adjacent investment lands. They do not have proper waste disposal practice. Because of this, vast lands alongside investment areas are becoming useless and experience inappropriate waste disposal practices, thereby preventing the germination and expansion of potential business ventures (*Gurage Zone Investment Expert*).

A study made by [19] explained that land utilization and development through technological, improved agricultural practices, expansion of indigenous plantations in *Gurage zone* is decreasing. The study revealed that commercialized cereal plantation, Enset based agro-forestry, woodland, and afro-alpine vegetations are not developing well. Private sector involvement in boosting the local economic aspect of the land is not as such measurable.

With respect to the impact of private investment on land development, there is a declining trend which could be explained in the context of investors' capacity and local government programs. This is congruent with what [16] found out that the role of private investment in land development is influenced by the capacity of private investors in resource mobilization. In contrast to [16]'s finding, land development by the private sectors in *Gurage Zone* is influenced by the ability of the local government in driving the private sectors towards participatory governance, planning, initiatives, and social responsibility tasks. Private investors do not have a strong sense of social responsibility, technological capacity, and environmental concern which are central to enhance land development. On the other spectrum,

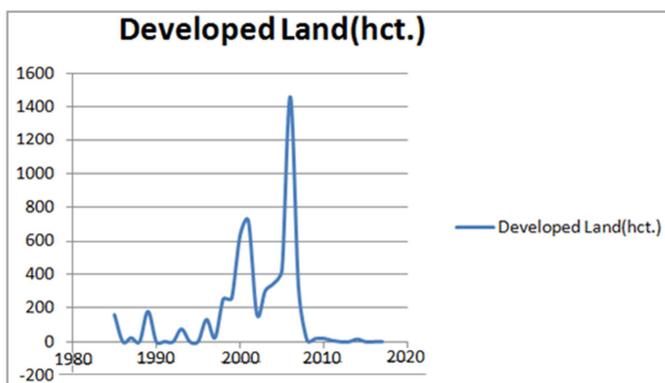


Figure 4. Land developments by the private investors in *Gurage zone*.

Source: Computed by the Author from the Database of *Gurage Zone Investment Report*, 2018.

the local government does not have a structure or governance framework to assert the environmental, social, and economic values of land development.

5.2.2. Capital Generation by Private Investors in Local Economic Development

The other important role of private sectors in local economic development is in terms of capital generation to further investment, provide social services, and engage in voluntary extra-economic programs.

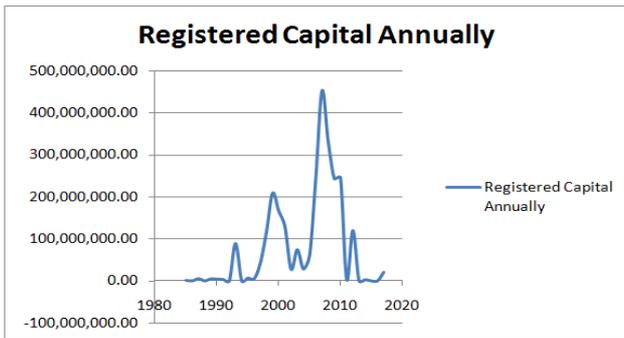


Figure 5. Capital generated by the private sectors across various years.

Source: Computed by the Author from the Database of *Gurage Zone* Investment Report, 2018.

Capital generation by the private sectors has generally been inconsistent across various years. In the 1990s, it has been growing until it began to decline in the mid-1990s. Then, it began to rise in 2000 and began to decline until it began to rise towards the end of 2000. From then on, capital generation has been declining.

Capital generation is so pivotal for the furthering of investment, multiplication of local economic development activities, the promotion of different social virtues, and etc. Some of the private sectors, such as educational enterprises, tend to intervene in the various capital generation and redistribution activities. They help orphans through covering educational expenses; some of them provide some capital for the establishment of local roads, public toilet and water services; and other fund dust bin construction programs in the towns. In spite of that, most of them tend to be less concerned with local development issues, and thus are more about profit making [9].

Financial development through the private sectors’ investment has been constrained by limited local government’s incentives, prioritization programs, and governance programs. The local governance and regulatory frameworks do not provide adequate financial and governance frameworks by which the private sectors could contribute to capital development in the zone [4].

