Assessment of the Ten Years Prospective Development Plan of the Government of Ethiopia from Private Sector Perspective

Submitted to Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA)

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List of Abbreviations

AGOA	African Growth and Opportunity Act
EC	European Commission
ECCSA	Ethiopian Chamber of Commerce and Secretariat Associations
EEA	Ethiopian Economics Association
EIC	Ethiopian Investment Commission
EPA	Ethiopian Privatization Authority
EPRDF	Ethiopian People's Revolutionary Democratic Front
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
HGER	Home-Grown Economic Reform
IDS	Industrial Development Strategy
IDSP	Industrial Development Strategic Plan
IMF	International Monetary Fund
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PPP	Public Private Partnership
SDPRP	Sustainable Development and Poverty Reduction Program
SMEs	Small and Medium Enterprises
SWOT	Strength, Weakness, Opportunities, and Treats
TOR	Terms of Reference
TYPDP	Ten Years Perspective Development Plan
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank
WBES	World Bank Enterprise Survey

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Executive Summary

The history of privatization in Ethiopia can be traced back to the period of the imperial regime though much of private sector engagement during this period was clustered around land and land related activities such as small-scale agro-processing industries. The private sector participation in the country's economy has been severely hampered during the Derg regime due to the command economic system that the regime followed. It was after the fall of this regime in 1990's that remarkable changes in terms of policy and role of the private sector in the economy were observed. In 1991, Ethiopia embarked on a privatization process through the establishment of the Ethiopian Privatization Authority (EPA) and by adopting Proclamation N0. 87/1994 in 1994. In line with this, the Ethiopian People's Revolutionary Democratic Front (EPRDF) adopted market reforms including privatisation of state-owned enterprises in 1994.

Over the past two decades, Ethiopia has adopted a market economic system and the country has registered significant economic growth. The country has registered a 10.8% average Gross Domestic Product growth between 2005 and 2018. During the same period, the country also faced multiple development challenges. Delays in grand project implementation, misallocation of resources, and rampant corruption particularly in public development projects were among major challenges. According to a recent report by the Ministry of Finance and Economic Development (2020), the economic growth that the country registered has been driven by huge public investment on infrastructure and large-scale projects.

Following the 2018 political reform in the country, privatisation has become the government's top priority for sustainable economic development. Ensuring quality and equity through creating job opportunities and enhancing competition through private sector engagements are focus areas of the reform. Cognizant of this, the current government has put a policy direction that improves the participation of the private sector in the country's economy. More specifically, the private sector is expected to play a significant role in enhancing the industrialization process and ensuring the envisaged prosperity and making Ethiopia an "African Beacon of Prosperity".

Though the role of private sector in Ethiopia's economy towards ensuring industrialization and structural transformation is emphasized in a number of national policy documents of the country,

the performance of the private sector is not impressive and the contribution of the sector to the national economy is not satisfactory. The Government of Ethiopia is undertaking many initiatives, for instance, by providing incentive packages to reverse this trend and enhance the role of the private sector in the economic development of the country. To this end, the current Ten Years' Perspective Development Plan (TYPDP) of the country has identified private sector as one of the development pillars and the private sector is expected to play a pivotal role in leading the industrialization process of the country. In this regard, it is crucial to assess the current TYPDP from a private sector perspective to identify existing opportunities and challenges for informing key actors in the area.

The Ethiopian Economic Association (EEA) was commissioned by Ethiopian Chamber of Commerce and Secretariat Associations (ECCSA) to conduct an assessment on TYPDP from a private sector perspective. Accordingly, a critical assessment on the TYPDP has made in this study using the private sector lens. In addition, the study carries out an extensive review of past policy and strategic documents. Moreover, key informant interviews were conducted with selected federal miniseries and private sector associations with the main aim of obtaining supplementary information on the TYPDP. The study examined the TYPDP's implications on the operation of the private sector with particular focus on opportunities and challenges.

Based on desk review and KIIs conducted with selected key informants, this assessment envisaged bottlenecks and opportunities of the TYPDP, and recommendations were made for the government and relevant actors in the area. The assessment largely focused on the role of the private sector and the challenges during the implementation of the plan.

Unlike previous development strategies, the TYPDP recognized public-private partnership (PPP) and private sector as the engine of economic growth of the country. However, limited implementation capacity and inefficiency in the private sector remain to be major bottlenecks that would hinder development process in the country.

The assessment results revealed that TYPDP emphasised that quality and sustainable growth can only be achieved through private sector participation, particularly domestic investors' engagement in priority productive sectors during the implementation of the ten-year plan. Accordingly, the plan projected an annual average growth rate of 10% due to private investment, which accounts about 36.9% of GDP. The private sector is expected to bring a projected share of 64.8% from the total investment in the country while the public sector is expected to cover 35.2% of the total investment. Within the industry sector, the share of manufacturing is projected to grow from 6.9% to 17.2%.

Despite the positive growth rate projected for the private sector, the plan failed to predict and adequately address the potential development risks that may hinder effective implementation of the plan. The effect of COVID-19, natural disasters, climate and environmental risks were not adequately assessed and taken into account in the plan. Limited capacity, lack of private sector participation in the planning and implementation, and evaluation processes were also identified as the key hindrances of the TYPDP. Moreover, the effect of the current internal bloody conflict that drastically impede the natural process of the Ethiopia's national economy in general and private sector involvement in particular calls for a thorough revision of the plan.

The key informants have also identified opportunities and key challenges of the plan. Recent government attention to privatize publicly owned enterprises and the intention to involve domestic investors and Diasporas are reported as the main opportunities of the sector.

On the other hand, the key informants identified the following factors as the main bottlenecks. These include: poor access to credit facilities, lack of skilled personnel, weak linkages for private-public partnerships, inefficient customs services, shortage of foreign exchange, poor infrastructural facilities, weak technology adoption, fragile and unsustainable peace and security, unstable government policy, and corruption as key blockages of the private sector.

Based on the review and institution-based interview, this study recommends that the government undertake the necessary revision on the TYPDP. The plan shall be dynamic and flexible to accommodate the evolving socio-economic contexts of the country. In order to realize the privatization process as stipulated in the plan, it is worthwhile for the government to promote private sector incentivizing mechanisms. Moreover, clarity should be ensured in adopting and executing the appropriate privatization process. The private investors in TYPDP should be clearly spelt out and due attention should be given to the local investors.

1. Background and Rationale of the Assessment

Private sector is widely acknowledged to be an essential component in the alleviation of poverty through providing multiple and diversified economic opportunities. The sector has been recognized as an engine for employment creation, income generation, and provision of infrastructure as well as social services. For instance, according to a report by European Commission (EC) in 2014, private sector provides about 90% of jobs in developing countries (EC, 2014). The role of the private sector is also important in contributing to the volume of gross domestic investment and its ability to allocate and employ resources efficiently (Nwakoby and Bernard, 2016). The sector is, thus, identified as an essential government partner in the fight against poverty and ensuring sustainable economic growth and development.

In Ethiopia, private sector has played an indispensable role to ensure the industrialization and structural transformation process implemented over the last three decades. This was noted in a number of national policy documents including Industrial Development Strategy (IDS-2002); Sustainable Development and Poverty Reduction Program (SDPRP) – (2002/03- 2004/05); Plan for Accelerated and Sustained Development to End Poverty (PASDEP-2005/6–2009/10); Growth and Transformation Plan I (GTP-I:201011-2014/15); and Growth and Transformation Plan II (GTP-II:2015/16-2019/20) and more recently in the TYPDP (2021-2030). For instance, during the past two GTP periods, the government implemented different capacity building and skill development programs to enhance the capacity of private investors and attract investment to the economy. In this regard, the government has made huge investment in the development of industrial parks to attract private investors to the sector.

However, the private sector development in the country is not impressive and the contribution of the private sector to the national economy is not satisfactory. For example, the economic growth that the county experienced over the past decades has been largely driven by public investments on infrastructure including transport, energy, and social services. Consequently, the share of public investment in GDP increased from 5% in the early 1990s up to an average of around 15% percent in 2018/19 (Gebreeyesus, 2019). The World Bank report in 2016 also shows that Ethiopia has the third highest public investment, but the sixth-lowest private investment in the world (World Bank, 2016).

To reverse this trend and enhance the role of the private sector in economic development, a clearly defined policy framework is necessary. To this end, the current TYPDP identified the role of private sector as one of the major development pillars. The plan is designed in such a way that a private sector development strategy can play a leading role to transform the economy. Giving local investors priority to critical productive sectors, creating a conducive investment and business environment, encouraging quality foreign direct investment, cooperation between government and the private sector that assures strong, inclusive free market economy, and encouraging the private sector to participate in the core economic sectors that the private sector was previously not engaged in are among the key strategies in the TYPDP.

Due to the comprehensive nature of the TYPDP, it is crucial to assess it from a private sector perspective and identify existing opportunities and challenges that would help in informing key policy makers and other actors in the area. Despite the prominent role that the private sector can play in economic growth and development, less attention was given to it until recently. Hence, assessing private sector development focusing on the implementation challenges and opportunities and proposing a viable policy recommendation on the role of the private sector in the national economy of Ethiopia are of paramount importance.