Private investors, though some of them tend to engage in some social responsibility and service programs, are basically business-oriented ones. Capital extraction and mobilization are not structurally well aggregated with the societal objectives of expanding the base of social services and programs. Though the country’s economic development

plans [20, 25] give emphasis for the mobilization of capital by the private sectors for various social, environmental and local governance objectives, the private sectors have been playing a limited role in this regard. This is related to local governance platforms, economic and other non-economic structures, supposed to be controlled by the local government jointly with the private sectors.

5.2.3. Employment Creation

The other important role of private sector investment is the creation of employment for the local residents. In this regard, there has been an inconsistent trend of employment creation as influenced by a variety of factors.

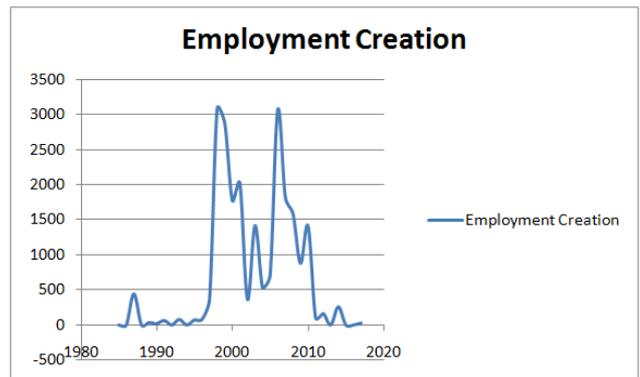


Figure 6. The trend of employment creation by the private sector investors.

Source: Computed by the author from the database of *Gurage Zone* Investment Report, 2018.

The figure reveals that employment creation by the private sectors has been limited from the 1980s to 1990. Then, it has been rising until it began to decline in 2000 and it began to rise again in 2010. From 2010 onwards, employment creation by the private sectors has been declining. A review of documents and interview sessions explains the factors. Some of the interview and focus group discussion participants associated the declining private sector contribution for employment creation with non-sustainability of private investment ventures, business contractions, withdrawing of private projects, and etc.

Employment creation by the private sectors is associated with local economic development strategies: Promotion of entrepreneurship, funding the planning and implementation of new project ventures, provision of community-need based financial resources, and provision of training for various target groups. One of the fundamental factors that affect private sectors’ contribution to local employment generation is related to the poor partnership between the public and private sectors. Besides, entrepreneurship promotion by the local government is poor which could otherwise be boosted. Though there are a number of Arab-Returnee Diasporas in the *Gurage Zone*, the level of economic, financial, and organizational support for these women is weak [3, 14]. As a result, many of these women failed to engage in formidable employment boosting projects. They are not provided with appropriate pieces of training to create their own job [5, 6, 10].

Some other researches show that many of the private investors are pooled by better financial and market opportunity in other areas. As a result, employment generation has been experiencing a shift of investment centers from *Gurage zone* to other areas. The pushing factors are also related to the lack of dynamic market, weak local governance support, and inefficient regulatory frameworks [8, 18]. Apart from this, unemployment is related to lack of entrepreneurial ability of small firms, limited business expansion support given by the local government, and temporary nature of business activities in the zone [2].

Employment is at the center of local economic development. Nevertheless, in the *Gurage zone*, the private sectors' contribution in terms of employment creation is related to the existing local market and resource dynamics which are not well controlled by the local governance framework. Besides, the ability of the private sectors is not fostered by the local government sectors. Apart from what [23] found that private investors' contribution for local employment creation is related to their mobilization capacity of communal programs and multiplication initiatives, this study established an important link between private investment and the local governance context as a formidable ground for job creation.

5.3. Challenges of Private Sector Investment in Local Economic Development Activities

5.3.1. Regulatory Frameworks

Private investment activities in the *Gurage zone* could not be understood without critically investigating the existing organizational and institutional frameworks that guide the relationship between local government and private sectors. At the center of private investment at the local level is the regulatory framework. Regulatory frameworks are capacity building systems, organizational structures, organizational human resource allocations, and so forth. The engagement of private sectors and their sustainable resource extraction and provision at the local level could be constrained or promoted by the existing regulatory framework.