2. Objectives and Scope of the Assessment

The main objective of the assessment is to conduct an extensive review of the TYPDP and examine its implications on the operation of the private sector with a particular focus on opportunities and challenges that it brings about. Based on the findings of the review, this comprehensive assessment provides recommendations on policy and institutional frameworks to improve the overall business and investment climate in the implementation of the plan. The specific objectives of the assessment are:

- Examining current contributions, needs and opportunities for increased engagement of the private sector to achieving the TYPDP of Ethiopia by taking a diagnostics assessment approach on business and investment promotion and facilitation;
- Examining obstacles and providing recommendations for increased private sector engagement in the TYPDP;

- Identifying regulatory and institutional gaps in absorbing, sustaining, and upgrading business and investment in accordance with national development priorities and local needs; and
- Recommending sound policy responses and/or governance solutions to be taken to alleviate the identified hindrance to the private sector's operation and development.

3. Methodology and Approaches

3.1. Desk review and KIIs

As part of the data collection, an intensive review of the TYPDP (2021-2030) was made. In addition, a thorough review of the following previous national policy documents was made:

- Investment Policy of Ethiopia;
- Industrial Development Strategy (IDS-2002);
- Sustainable Development and Poverty Reduction Program (SDPRP) – (2002/03- 2004/05);
- Plan for Accelerated and Sustained Development to End Poverty (PASDEP-2005/6–2009/10);
- Growth and Transformation Plan I (GTP-I:201011-2014/15);
- Growth and Transformation Plan II (GTP-II:2015/16-2019/20); and
- Ethiopian Industrial Development Strategic Plan (IDSP: 2013-2025).

In addition to reviewing these policy and strategic documents, pertinent academic journals and books, annual reports, and policy briefs were reviewed to substantiate the findings.

In conducting the desk review, the research team documented the success and failures of the national policies listed above in the context of the private sector. Moreover, taking previous national development policies as a benchmark, the assessment reviewed the TYPDP from a private sector development perspective. In addition to the critical desk review, KIIs were held with relevant stakeholders to produce an informed contextual analysis, gap identification and provision of strategic recommendations. Accordingly, interviews were conducted to acquire information and insights from relevant informants from the Ministry of Planning and Development, Ethiopian Investment Commission, and the ECCSA. To identify specific challenges and opportunities at the sectoral level, the team of researchers has conducted KII with the following sectoral level associations:

- Ethiopian Textile and Garment Manufacturers;
- Ethiopian Sugar and Sweets producers;
- Ethiopian Pulses, Oil Seeds and Spices Processors;
- Ethiopian Horticulture Producers and Exporters;
- Ethiopian Meat Producers-Exporters; and
- Ethiopian Leather Industries Association

To augment the primary data collected through KIIs, annual and quarterly reports of the Ministry of Finance, the Ministry of Trade and Industry, the National Chamber of Sectoral Associations and National Bank of Ethiopia were thoroughly reviewed.

3.2. Assessment and Analysis

A contextual analysis approach was used to analyze and synthesize data collected through desk review and KIIs with key stakeholders. In the context analysis, both internal and external business environments were examined to identify Strengths, Weaknesses, Opportunities, and Threats (SWOT) facing the sector. This is important to identify the gaps and propose recommendations on changes in policy and institutional frameworks within the private sector development perspective. Hence, a mixed-methods approach for data-gathering and analytical techniques was adopted to come up with this assessment report.

4. Overview of Ethiopia's Development Strategies and Plans (1992-2020) in the Context of Private Sector Development

Over the last three decades, Ethiopia has been implementing a series of strategic plans namely: Agricultural Development Lead Industrialization (ADLI), Sustainable Development and Poverty Reduction Program (SDPRP) (2002/03- 2004/05); Plan for Accelerated and Sustained Development to End Poverty (PASDEP-2005/6–2009/10); Growth and Transformation Plan I (GTP-I) (2010/11-2014/15); and Growth and Transformation Plan II (GTP-II) (2015/16-2019/20). Particularly during GTP-I & II periods, the government recognized the key role of private sector development in the process of economic development of the nation spurring its engagement on the productive sectors of the economy. In this section, review of these policy documents from the private sector perspectives were made and presented in the subsequent subsections.

4.1 Investment Policy of Ethiopia

Private investment is one of the main engines of growth in all economies as it attracts Foreign Direct Investment (FDI) inflow and improves the livelihoods of the society. The Ethiopian Investment Commission (EIC) (2017) report shows that Ethiopia exports coffee, oilseeds, gold, pulses, horticulture, live animals, and a growing variety of manufacturing products (textile and apparel, leather and leather products) putting Ethiopia as one of the top East African countries in attracting FDI. The success could be due to the fact that the country has adopted sound institutional frameworks that improve the business environment and attract Foreign Direct Investment (FDI). The policy fostered a sustainable development thereby improving the living standard of its people. Consequently, Ethiopia has made significant progress in both public and private investments making the country one of the fastest growing economies in the world (WB and IMF, 2012).

Ethiopia has also made considerable institutional reform measures to improve the country's business and investment climate though issuance of various policy reforms. For instance, in 1996, Ethiopia issued Investment Proclamation No.37/1996 with the main objective of improving the living standards of the peoples of Ethiopia through the realization of sustainable, economic and social development.

The government later revised the Investment Proclamation of 1996 and adopted Proclamation No. 280/2002 because the 1996 Proclamation lacked incentive schemes. Even though the 2002 Investment Proclamation aimed to promote investment and accelerate the economic development of the country and improve the living standards of its people, the planned growth was not realized. Consequently, the 2002 Proclamation was replaced with the Investment Proclamation No.769/2012 that provides incentives for investment in development projects and the establishment of industrial development zones.

Recently, a new Investment Proclamation No. 1180/2020 has been enacted to increase the role of private sector investment in all sectors of the economy as a necessary precondition to improve the living standard of the society by realizing a rapid, inclusive, and sustainable economic and social development in the country. Despite frequent policy revisions taken by the government, a large number of the Ethiopian population is still living under the poverty line, food insecure, resides in rural areas and derives its livelihoods from agriculture. As a result, various criticisms have been forwarded suggesting an alternative and holistic investment policy that must simultaneously considerer structural, infrastructural, institutional, financial and marketing problems.

4.2 Industrial Development Strategy (IDS-2002)

The development of industries and industrial policy in Ethiopia has had an important role in accelerating Ethiopia's economic growth and reducing the proportion of people living under poverty line. The country had formulated and implemented different industrial policies in different periods. However, it had also encountered several challenges in the last three different regimes. During the Imperial regime, Ethiopia had formulated three industrialization development strategies. The country-enacted strategies aimed to attract foreign direct investors and boost the manufacturing sector in Ethiopia. However, in practice, the strategies had failed to register significant socioeconomic changes.

Industries during the *Derg* regime were nationalized and state-owned corporations. The manufacturing sector exhibited a sharp decline due to a socialist economic policy that put restrictions on the private sector and the manufacturing sector. This regime was also not successful in bringing growth due to drought, government's price controlling policy, lack of free movement of industrial inputs and products, and an unstable political climate, among others.

Soon after the EPRDF seized the power in 1991, it announced a market-led economic policy and passed different industrial policy responses. The first phase of the structural and economic reform programme took place during 1992/93-1994/95. The second phase of the economic reform programme (1994/95-1996/97) was aimed at limiting the role of the state in the economic activities and promotion of greater private capital participation.

In 1998, the Ethiopian government adopted an export promotion strategy that was aimed at promoting high value agricultural exports (e.g., horticulture products and meat) and labour-intensive manufacturing products (clothing, textile, leather, and leather products). The EPRDF regime formulated a comprehensive industrial policy in 2002/03 that gave great emphasis to smallholder agriculture. As a result, manufacturing firms such as food, beverage and apparel industries have significantly increased the export performances of the country. Following the adoption of the industrial development policy of 2003, Ethiopia started to experience a double-digit economic growth following the start of the implementation of these policies.

4.3 Sustainable Development and Poverty Reduction Program (SDPRP): 2002/03-2004/05

Ethiopia launched its Sustainable Development and Poverty Reduction Program (SDPRP) in 2002 covering the period 20002/03 to 2004/5. The main agendum of the SDPRP was poverty reduction and focus was to agriculture development and largely concerned with smallholder famers.

In the SDPRP period, economic growth was seen as the principal, but not, the only means to reduce poverty. While the program gave an overriding and intentional focus to the agriculture sector that is dominated by small farm households, the role of the private sector especially in industry sector as a means of achieving off farm employment and output growth including investment in necessary infrastructure was also given a priority. To enhance the capacity and participation of the private sector in the economy, the importance of financial sector reform and capacity building and regulatory reforms were emphasized. For instance, three revisions were conducted on the investment policies to attract foreign and domestic private investment.

4.3.1 SDPRP from a Private Sector Perspective

Private sector was identified as one of the key partners in achieving the poverty reduction objective of the government. The role of the private sector in achieving sustainable development and poverty reduction in the country was given an emphasis. For this, the government identified capacity building in the private sector as one of the four pillars (building blocks) of the SDPRP in the fight against poverty and in ensuring sustainable development.

In the agricultural sector, the private sector was identified as having a key role in the establishment of large-scale commercial farms and agro industries. The government set out a direction of strengthening the participation of the private sector in agricultural marketing by supporting their participation in market-based interface with service cooperatives and in commodity exchanges.

In the road subsector, the role of local contractors was emphasized and the plan was to assign 40% of road maintenance works to private sector contractors and to increase the level to 100% in ten years' time. The role of the private sector was emphasized in the industrialization process of the country's economy that was identified as the main arm of the strategy (SDPRP). To encourage private investment in the economy, the SDPRP identified the following key measures:

- Making existing policies work better by removing regulatory impediments and improving implementation capacities;
- Creating platforms that encourage public-private partnerships;
- Providing incentive packages and a good work environment for private investors specially in the manufacturing sector;
- The role of private sector in national capacity building program was also highlighted. More specifically, the role of private sector in leading agro-base industrialization in the country was emphasized; and
- Building the institutional capacity of the private sector in coordinating their effort to improve productivity and competencies, and enhanced interface with the government on policy, implementation, and capacity building issues.

4.3.2. Performance of SDPRP in Improving Private Sector Development

According to a 2002 Ministry of Finance and Economic Development (MoFED) report, between 2002/03 and 2004/05, private sector participation in investment improved investment climate and increased total value of exports.

The market-share of the private sector in banking sector also increased over the same period. This was mainly due to policy measures aimed at deepening of financial sector reforms. The industrial sector development has shown encouraging progress as a result of investment policy and strategy designed by the government. The government has taken steps to create a conducive environment to encourage private and foreign investment, streamlining bureaucratic procedures such as customs clearance and removing institutional bottlenecks, increase production of affordable goods, strengthening finance and banking services. Significant private investment growth in horticulture was registered over the period that created new jobs for the rural poor, mainly women. This also enabled to generate new export earnings though the performance was much below the expectations.

In the medium and large-scale manufacturing sub-sector, the share of the private sector in value addition increased from 27.4% in 2002/03 to 29.9% in 2003/04. The growth rate registered in private manufacturing industries were also better than that of public owned enterprises over the period considered. During the SDPRP period, notable achievements had been registered in textile and garment, metal and woodworks, food processing, and construction works.

During the SDPRP period, therefore, the private sector’s economic contribution had resulted in a big increase in services, trade and industry, and construction sectors and some real success stories in new businesses such as the flower industry.

4.3.3 Failures/Challenges faced in implementing SDPRP

Despite different policy reforms and incentive packages provided by the government during the SDPRP period, the participation of the private sector in the national economy was not satisfactory. The country’s private sector remained weakly developed to fully utilize the opportunities created. For instance, in the industrial sector where the government was expecting a leading role of the private sector, the products exportable to the international market were not competitive, and weak backward and forward linkages between industries were observed.

4.4 Plan for Accelerated and Sustained Development to End Poverty (PASDEP): 2005/06-2009/10

The PASDEP builds on the initiatives introduced under the SDPRP to accelerate the development of the private sector. It gave due emphasis to the improvement of the business environment by way of institutional and regulatory reforms. It was also aimed at financial sector reform to increase the availability of capital; progressive withdrawal of state entities from areas that can be efficiently provided by the private sector; continued reforms to establish land tenure security; intensification of infrastructure development; and upgrade of the skills of the workforce through expanded education and technical and vocational programs. Maintaining macroeconomic stability, a stable exchange rate, and low inflation were all integral parts of the PASDEP plan to accelerate private-sector development. Various institutional reforms had been implemented during this period as a result.

The government's program under the PASDEP focused on strengthening small-scale manufacturing enterprises as they are seen as the foundations for the establishment and intensification of medium and large-scale industries in addition to opening the opportunity for employment generation for those not engaged in the agricultural sector.

4.4.1 PASDEP from a Private Sector Perspective

During the PASDEP period, the export-oriented manufacturing sectors continued to receive special attention and support. Moreover, the government promoted private-sector investments to develop commercial agriculture in two directions:

i) Private commercial investment in the highlands with a focus on high-value horticulture products that can be produced on limited land, using abundant labor; and
ii) Large-scale commercial investment in areas where there is extensive land, but labor scarcity prevails (mainly in the Lowland areas).

The role of the private sector is particularly important under the second pillar of the initiative that aims at a massive push to accelerate growth. The commercialization of agriculture along with acceleration of private sector development was identified as the main growth pillars of the initiatives. Direction was set to support the private sector through improved financial services and encouraging investors and those involved in distributive services.

The role of the private sector as an engine of growth and generator of employment opportunity was recognized in addition to the cross-sectional role of the private sector in the economy. The PASDEP gave a direction that the private sector should focus on the development of the industrial and export sectors. Moreover, the program underscores the importance of increased participation of the private sector in the supply of inputs, delivery of services to the agricultural sector, processing of agricultural outputs, commercial farming, and the development of infrastructure.

However, the policy matrix for the private sector development lacked specific targets for the number of new business start-ups, employment generated thereof, the share of private sector in GDP and other key indicators as a benchmark.

4.4.2 Performance of SDPRP in Improving Private Sector Development

Some key achievements under the PASDEP in the context of private sector development are listed below:

- Trade registration and licensing systems were introduced throughout the country to ensure competitive trade practices and protect consumers from unfair trade practices;
- Support was given to micro, small, medium, and large-scale industries, and particularly to industries that used agricultural inputs and were capable of generating foreign exchange;
- As a part of PASDEP, the government took a number of initiatives to promote and expand micro and small enterprise development in different regions and city administrations; and
- In the construction industry, capacity building services and licenses for new private contractors were made during the PSADEP period.

4.4.3 Challenges faced in implementing PASDEP

Low mobilization of domestic financial resources was one of the key challenges encountered in the PASDEP period. Domestic revenue and particularly tax revenue had been increasing over the period, but it remained low compared to the requirements of the development programs. This contributed by low level of domestic savings needed to support the huge demand for investment required for the country's accelerating growth and development. This mainly affected the private sector.

The underperformance of the industrial sector was mainly due to inadequate technical and managerial skills in the sector, foreign exchange shortages to import essential raw materials and lack of access to efficient and effective credit services.

Despite the challenges, many good lessons have been learned during PASDEP period. The lessons drawn from the implementations of PASDEP was used as an input in the design of the Growth and Transformational Plan (GTP-I). Some of the lessons documented in PASDEP from the private sector development perspectives are:

- Good experiences in leading and managing the economy, coordinating and mobilizing the public at large, the private sector and non-government organizations for accelerated and sustained growth.
- Though significant growth was not observed in the industrial sector, more specifically in the manufacturing subsector, lesson was taken to work more on the sector in subsequent similar development programs.
- The private sector failed to make strong inroads into the manufacturing sector and export market, which are perceived by the government as crucial for industrialization and structural transformation. These are the sectors where the government expect a leading role from the private sector. However, the private sector instead focused on the service sector and domestic market where the returns are high and quick. As a result, the pace of growth of the manufacturing sector and hence structural transformation of the country's economy had been slow. This indicates that the government should have identified key weaknesses

and constraints impeding the private sector participation in manufacturing and export markets.

4.5 Growth and Transformation Plans I and II (GTP I and II) (2010/11-2019/2020)

Based on lessons learnt from the SDPRP and the PASDEP, the government of Ethiopia designed GTP I and GTP II focusing on rapid, sustainable, and broad-based growth through enhancing productivity of agriculture and manufacturing, improving quality of production and stimulating competition in the economy. More specifically, the plans were aimed at sustaining accelerated growth and establishing a springboard for economic structural transformation thereby realizing the national vision of becoming a lower middle-income country by 2025. The plan clearly pointed out the importance of private investment in manufacturing aiming to change the dominance of the agricultural sector (NPC, 2016).

By the end of GTP II (2020), the agricultural sector remained the second most important sub-sector contributing 32.8% of GDP following the service sector that contributes about 39.4%. The manufacturing sector remained the least contributing by about 6.8% (TYDP, 2020). The performance of GTP-II implies the manufacturing sector that was expected to show significant improvement remained sluggish. On the other hand, the service sector remained the dominant sub-sector contributing the highest share of the country's GDP. In general, the expected outcome was barely achieved under the GTPs.

During the implementation of policies before GTP II, the role of the private sector has been limited. A significant contribution of the private sector was coming from informal and service sectors, with the formal private sector unable to play a significant role in the development of the economy. Moreover, financial utilization and need of the public sector had crowded out the private sector (WB, 2011).

According to an assessment report of Addis Ababa Chamber of Commerce (2016), during GTP II's implementation period, the private sector had the opportunity to participate in agriculture, industry, service and trade sectors intensively. This to a great extent was due to the fact that a number of incentive and support packages including income tax exemption, duty free import of capital goods and development of industrial parks were designed to encourage the private sector to enhance its role in attaining rapid growth and sustainable development in the country. However, there were a number of challenges that hindered the potential of the sector to realize its outmost contribution to the development of the country. Inefficient government bureaucracy, foreign currency regulations, access to finance, corruption, lack of basic infrastructure (particularly electricity) were reported as key challenges facing the private sector during the implementation of GTP II.