Though private investors are influenced by the institutional and organizational structure of various local governments, there is no well-organized integrated system among various sectors. In *Gurage Zone*, private investors are governed by the programs and principles of *Gurage Zone Economic Development and Finance Department*. Private investors are not supported by other offices nor guided by the cooperative structure among different sectors. It is just the usual fragmented procedures that influence the private sectors' activities. A common steering committee that constitutes experts of various profession and sectors does not exist in reference to investment activities [8, 9, 11].

The procedure by which the local government deals with private sectors, particularly in organizing them, prioritizing them, supervising their activities, ensuring a sustainable engagement, and guiding the procurement of resources is not being executed in a structured and organized form. Steering committees and focal persons with a clear set of duties and

accountability are not in place to manage private sector investors. Apart from the old bureaucratic mechanism of receiving and then licensing private investors to engage in local development activities, systematic procedures and organizational setups are not arranged in a way that sustainably and effectively scrutinizes the practice of private sectors (Interviewees and focus group participants). Consequently, the local government is incapable of sustainably advancing, facilitating, checking, and scrutinizing the development projects of private investors to make sure that the local needs are addressed. It is also because of this that the local government and private sectors are acting differently at the local level, with the local government opening the entry door for investment at the local level, and the private investors taking unilateral responsibility for all investment potentials and risks once it secures the investment license. A partnership map between the government and the private investors, represented by joint further investment researching, development prioritization, resource mobilization, and promotion of local development needs, is worthwhile for a variety of purposes. First, it enables to bring private sectors not just as profit makers, but also as responsible agents for local development issues. Two, it enables to create an expanding and sustainable investment program in the region. Third, it helps to exercise check and regularity of investment projects in the light of development programs and priorities. Fourth, it also helps to create an attractive investment climate in the region [28]. Nevertheless, the existing structure of investment in the *Gurage Zone* is de-formalized from these basic principles.

The other important element of the regulatory framework is related to financial decentralization from the district to the sub-district level local governments. Financial flow, though appear to be based on reports of sub-district governments, is not made based on the well-arranged and systematized research and reports of local government officials. This is partly related to the absence of professionals who could regularly make investigations, assess local realities and understand new dynamics at the local level for the development of a sound development report and request. Thus, the exchange of information among sub-district local governments is limited, constraining sound resource extraction and allocation.

Decentralization of investment responsibilities is at an infant stage. The shift of centers of decision making, investment researching, resource extraction, community mobilization, and procurement programs is still at an inception stage. The large share of investment jurisdiction is still in the hand of the district level investment officials (Interviewees and focus group participants). Besides, local governors are simply receiving the decisions made at the district level administration. Apart from poorly arranged temporary and spontaneous common meetings among various sub-district and district officials, there is no a regular cross-sectoral committee meeting to facilitate private investment activities in local economic development practices [9, 10]. Thus, in addition to what [17, 29] identified

that private sectors contribute in local development planning and initiatives, it is found out that organizational and committee structures are important means of leveraging private investment potentials. Besides, private sectors do not obtain the expected service from the local governments. Thus, close and regular administrative services which are essential for the proper execution of investment plans are not provided at the local level because of poor staffing and organizational setups, and absence of committees and focal [9, 10]. These all require a decentralization of such regulatory frameworks, professionals, committees, and focal persons across various sub-districts.

Private investment practices by their nature necessitate local participation in selection, prioritization, and other investment decision-making activities. In this regard, institutional and organizational platforms to incorporate community needs and understandings about investment do not exist in a structured manner. The problem is that since we have not established a structure by which the community takes its share of responsibility to secure its investment benefits, private investment practices are falling under strains and constraints, typically expressed in terms of lack of agreement with the community (Interviewee and focus group participant). Whether sharing the responsibility or bringing community-level participation in various project identification programs, the local governments do not have a clear system by which the community's ideas are incorporated. The direct effect of the absence of such local governance culture is a de-contextualized and unguaranteed private investment. In some instances, the private sectors are unsustainable, or temporary engagement in local development practices is related to fear of community resistance and conflicts.