4.6 Industrial Development Plan (2013-2025)

In 2013, the Ethiopian Industrial Development Strategic Plan (2013-2025) was put in place aiming to support the country's progress towards becoming a middle-income country by the year 2025.

In this strategic plan document, the Ethiopian government identified six programs to enhance the contribution of the industrial sector. Specific implementation strategies were designed for each program. These programs are discussed below.

i. **Priority Sectors Expansion Program:** The main target of this program is diversifying the types of businesses in the industrial sector to include new and labour-intensive and high value-adding manufacturing industries based on the comparative advantage of the country. The proposed implementing strategies include ensuring a conducive business environment; availing competent human resources; availing quality industrial inputs for value-addition; developing and diversifying markets for the manufacturing industry outputs (local, regional, global markets); enhancing technology transfer; and developing and providing institutional support.

ii. **New Manufacturing Sector Development Program:** This Program focuses on diversification of the manufacturing sector by considering the global value chains and the country's resource potentials and other criteria such as critical resource and capacity, market and demands, and multiple linkages. The diversification of the manufacturing sector into biotechnology, ICT (both software and hardware), and petrochemical industries are key components of this program. Implementing strategies include ensuring conducive business environment; availing competent human resources; availing quality industrial inputs for value-addition; developing and diversifying markets for the manufacturing industry outputs (local, regional, global markets); enhancing technology transfer; and developing and providing institutional support.

iii. **Industrial Enterprise and Entrepreneurship Development Program**: This program focuses on strengthening Small and Medium Enterprises (SMEs) as they have huge potential for development and job creation. Implementing strategies include, enterprise development support services, efficient market system development, capacity-building projects for entrepreneurship development enterprises and value chain and cluster development strategies.

iv. **Local (Private) and Foreign Investment Promotion Program:** This program aims at attracting more private investment flow for industrial development. To successfully implement this program, creation of conducive business environment and provisions of specific incentives to encourage investment in selected industries are considered. Key implementing strategies include formulating a comprehensive and sector-specific FDI strategy through strengthening/establishing an appropriate institutional setup for promoting FDI, further mobilization of the diplomatic community and the diaspora, and institutionalizing one-stop services for investors.

v. **Government (Public) Sector Investment Program:** This program calls for continued public investment in social overhead capital, infrastructure as well as capital-intensive flagship projects. To achieve the required structural changes, specific interventions/projects by the government are considered to be the major activities of this program. Mobilization and allocation of resources to the manufacturing sector need to be a priority as compared to other components of the economic development.

vi. **Industrial Zone Development Program:** The industrial zones development program focuses on developing an integrated economic development zone or city that builds and develops industrial parks, business centres, as well as residential areas for employees. This program requires a strong public-private partnership as well as development partner governments. Furthermore, matters pertaining to the leadership and management of such economic development areas are one of the major activities in this program.

4.7 Private Investment in the Productive Sub-sectors (1992-2020)

Over the last three decades, private investment in the strategic productive sub-sectors (agriculture, mining and manufacturing) indicates that the mining sector is consistently the lowest to attract private investment. Private investment in the agricultural sector also shows a constant trend except a boom in the 2014/15 fiscal year. It is only the manufacturing sector that has shown relatively increasing but sporadic movement over the last three years. It is also interesting to observe that private investment in all these three sub-sectors is declining since 2019. This phenomenon shows the multifaceted economic problems the country is currently facing.

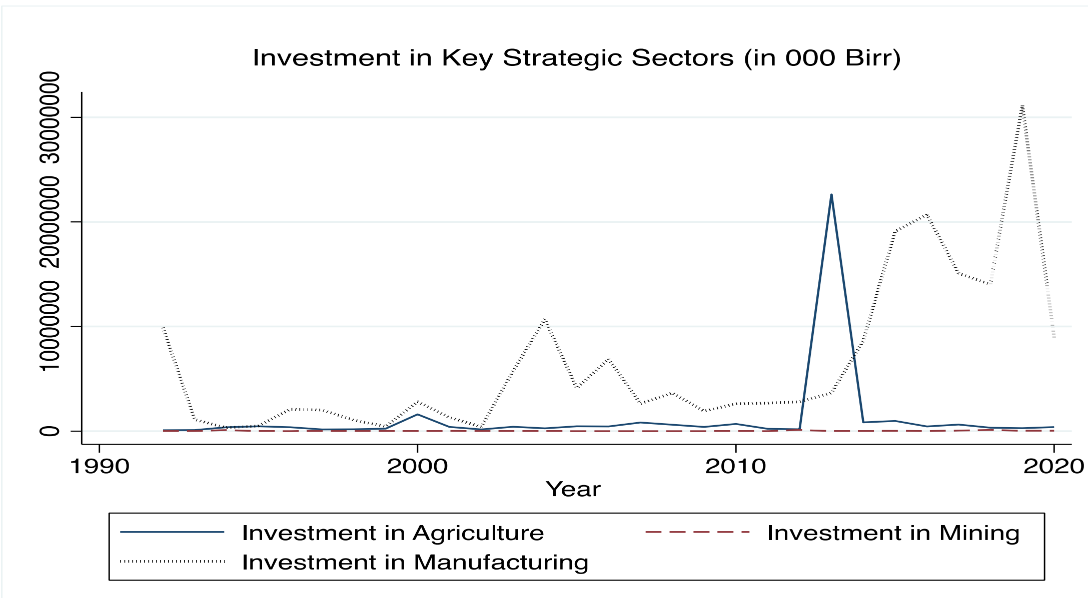

Figure 1: Private investment in key strategic sectors from 1999 to 2020

Source: Ethiopian Investment Commission (2020)

Private investment patterns in major service sectors namely: education, hotels, health and social works, and rent and consultancy are depicted in Figure 2 below. Over the last three years (2018-2020), private investment was skewed towards hotels and rental and consultancy works. Education takes the lowest share from private investment and is more or less similar with health and social works.

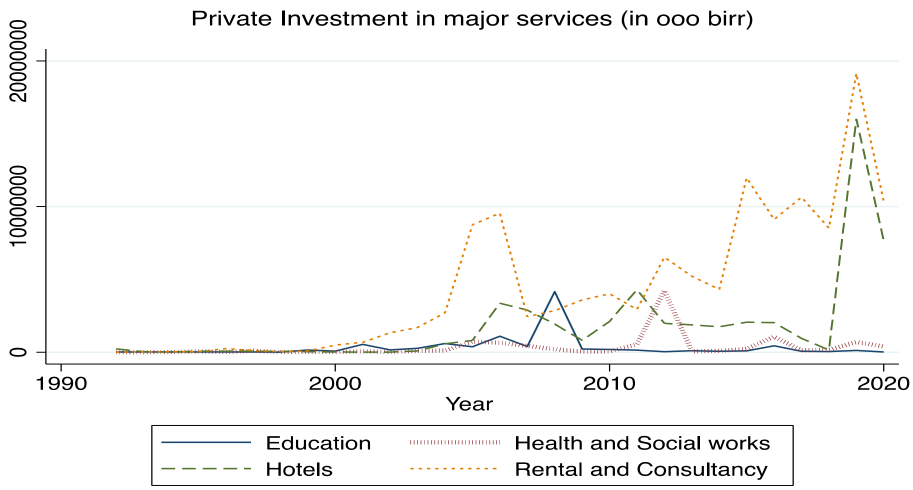

Figure 2: Private investment in major services from 1999 to 2020

Source: Ethiopian Investment Commission (2020)

The service sector takes the lion's share of private sector investment followed by the manufacturing sector. Though the agriculture sector has been considered the engine of development in all the plans over the last three decades (1991-2020), the average share of the sector in the total private investment is not more than 25%. Mining has not been given attention and its contribution has been significantly low.

Table 1: Sectoral Composition in terms of contribution to total private investment (1991-2020)

Sectors	Mean	Std. dev.	Min	Max
Share of service sector	46.84	23.28	7.01	81.84
Share of agricultural sector	9.76	13.62	0.40	65.09
Share of mining sector	0.48	1.64	0.00	8.96
Share of manufacturing sector	42.92	21.82	10.48	85.29

Source: Ethiopian Investment Commission (2020)

The mining productive sub-sector needs due consideration as it continues not to attract private investment. Though investment in the service sector has been the interest of the private sector over the last three decades and it is in line with the target of TYPDP, the sectoral composition (see

Table 1 above) is barely in line with the development plans of the country. Moreover, service sectors that have a significant positive effect on the community such as health and education need considerable attention.

5. The Ten Years Perspective Development Plan from a Private Sector Perspective

5.1 History of Privatisation in Ethiopia

In the post-1991 dispensation, Ethiopia's privatization process began through the establishment of the Ethiopian Privatization Authority (EPA) and by adopting Proclamation N0. 87/1994. In line with this, the Ethiopian People's Revolutionary Democratic Front (EPRDF) adopted market reforms including privatisation of state-owned enterprises in 1994.

To enhance the role of the private sector and to promote privatization in Ethiopia, sound economic policies adopted by a government that enforces policy is very vital. In 1994, Ethiopia formulated an industrial development strategy that elaborated the importance of public-private partnership for the success of the economic policy. The policy states that the government shall work with private investors in a more collaborative manner and partnership so as to achieve the envisaged policy objective.