5.3.2. Capacity Problems of the Local Government

The success of private sector investment in local economic activities is not contingent solely on the private sectors. It is also a reflex of local governments' capacity in terms of providing helpful expertise, bureaucratic, management, and governance support for the private sectors.

At the crux amongst a set of capacity elements of local governments with regard to private investment is investment prioritization. Investment prioritization involves a continuous process of conducting development researches, need assessment programs, and resource allocation to maximize the benefit of private investment returns in local economic development activities [12]. Notwithstanding the provision of trade license, evaluation of investment reports, and provision of some economic opportunities, the local government does not have adequate experts, research departments, evaluating committees, and supervision committees [9, 10]. As a result, the local government, with regard to investment, is taking responsibility only in providing tax benefits, guaranteeing income tax incentives, granting commercial invoices, and providing land tax reliefs. Apart from this, it does not have the expertise and the institutional structure to sustainably control and evaluate the investment practices in the light of

local economic development requirements [9, 10].

On the other hand, the local government's capacity is related to the practice of establishing rural-urban linkages to facilitate private investment. The requirements for sustainable investment practices are related to marketing basements, security apparatus, local community mobilization, organization and arrangement of unemployed youths, consensus with the rural households, and so forth. In this regard, the local government in *Gurage zone* does not have a strong local security apparatus to address problems related to investment projects, land dealing procedures, youth mobilization programs, and arrangement of focal persons and committees. The following excerpt is taken from the interviewees and focus group discussion participants.

Of course, our decentralized governance structure does not have a strong link with various sub-district level offices. As a result, we are not able to provide security, market, and information services properly for the private sectors to engage in various local development activities (Interviewee).

In our district, we have neither a steering committee nor a focal person or a sort of local development agent who could help us decentralize investment issues. Thus, we do not have a research program, a well-organized information procurement procedure, and community mobilization techniques to arrange the community needs in a way that could be addressed by the private sectors. Besides, when the private sectors come to us, we do not have sufficient convincing information and structure to expand private investment ventures (Interviewee).

Sometimes, there are some insecurity issues that arise due to land grabbing and disagreement with the rural farmers. This is partly ascribed to a lack of regular research and need-assessment program by which we could understand the local needs and govern investment requirements accordingly. Consequently, we are not able to properly address community grievances and requirements (Focus group participant).

The interview results reveal that sub-district level governments are not able to provide governance platforms fertile for private investment. The capacity of the local governments is a direct result of the decentralization of power. As the hierarchy of power structuring across sub-districts has made the lower level government sectors handmaids of higher order government structures, the former tend to be confined in a submissive condition. Detail investment governance practices, such as evaluations, monitoring manuals, preparing performance standards, and ordering incentivizing formats are all prepared and handed over to the sub-district governments [9, 10, 11]. Consequently, the local governments do not make creative, reflective and situation-based evaluations and assessments. They are already given the responsibility of reporting. It is in this regard that the process of capacity building for the sub-district government officials is not well arranged. Similar to the findings made by [17, 19, 22, 32], the study reveals that the capacity of the local government to provide various provisions for the private sectors is constrained. This limits

the development of an enabling environment to promote private sector investment in local economic activities.

5.3.3. Bureaucratic Procedures of Investment Planning: Local Constraints

One of the issues that were raised as a major constraint upon the private sectors’ investment performance is a tiresome, inefficient, and unfair bureaucratic system. The personal behavior of investment experts is also another obstacle.

The investment planning processes as represented by power distribution, decision making structures, need assessment orders, and data collection systems have the following cyclical structures.

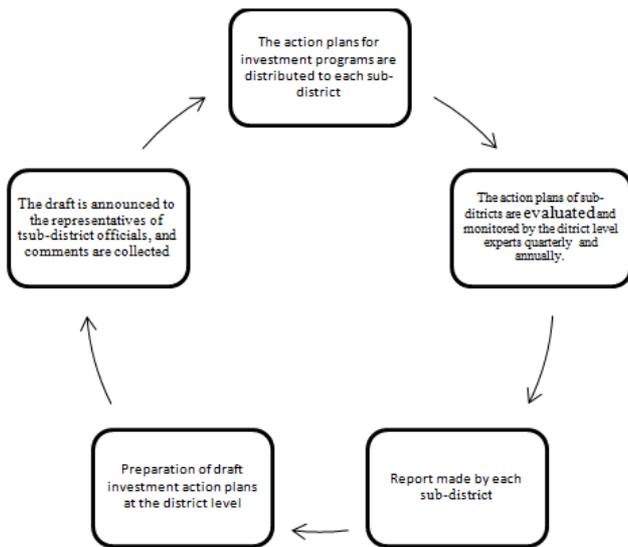


Figure 7. The processes and steps of investment action plan development in Gurage Zone.