Ethiopia has adopted major policy changes with a view to enhancing the role of private sector in the economy. The country developed policy, legal, and institutional frameworks for the implementation of public-private partnership (PPP) in development process based on the perspectives of stakeholders in Ethiopia. In connection with this, a study by Beyene (2015) shows that the government should promote PPP as part of its development policy, devising a specific legal framework and establishing an independent public agency at the federal level.

Following the 2018 political changes in the country, the Ethiopian government introduced some restructuring measures to stimulate the performance of major economic sectors and made changes in the institutional arrangements. In connection with this, the government formulated a three-year Home-Grown Economic Reform (HGER) interim plan that emphasized the role of private sector development in sustaining the economic growth trajectory of the country's economy. HGER serves as a bridge between the GTP–II- and Ten-Years Development Plan (TYPDP) (2021-2030). The

TYPDP aims to sustain the rapid economic growth achieved during GTP-I and GTP-II by addressing key strategic pillars: promoting quality economic growth and ensuring shared prosperity, improving productivity and competitiveness, undertaking institutional transformation, strengthening the technological capability and digital economy, ensuring private sector leadership in the economy, ensuring equitable participation of women and children, enhancing access to justice and efficient civil services, building a climate-resilient green economy, and strengthening regional peace building and economic integration. The plan gives due consideration to private sector development aiming for strengthening their participation in key productive sectors in the years to come. However, the potential roles of the private sector in sustainable development and the structural transformation of the economy were not fully optimized until recently. By and large, the policy direction has been given to privatize selected public enterprises which are under full state control.

Having set, in the previous paragraphs in this section, the policy and political contexts within which the TYPDP came about, and having explored past national policy documents from the perspective of the private sector and its development in previous sections, the subsequent sub-sections are dedicated to critically examining the TYPDP from a private sector perspective with a focus on roles, contributions, opportunities and challenges that the private sector would face in the TYPDP.

5.2 An Overview of the TYPDP

Historically, Ethiopia has implemented two long-term development plans. The current long-term (2021-2030) plan is the second of its kind in Ethiopia’s modern history following the Dergue regime’s “Ten-year perspective Economic Plan,” of 1985 to 1994. The TYPDP is developed after Ethiopia’s GTP-II (2015-2020) plan.

The YPDP (2021-2030) takes into account outcomes of national plans that preceded it, namely the Growth and Transformation Plans (GTP II and I) and the policy direction of the Home Grown Economic Reform (HGER), which was unveiled in 2019. The HGER aimed at unlocking the country's development potentials designed to propel Ethiopia into becoming the African icon of prosperity by 2030.

The TYPDP emphasizes proper identification of the linkages between various sectors of the economy; gives particular attention to sectors that have high productivity, the capacity to generate significant employment opportunities and to stimulate growth in other sectors, as well as to those sectors that could provide the basis for improving the standard of living of a large number of citizens; understood that sectorial institutions have a better understanding of each sector's development potentials, underlying weaknesses, as well as future development directions; identifies major long-term development goals and targets on the premises of a holistic institutional transformation over the coming years, taking into account institutional weaknesses as a major challenge of the country; and identifies the private sector as the leader in productivity and growth enhancement, and the promotion of the private sector as the engine of economic growth through strengthening public-private partnership.

On the other hand, the TYPDP also identifies key challenges and constraints of inclusiveness and sustainability that the Ethiopian economy has experienced over the last three decades. Though the country exhibited continuous economic growth, equity and sustainability has been questioned by most of the population. External debt, imbalance between domestic savings and investment, inflation, rise in unemployment, sluggish structural transformation, weak sectoral linkages, limited accessibility of financial institutions and limited government capacity and widespread malpractices are among the key challenges and constraints identified in the TYPDP. The plan is prepared in such a way that it is able to curb the challenges and constraints identified and ensure prosperity of the country with in the ten years following its adoption in 2021.

The TYPDP focuses mainly on three major areas namely: productive sector, service sector and enabling sectors. Specific sub-sectors are also emphasized under each major sector. The productive sector constitutes agriculture, manufacturing, mining; while tourism is the strategic sub-sector under the service sub-sector and energy, transport, sustainable finance, innovation and technology, urban development, irrigation, human capital development are considered as key enabling sub-sectors. The targets set for major economic indicators are presented in table two below.

Table 2: Major Macroeconomic Goals of TYPDP

Indicator	**Target (2030)**

Contribution of the agricultural sector to GDP	22.00%
Contribution of the service sector to GDP	42.10%
Contribution of the manufacturing sector to GDP	17.20%
Contribution of the industry sector to GDP	35.9
Urban unemployment	<9%
Financial gap (domestic saving vs investment)	-7.9
Financial gap (imports vs exports)	-7.9

Source: TYPDP (2021)

The proposed targets of the TYPDP align with the targets in the GTP I and GTP II in that the target is to reduce the contribution of the agricultural sector and improve the share of manufacturing, industrial and service sectors to national economy. Therefore, it is imperative to examine the trends, growth, and contributions of the strategic sub-sectors of the plan to criticize and comment possible interventions to achieve the objectives of the plan.

The TYPDP lays a long-term vision of making Ethiopia an "African Beacon of Prosperity". According to the plan, prosperity, which is defined in terms of the overall long-term human and institutional capability, can be expressed in terms of the following development outcomes:

i. Improvement in income levels and wealth accumulations so that every citizen would be able to satisfy their basic needs and aspirations.
ii. Basic economic and social services such as food, clean water, shelter, health, education, and other basic services should be accessible to every citizen regardless of their economic status.
iii. Creating an enabling and just environment where citizens would be able to utilize their potentials and resources so that they lead quality life.
iv. Improvement in social dignity, equality, and freedom where citizens can freely participate in every social, economic, and political affair of their country regardless of their social background.

The major development objectives of the TYPDP include the following:

i. Building a prosperous country by creating a pragmatic market-based economic system and enhancing the role and participation of the private sector.
ii. Maintaining macroeconomic stability, ensuring rapid and sustainable economic growth, and creating decent jobs.
iii. Ensuring structural economic transformation by promoting overall productivity, and competitiveness.
iv. Creating an enabling environment where citizens would become the owners and beneficiaries of the development endeavour by ensuring the quality and accessibility of basic social services and the provision of infrastructure.
v. Ensuring a competent, independent, and quality civil service system by building the capacity of the government and establishing good governance.
vi. Building strong and inclusive institutions that would ensure a peaceful society, access to justice and uphold the rule of law and human rights.

The TYPDP has the following ten key strategic pillars:

i. Quality Economic Growth and Shared Prosperity
ii. Economic Productivity and Competitiveness
iii. Technological Capability and Digital Economy
iv. Sustainable Development Financing
v. Private Sector-led Economic Growth
vi. Resilient Green Economy
vii. Institutional Transformation
viii. Gender and Social Inclusion
ix. Access to Justice and Efficient Civil Services
x. Regional Peace Building and Economic Integration.

5.3 Private Sector-Related Issues in the TYPDP

Successful businesses are key drivers of economic growth, job creation and sources of government revenue. However, sustainable and inclusive private sector-led economic growth and development does not happen by its own accord. Government has to encourage and support the private sector in order to produce substantive and inclusive growth while generating profits needed to succeed and grow. The support by the government to the private sector should be spelled out in the government's long-term strategic plans and its implementation. In other words, to harness the benefits and roles of the private sector in development, issues related to the private sector should get due attention in the country's development plans and implementations. Though the implementation is yet to be realized and monitored, it is necessary to assess the extent to which the private sector has been emphasized in the TYPDP document.

The TYPDP starts by assessing the performance and major challenges of the country's economy in the past. The role of the private sector is not mentioned or at least less emphasized under that section. The document under its first chapter did not mention about the role of the private sector in economic growth and poverty reduction. The challenges of the sector are also not explicitly indicated as a major development challenge (under the second component of the first chapter). If the private sector is to be taken as an engine for growth and development, the role of the sector in the past performances and the challenges faced by the sector should have been recognized and adequately addressed.

In the second chapter, the TYPDP discusses the Home-Grown Economic Reform (HGER) and the scope of the TYPDP itself. The HGER Plan was designed to eliminate macroeconomic imbalances and lay the foundation for sustainable and inclusive growth with the view to helping the economy to transition away from being public sector-led to one that is driven by the private sector. The HGER was on going as at the time of the development of the TYPDP and is explicitly mentioned as a departure point that is a sprinting board for the TYPDP. The HGER Plan is classified into macroeconomic reforms: sectoral reforms and structural reforms. Each of these sectors are reviewed briefly in the subsequent paragraphs.

Under the macroeconomic reform, the need to involve several actors in the economy including the private sectors has been emphasized. More specifically, under the financial sector reform component of the macroeconomic reform, the need to ensure financial stability and financial inclusion, and the need to promote productivity and competitiveness of the private sector are duly appreciated. Under the sectoral reform, the role and participation of the private sector in agriculture, mining, and tourism have been recognized. As part of structural reform, the possibility of handing over public development projects to private investors through fair and transparent processes, as far as the private sector has the necessary capacity and resources to take over the projects, were discussed. It was indicated that the ultimate goal of government intervention is to create strong private initiatives or investments by encouraging their participation in the economy. It was further stipulated that the government needs to support all development forces including private investors not based on their proximity to political elites or power but based on their merits and performances.