Source: Computed by the author from the action plan development processes as indicated in the strategic documents of Gurage Zone Finance and Economic Development Department.

The diagram and the interviewees revealed that the development of the investment action plan is top-down and is non-accommodative of dynamic local circumstances. The following interviewees shared their experience as follows.

Mostly, we simply make reports which are quantitative in nature. Then, district level officials develop action plans which are to be followed by the sub-districts (Interviewee).

There is no enabling environment for the sub-district governments to regularly revise the action plans in accordance with local realities and to revisit the governance platforms for the enhancement of private investment activities (Interviewee).

We conduct meetings, made reports, evaluate reports together; but we do not have adequate autonomy to make planning processes at the sub-district level. Maybe this is related to our professional capacity and staffing in relation to investment (Focus group participants).

The bureaucratic system is an important factor in supporting and promoting local investment activities.

However, sub-district governments are just created for the implementation of higher government plans which influence the development of local-based investment manuals. This creates irregularity, inconsistency, and incompatibility between investors’ plans and local circumstances. Similar to what [24, 27] identified in his study in Ghana, this study also affirms that establishing various centers of bureaucracy, with strong power, resource, and capability at various local sub-districts helps to create an enabling local environment for the private sectors.

5.3.4. Weak Public-Private Partnership

Public-private partnership in Gurage zone has a fragmented, disorganized and incoherent structure as well understood from various government investment reports. The following diagram shows how the public-private partnership platform is poorly structured.

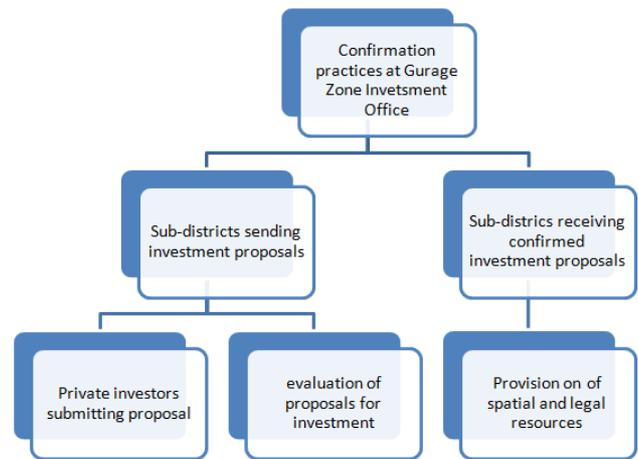


Figure 8. The structure of public-private partnership in Gurage Zone.

Source: Computed by the author from the partnership schemes of the local government in the Gurage zone.

The diagram reveals that the partnership scheme does not incorporate organizational structures to facilitate, to regularly monitor and evaluate partnership activities. Besides, it is clear that partnership is just an activity in which the local government simply provides bureaucratic services. Apart from this, there are no well-arranged joint researches, plans, prioritization programs, selections, supervision formats, schedules of monitoring and evaluations for investment activities in the zone.

As the investment bureau experts and annual reports reveal, private sectors’ contribution to local economic development is related to weak public-private partnership programs. Because of the lack of regulatory, institutional and organizational structures, the state of partnership among various public and private sectors is weak. Because of this the level of support by the government organizations to facilitate the participation of responsible partners in financial, risk-taking, coordination, co-planning, and mobilization activities is weak.

Of course, we have no strong coordination with the private sectors. Partly, this is related to the lack of a common

steering committee and regulatory frameworks for mutual activity (Interviewee).