The document indicated the need to create a favourable business environment where all economic actors are treated fairly and transparently. Since the private sector has an indispensable role in creating job opportunities, the determination of the government to put the necessary policies and administrative structures to assist private clearly scrutinized in the document. Moreover, strategic priority sectors of engagement namely: agriculture, manufacturing, mining, tourism and ICT sectors are also clearly explained in the document.

Under the TYPDP, the private sector has been identified as the leader in productivity and growth enhancement and the promotion of the private sector as the engine of economic growth is expected to strengthen public-private partnership. In appreciation of the fact that quality and sustainable economic growth can only be achieved through private sector participation, great hope has been pinned on the private sector particularly on domestic investors with the expectation that they will engage in priority productive sectors during the implementation of the ten-year plan. The commitment from the government side for forging genuine partnership and cooperation between the public and private sectors has been explained. Furthermore, the need to fight unacceptable behaviours on the part of the private sector and their linkages with corrupt practices of government institutions has also been emphasized.

Overall, the role of the private sector in the national development plan and strategic pillars has been adequately emphasized. Out of the six objectives of the TYPDP, the first one is "Building a prosperous country by creating a pragmatic market-based economic system and enhancing the role and participation of the private sector". This is an indication that the private sector is well emphasized in the TYPDP.

The private sector is also expected to play a leading role in the economic growth and poverty reduction plan of the country. Under the 'Economic Growth and Poverty Reduction Plan' sub-component of the macroeconomic plan, the TYPDP emphasized the need to take measures that enable the private sector to take the driving seat of economic growth and become the major source of development finance thereby ensuring structural transformation and the sustainability of development. The expectation, in this regard, is to have 64.8% of the total investment to come from the private sector. This will indeed enable the private sector to take the leading role in the economy. The TYPDP also indicated the need to increase annual savings by banks and microfinance institutions by 28.6% and 30% on average, respectively, to guarantee adequate financial capacity for investment projects carried out by the private sector and public development projects.

Under the 'Development Financing' sub-component of the macroeconomic plan, it is indicated that ETB 12.2 trillion (87.2% of total finance/loan allocation) will be allocated to meet the investment needs of the private sector while ETB 1.8 trillion (12.8%) would cover the financial needs of public investment projects.

The role of the private sector in agriculture has been emphasized and clearly stated under the 'Agricultural Development' sub-component of the economic sectors development plan. The TYPDP recognized the need to expand participation of the private sector in agriculture in order to achieve the plan of increasing total annual quantity of crop production from 543 million quintals to 925 million quintals. Similarly, with the view to increasing horticultural production from 181 million quintals to 261 million quintals, the plan aims at increasing the amount of land allocated to private investors engaged in horticulture production from 17.6 thousand hectares to 43 thousand hectares.

Under the 'Manufacturing Industry Development' sub-component of the economic sectors development plan, attracting new investments in large numbers, varieties and qualities into manufacturing by introducing new investment incentives and simplified procedures, as well as enhancing the role and partnership of the private sector have been planned. One of the objectives of this sub-component is to increase the share of the manufacturing industry in the Gross Domestic

Product by creating conducive environment for improved participation of private investors in the sub-sector.

In the ‘Construction Industry Development’ sub-component of the economic sectors development plan, however, the role of the private sector has been less emphasized, despite the expected role actually being very huge. By contrast, the ‘Mining and Petroleum Development’ sub-component of the economic sectors development plan has the stated aim of bolstering the economic and social significance of the subsector in the national economy by highlighting its contribution to foreign exchange earnings and domestic resource mobilization, by expanding the private sector’s participation, by supplying the necessary inputs, by enhancing value addition, and by creating employment opportunities. This is a clear indication that the role of the private sector in the mining and petroleum development plan has been recognized.

Major areas of focus under the ‘Tourism Development’ sub-component of the economic sectors development plan include improving the quality-of-service delivery in the tourism industry through capacity development; broadening the sources of financing; installing a standardized organizational structure; modernizing data management systems through technology; and raising the private sector’s role through public-private partnerships. This is similarly an indication that the private sector has a key role to play in the tourism sub-sector.

The private sector is also envisaged to contribute its share in the ‘Urban Development’ sub-component of the economic sector development plan. Enhancing the contribution of the private sector in urban development is therefore among the main areas of focus under this sub-sector.

The TYPDP also set a direction to increase the participation of the private sector in the infrastructure development of the country. Among the activities planned to strengthen the implementation capacity of the subsector, the launching of 23 public-private partnership projects is mentioned. Strengthening public-private partnerships and expanding financing options is also mentioned as one of the focus areas under the ‘Water Resources Development’ sub-component of the infrastructure development plan. Furthermore, encouraging private investment is mentioned among the major areas of focus under the ‘Energy Development’ sub-component of the infrastructure development plan. Similarly, under the ‘Innovation and Technology Development’ sub-component of the infrastructure development plan, raising the share of private sector jobs from 50% to 80% is planned as one of the targets.

The role of private sector in human development, gender and social inclusion has also been highlighted in the TYPDP policy document. For instance, the need to enhance the participation of the private sector in higher education (universities and vocational colleges) is indicated in the document as one of the focus areas. However, the role of the private sector in justice, peace building and regional cooperation, environment and climate change have been given marginal attention although these sectors also require the private sector to contribute its share.

Generally, the private sector has received adequate attention in various components of the TYPDP document compared to previous national policy documents implemented in the country over the last three decades.

5.4 The Roles and Contributions of the Private Sector in the TYPDP

It is well established that the private sector plays an indispensable role in promoting sustainable and inclusive growth in developing countries. The sector is also identified as an essential stakeholder in fighting poverty, creation of employment opportunities, ensuring long-term economic growth and a pathway toward inclusive economic growth and transformation process in Ethiopia. Over the last two decades, the private sector has played a leading role in the structural transformation process toward industrialization and hence it has been given much emphasis by the Government of Ethiopia.

The existing institutional arrangements in the country and the TYDP provide opportunity to the private sector to play the following significant roles in Ethiopia's economy.

- Participate in infrastructure development and fill the inefficiencies in housing and road transportation sectors;
- Promote and expand existing industrial development;

- Address inefficiencies in the local, regional and national economies such as hoteling services;
- Promote human capital development through investing on education and health sectors;
- Help vulnerable groups specially the youth to participate in the labor market through micro and small-scale enterprises.

Despite policy support over the last two decades, the private sector's contribution to the national economy is less satisfactory (WB, 2016). Ethiopia's private sector is predominantly characterized as being small-scale, informal and service sector-oriented and mostly operating in domestic markets where returns are high and quick. The sectoral distribution of domestic private sector shows that investors are not vigorously entering the productive sectors (manufacturing and agriculture) and the export market, which is a critical pathway toward industrialization and structural transformation. Instead, most domestic private investors are increasingly concentrated in the service sector and/or domestic market (Mulu, 2019). For instance, during the GTP-I period, from a total of 123 operational domestic private investment projects that received investment licenses from regions, 88 (71%) projects were engaged in the service sectors, 21 (17%) projects in the manufacturing sector and 14 (11%) projects in the agriculture sector (NPC, 2016). This indicates a dire need to identify weaknesses and constraints hindering the domestic private sector from robustly entering the productive sectors and thereby improving the country's export trade competitiveness and building its capacity of resilience to shocks.

5.5 Opportunities of the Private Sector in the TYPDP

The TYPDP gives adequate attention to the private sector that can be taken as opportunities. The fact that enhancing the role and participation of the private sector in the economy is considered as one of the objectives of the TYPDP, and that private sector-led economic growth is one of the ten pillars of the TYPDP are by themselves good opportunities for the private sector. Specific sector-based opportunities that the private sector may exploit are indicated as follows:

5.5.1 Opportunities in Agricultural Development

In relation to agricultural development, it is clearly visible from the TYPDP that the following could be taken as opportunities.

- Possibility of the private sector to involve in agricultural mechanization services;
- Possibility of getting additional land if the private sector is going to invest in agriculture as a medium- and large-scale private farms;
- Possibility to involve in improving animal husbandry, fodder development and animal health;
- Possibility to involve in expanding horticulture development, as access to land could be obtained by doing so;

5.5.2 Opportunities in Manufacturing Industry Development

Based on the TYPDP, the following could be picked as opportunities for the private sector in manufacturing industry development.

- Opportunity to benefit from new investment incentives and simplified procedures;
- The private sector will be favoured if the sector attracts new high-quality investment in manufacturing industries;
- Possibility to involve in import-substitution manufacturing industries;
- Possibility to involve in producing high quality export goods in volume and variety;
- Possibility to involve in manufacturing industries that are consistent with the country's sustainable and green economy development strategy.

5.5.3 Opportunities in Mining and Petroleum Development

From the TYPDP, the following could be inferred as opportunities in the mining and petroleum development.

- The private sector is encouraged to involve in mining and petroleum development as these contribute to foreign exchange earnings and domestic resource mobilization.
- The private sector is also encouraged to involve in value addition activities in the mining and petroleum sector as it creates employment opportunities.

5.5.4 Opportunities in Tourism Development

In tourism development, the following can be cited as important opportunities to the private sector based on the TYPDP.

- Participation of the private sector in private-public partnerships for improving the quality-of-service delivery in the tourism industry;
- The private sector could involve in tourism sector and benefit from the plan to broaden the sources of financing for the sector;
- The private sector could benefit from the plan to modernize data management system through technology.

5.5.5 Opportunities in Transport Development and Water Resources Development

- The private sector could benefit by participating in private-public partnership projects related to transport development and water resources development. For instance, about 23 partnerships are open to the private sector in transport development areas.

5.5.6 Opportunities in Energy Development

- The TYPDP encourages involvement of the private sector in terms of investing in the energy development.

5.5.7 Opportunities in Innovation and Technology Development

- The TYPDP emphasized about the plan to increase the share of private sector jobs in the areas of technology and digitalization.

5.5.8 Opportunities in Demography and Human Resource Development

- The TYPDP stipulated the opportunity for the private sector to involve in launching private universities and vocational schools.

5.5.9 Opportunities in Gender and Social Inclusion

- An opportunity for the private sector, according to the TYPDP, could be chances of insurance schemes for employees working with private organizations.

5.5.10 Opportunities in Monetary Policy and Financial Sector

- The plan to increase annual savings of banks and that of microfinance institutions to guarantee adequate financial capacity for investment projects carried out by the private sector can be taken as a good opportunity.
- Allocating large proportion of finance/loan (87.2%) to meet the investment needs of the private sector is also another opportunity for the private sector.
- Financial sector liberalization will make access to finance easy to curb capital constraints

5.6 Challenges and Obstacles of the TYPDP

The TYPDP broke the tradition of developing five-year development plans implemented in the country since the 1950s. However, it has the following limitations in dealing with the private sector development:

- Inconsistency of signatories to abide by different trade agreements (eg. AGOA) that directly affect the operations of the private sector
- Lack of policy direction put in place to promote private sector development.
- Limited access to land (work place) - The TYPDP did not propose means of solving problems faced by the private sector in accessing land.
- Insecurity and internal conflict
- Limited access to finance and credit
- Weak marketing infrastructure
- Corruption and long bureaucratic procedures that affect efficient implementation of the plan
- Low levels of ease of doing business in the country.

- Shortage of foreign currency - The TYPDP requires sustainable fund mobilization, which is also overlooked under the plan.
- Poor quality and inefficiency during privatization process.
- Less emphasis for the private public partnership (PPP) as a key strategy.
- Lack of incentive mechanism: incentives that enhance the role and partnership of the private sector was not put in place;

In addition to the above challenges, although the TYPDP intends to increase domestic private sector participation in the economy, the rate of participation and areas for participation by private sector was not clearly indicated. Moreover, even though the TYPDP document states that the plan's development was participatory as it followed bottom-up planning approach, the magnitude and level of participation by the private sector was not spelled out.

5.7 Challenges and Constraints of Private Sector Development in Ethiopia

The government of Ethiopia has been providing various packages to expand the role of the private sector. Depending on the comparative advantage of localities, the government has been working on development of industrial parks in different parts of the country. Tax relief and tax exemption intermediary inputs and other industrial policies have been steps taken to stimulate private investment in the country. Of course, these steps brought significant improvement in export, job creation and transfer of new technologies and skills. However, the growth and contribution of the private sector is not as expected.

Inefficient financial markets increase the reliance on internal funds or informal sources by connecting firms that are creditworthy to a broad range of lenders and investors. A firm's ability to access financial markets to undertake investments and other operational requirements appears to be a prominent obstacle.

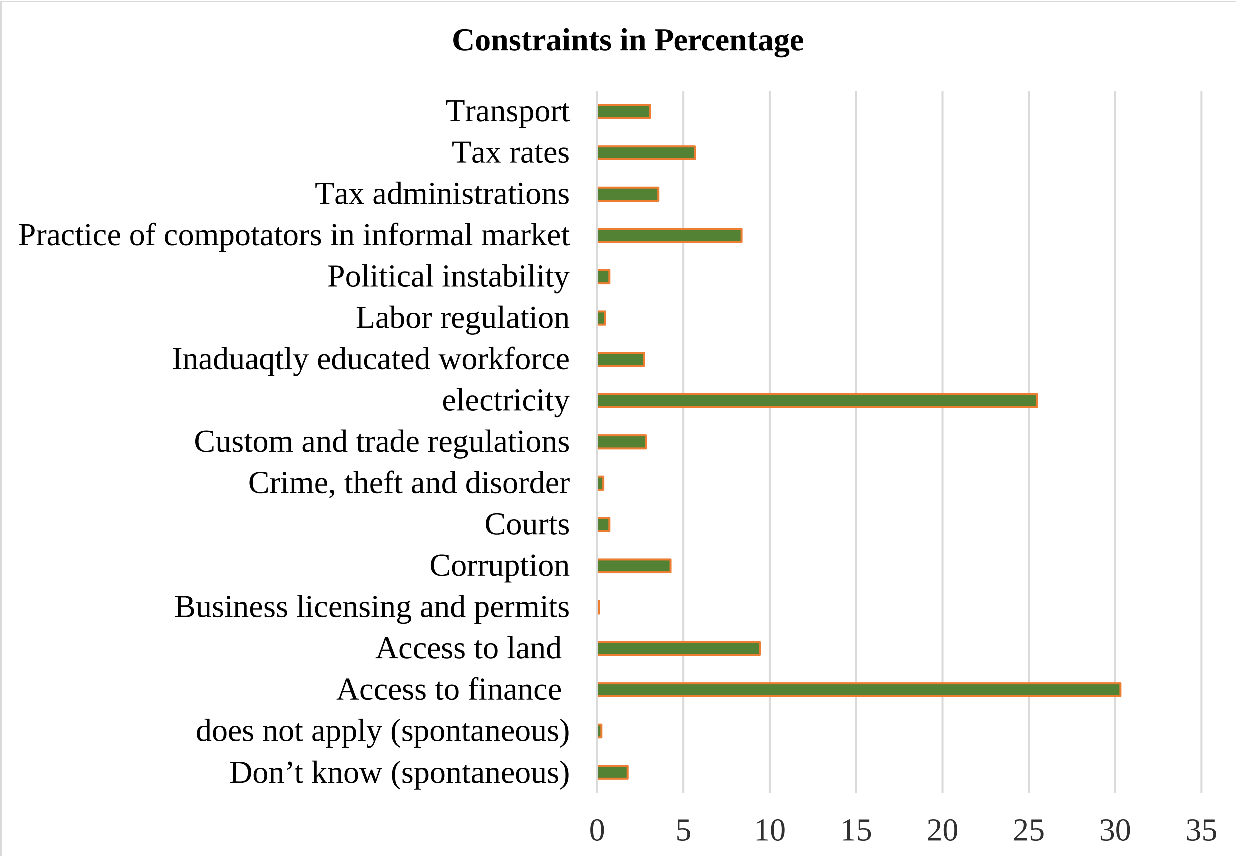

Figure 3: Constraints to private sector investment during the establishment of businesses

Source: Computed by authors from World Bank Enterprise Survey (2015).

As indicated in the figure 3 above, lack of access to finance was cited as the leading constraint to investment with 30% of private investors surveyed by the WBS reporting as such. For about 25.4% of private investors surveyed, electricity was the leading constraint hindering the establishment of private sector investments. Furthermore, approximately 7.15% of interviewees reported that they faced a shortage of electricity and water supply in the manufacturing industries and that this hinders the full capacity operation of their businesses. Inadequate electricity provision supply can increase costs, disrupt production, and reduce the profitability of private businesses. The extent to which businesses face failures in the provision of electricity and their effect on sales as measured by the losses they generate. Variety of indicators point to unreliable access to electricity as a constraint on economic activity.

Private sector investors surveyed perceived access to land as the third major constraint to private sector investment. About 9.4% of the respondents replied that access to land discouraged private sector investment. Access to land was challenged by inadequate support from the government side, followed by poor implementation and enforcement of the policy at all levels.

Informal traders and markets are among the major constraints of private investment. About 8 percent of the respondents considered this as the fourth major problem that hampers new entry and performance of existing investors. Moreover, tax related issues, shortage of skilled labour, corruption, custom and trade related rules and regulations are also key constraints of private investment in Ethiopia. Therefore, the TYPDP, should have a clear roadmap to address these problems to achieve its objectives.

6 Results from Key Informant Interviews

To capture more insights and to assess the TYPDP from different perspectives, key informant interviews (KIIs) were conducted with representatives of selected government and non-government institutions. A checklist was prepared to facilitate the discussion on advantages, limitations, and opportunities of the plan. A summary of the findings is presented below.