Apart from the spontaneous or temporary program of engagement in some specific tasks, we have never been governed by a well-developed framework that shows clear and specific lines of co-planning, risk sharing, prioritizing of projects, and etc. On top of this, unless we make some initiatives, the private sectors do not make an initiative to collaboratively engage in local economic activities aside from their business activity (Interviewee).

The problem is that there is no policy roadmap until recently for the execution of local activities through partnership with the private sectors. Of course, there has been a need and attempt by our office to create some kind of platform by which we could work with the private sectors. However, apart from making invitations and specific proposals on some specifics issues, we failed to create strong partnership frameworks and platforms (Focus group participant).

The problem is that we did not make clear communication and discussion with the regional and federal government agencies on the establishment of such kinds of partnership centers. Furthermore, when the foreign and domestic companies are trying to engage in various local economic activities, such as building hospitals, schools, toilets, and homes, we make a temporary assessment and coordinately make an intervention. After the completion of the program, we do not make an attempt to sustain it (Focus group participant).

In addition to this, focus group discussion and interview session participants also shared their experience as follows. When we try to contact the responsible officials, they do not have a well-arranged plan of action and program to coordinate our activity. Besides, the level of commitment from the officials is not as such encouraging (Interviewee).

It is difficult to engage in local economic development activities as the regional and zonal level officials do not have an initiative and preliminary set of activities to organize our activities. They offer us limited support. They even do not have that much experience and preplanned manual to assist our activity (Focus group participant).

A review of various online archive materials reveals that partnership between public and private sectors is constrained by some set of factors that are related to limited capacity, financial, and commitment backgrounds on the part of local governments. *Sodo-Buee* Child and Family Development Charity Organization, *Gurage* People's Self-Help Development Organization (GPSDO), Ker Water Share Company, World Vision, Korea International Cooperation Agency (KOICA), and Sunshine Construction have been involved in various local development activities in *Gurage Zone*. Notwithstanding such efforts, the cooperation of the local government has been weak. The local government has not made an active mobilization and support to bring the private sectors; plenty of the projects were done with the initiative of the private sectors themselves though the local government's reaction has been weak [7]. The promotion of water services, health facilities, roads, and youth empowerment have been essential for local development

programs; however, the local government has a plethora of capacity, commitment, financial, knowledge, and experience problems [9, 10]. As a consequence, the engagement of private sectors in local-level investment has been constrained by the managerial and organizational stimuli of the local government.

The combined effect of inefficient public-private partnership formation procedures i.e. inadequate decentralization of power, resources, and organizational platforms is that the private sectors are not engaging in local investment activities as part of their development responsibility, and with proper local governance support. Apart from what [31, 32] mentioned that partnership modalities are important to facilitate public-private collaborations, this study revealed that a sense of social responsibility, organizational and governance stimuli of the local government also strongly maintains the engagement of private sectors in local economic development platforms.

6. Conclusion

Private sector investment in local economic development programs, considered in the texts of local governance structures and procedures, in the *Gurage zone* is de-contextualized, de-politicized, de-localized, fragmented, poorly structured, and limited in scope and dimension. The historical inconsistency and current decline of private sector investment in local economic development projects have been associated with a variety of governance, economic, environmental, political, and social axioms. Seen in the light of these principles, private sector investment, owing to poorly structured local governance prioritizations, procedures, and structures, has been taken as the responsibility of the investors themselves. Thus, it has been and is now considered solely in terms of economic and commercial perceptions. Besides, the commercially-confined considerations of an investment in the *Gurage zone* have a teleological impact of exclusion of social, environmental, political, bureaucratic, and localized aspects of private investment returns. Consequently, private investment contribution for land development, employment creation, and capital generation has been insulated from such basic principles, and thus was limited.

Congruent with the above are the constraining factors. The challenges of private investment in the context of local economic development emanate from the basic nature of investment which is exclusive of bureaucratic, political, local, social, and economic resources. Therefore, the regulatory frameworks, capacity problems, bureaucratic structures, and public-private partnership traditions are asymmetrically divided across various sub-districts, with the district level government dominant over sub-district level governments. In this regard, the local governments are impoverished of the authority to control spatial-governance domains, thereby experiencing a narrowed responsibility, power, and ability to engage in local economic development programs, and thus to be subdued and dominated by the district level governments.

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