Almost all respondents concur that there is high chance of achieving the proposed goals of the TYPDP with in the specified period. The major justifications include:

- The plan gives emphasis to the manufacturing sector that stimulates domestic value-addition thereby creating employment opportunities and boosting the economic growth of the country.
- The current initiative for stronger regional integration is reported as being a good opportunity to increase demand for exportable goods and solve foreign exchange shortage of the country.
- The focus on domestic potential and defined area of engagement in the plan is a benchmark for subsequent interventions and policy formulation.
- The current strong initiation of the diaspora to engage in the development endeavor of the country is also mentioned as an additional resource for implementation of the plan.

Though there are promising external factors that will support effective implementation of the TYPDP, deep rooted institutional, political, technical, and economical challenges are reported.

The major challenges pointed out by the key informants that the private sector will face while implementing the TYPDP are:

- There is inadequate awareness about the TYPDP itself and hence the plan may not adequately be owned by the private sector;
- Poor financial services especially difficulty to access credit from financial institution;
- Lack of skilled technical personnel; the labor available in the market does not fulfill the minimum requirement of the vacant positions;
- Poor linkages between universities, research institutions and the private sector;
- Poor supply logistics; poor supply chain management;
- Inefficient customs processing and services to clear the shipment for imported /exported goods and services;
- Shortage of foreign exchange due to currency fluctuations;
- Poor infrastructure that supports new technologies;
- Fragile and unsustainable peace and security;
- Lack of leadership commitment;
- Limited access to land and working capital for potential entrepreneurs;
- Inconsistency and irregularity of government offices and procedures; lack of standards and partiality; and
- Corruption that manifests itself in its different forms

Analyzing the key bottlenecks of the plan, the implication of the TYPDP for private sector was assessed. KII participants emphasized that the plan is a good entry point for improved market efficiency. This is due to the fact that the plan explicitly encourages competition better functioning markets. Moreover, considering the private sector as a key actor to achieve the objectives of the plan stimulates private investment there by aggregate output.

Based on the findings from the KIIs, the need to improve policies and institutional framework was highlighted. Accordingly, the KII participants were requested to forward priority areas that the government needs to improve on in the perspectives of the private sector. Accordingly, the various recommendations given are scrutinized and listed as follows:

- Provide access to financial services (working capital credit, foreign exchange)
- Provide access to land and improved infrastructure for smooth operation of private sector.
- Synchronize services and procedures among different governmental institutions
- Design special incentive mechanisms to stimulate the stagnant but strategic sectors such as Mining and Tourism sectors.
- Contextualize policies and strategies of the country to specified objectives of the TYPDP.
- Align the education policy with the need of the private sector (revise the education policy and curricula accordingly).
- Improve technological infrastructure such as internet coverage, speed, and knowhow.
- Ensure peace, security and safety of private investors
- Design demand driven short term technical training schemes to meet the demand of the labor market
- Improve the extended and hectic rules, regulations, and procedures of doing business.

The interviewees were also asked about how to improve private sector engagement during implementation of TYDP. The respondents described that it is unquestionable that for successful implementation and achieve the intended objectives of the plan, engagement of the private sector is crucial. To this effect, the following key issues were raised as important priority areas where the government should work on:

- Financial sector liberalization for better access of financial services
- Participatory policy design: discuss and inculcate ideas of the private sector representatives while designing development policies
- Organize discussion forum with private sector representatives to establish ownership and share responsibility
- Revise tax and interest rate policies in view of stimulating private investment
- Continuous training and personal development to improve competency, and accountability of government officials

7 Conclusion and Recommendations

7.1. Conclusion

The Ethiopian Economic Association (EEA) has assessed the TYPDP from the perspectives of the private sector. Before doing an extensive review on the TYPDP, the study has briefly reviewed the past policy and strategic documents relevant to the study. Key informant interviews were also conducted with nine federal level sectors (list of key informants annexed to this report). The ultimate purpose of KIIs was to obtain information on the TYPDP and examine its implications on the operation of the private sector with a particular focus on opportunities and challenges it will bring about.

Based on the desk review, the study has identified some bottlenecks for the implementation of the TYPDP and suggested the recommendation for the government. Results from the KIIs identified strengthening regional integration and the increasing diaspora enragement in the private sector as a good opportunity. Despite the on-going debate on privatization processes in Ethiopia, the government has embarked on privatizing publicly owned business enterprises by private sectors.

The KIIs also identified the institutional, political, technical, and economical challenges as deep-rooted challenges of the sector. More specifically, the key informants identified limited financial services (working capital credit, foreign exchange), shortage of access to land and improved infrastructure for smooth operation of the private sector, lack of incentive mechanisms to stimulate the stagnant but strategic sectors, inadequate infrastructure, shortage of short-term technical training schemes to meet the demand of the labour inefficient, bureaucracy and procedures as the key bottlenecks of private sector.

The result revealed that the government has strong motive to increase institutional efficiency and create competitive business environment to strengthen private sector involvement in the country. However, an absence of sound legal framework remained a challenge for enhancing private sector engagement in Ethiopia’s economy. The study pointed out that TYPDP in Ethiopia faced the following key challenges and obstacles among the others: Inconsistency of signatories to abide by different trade agreements (eg. AGOA) that directly affect the operations of the private sector, lack of start-up capital, limited access to land, insecurity and lack of peace, limited access to finance and credit, weak marketing linkage, rampant corruption and long bureaucratic procedures, shortage of foreign currency, low rate of private sector participation, and lack of clear incentive mechanisms for private sector.

In relation to this, the government has to establish a viable institutional framework that ensures the role of the private sector particularly the local (domestic) investors and ensure transparency and accountability in the process.

Based on the KIIs result, the study recommends financial sector liberalization, participatory policy design, organizing discussion forum with the private sector, and revising tax and interest rate policies in view of stimulating private investment.

7.2. Recommendations

Based on the desk review and KIIs, the following recommendations are provided:

- The government should provide adequate financial and legal support to the private sector through provision of opportunities to access to loan, credit and foreign currency.
- Despite the private sector's vital role in economic growth and development, there have been no incentives provided by government that encourage private sector investment. Hence, the government should put in place incentive mechanisms such as tax exemption, duty free import services and custom duties.
- The government should implement financial sector liberalization as this will increase efficiency, competition and prompt economic growth of the country.
- Education and training delivery should be based primarily on industry/labor market needs. Moreover, attention should also be paid to producing~~eproduce~~ technology-savvy ~~technical~~ graduates including under short-term program.
- The government should improve the extended and dispersed ~~and hectic~~ rules, regulations, and procedures of doing business to create an easily legible and navigable enabling environment for ~~the~~ local private investors.
- The government and its non-governmental and development partners~~,~~ should provide awareness creation on private sector policy design and the role of private-~~–~~public partnerships.

- The government and its non-governmental and development partners should organize discussion forums with the private sector on the areas of revising tax and interest rate policies in view of stimulating private investment.

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Annex

Key Informant Interview Guide

Prepared by the Ethiopian Economics Association (EEA)

for

Assessment of the Ten Years Prospective Development Plan of the Government of Ethiopia from Private Sector Perspective.

The Ethiopian Economics Association (EEA) is planning to assess the Ten Years Prospective Development Plan of the Government of Ethiopia from Private Sector Perspective. To get complete picture of the intended study, collecting primary data from selected institutions is very crucial. The institutions are selected based on their familiarity on the TYDP and KIIS's knowledge on the role of private sector. Hence, you are kindly requested to reflect your view on the following questions.

The ultimate purpose of this questionnaire is to conduct an extensive review of the Ten years' perspective development plan and examine its implications on the operation of the private sector with a particular focus on opportunities and challenges it will bring about.

We would like to confirm you that your responses will be kept strictly confidential and will only be used for the intended purposes. The EEA is grateful to your willingness and honest response.

1. Respondent's Information

1.1. Name of the institution: ________________________________

1.2. Full name of key informant: ____________________________

1.3. Position in the organization: ____________________________

1.4. Work experience of the key informant (years): ________________

Instruction: Dear Interviewee, you are kindly requested to reflect on the following unstructured questions with respected to TYDP in perspectives of private sector.

1. What opportunities are there for effective implementation of the TYDP?
2. What would be the key challenges faced by private sector in relation to the TYDP?
3. What do you think are the major implications of the TYDP on the operations of the private sector?
4. What policy and institutional frameworks do you think should be in place to improve the business and investment climate of private sector?
5. What regulatory gaps do you observe in the operations of the private sector?
6. What institutional gaps do you observe in the operations of the private sector?
7. To what extent do you think the private sectors contribute to the achievement of the TYDP?
8. What do you recommend improving engagement of the private sector in the implementation of the TYDP?
9. Do you think that the issues related to the private sector mentioned in the TYDP are in line with your intuitional demand and local need?
10. What do you think the government should do to resolve hindrances in the operations of the private sector?
11. What should the government do to maximize the gains and opportunities that the TYDP may bring to the private sector?

Annex 2: List of institutions visited for KII

- Ministry of Planning and Development
- Ethiopian Investment Commission
- The Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA)
- Ethiopian Textile and Garment Manufacturers;
- Ethiopian Sugar and Sweets producers;
- Ethiopian Pulses oil seed and spices processors;
- Ethiopian Horticulture producer and exporters;
- Ethiopian meat producers-exporters; and
- Ethiopian Leather Industries Association