TAK-Innovate Research and Development Institution PLC

Assessment of the Role of Private Sector Plays in GTP II

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Acronyms

AACCSA	Addis Ababa Chamber of Commerce and Sectoral Associations
BPR	Business Process Re-engineering
BSC	Balanced Score Card
CSF	Civil Society Fund
GDP	Growth Domestic Product
GTP	Growth and Transformation Plan
ILO	International Labor Organization
IRDI	Innovative Research and Development Institute
MDGs	Millennium Development Goals
MSE	Micro and Small Enterprise
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty
PSDTTWG	Private Sector Development and Trade Technical Working Group
SDPRP	Sustainable Development Poverty Reduction Program
UNDP	United Nations Development Program

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Executive summary

Private sector plays an essential role to reduce poverty and attain rapid and sustainable development by enhancing productivity, reducing unemployment and creating competition among workers. Private sector also enhances the efficiency of service delivery through creating public-private partnership. However, in Ethiopia, the private sector growth and contribution to the national economy is very limited. Particularly, during the first growth and transformation plan implementation period, private sector development has been neglected as the government was fully mobilizing its effort towards growth enhancing infrastructure development like construction of hydro-power dams, roads, railway and expansion of telecom service.

Although, the importance of the private sector to economic growth has long been recognized, private sector actors were not seen as development actors until recently. Cognizant of this, the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) commissioned this brief study to assess the role of the private sector plays an important contribution in GTP II and come up with policy proposals to remedy major problems. This report presents results of the study and outline key recommendations.

In order to assess the role of the private sector in the growth and development process of the country a rigorous review of the first and the second growth and transformation plan including empirical literature were conducted. And, the review is complemented by key informant interviews with relevant stakeholders.

In a market-oriented economy, private sector plays a vital role to poverty reduction through various channels. It can reduce income poverty by enhancing productivity, reducing unemployment, and creating competition among workers so that drives up wages. Private enterprises can also help to keep prices of essential goods and services down and increasing the real effective incomes of poor people by producing essential goods and services in large-scale production. On top of this, private sector growth can provide a government a large source of tax revenues, which in turn supports increased public investment. The involvement of the private sector in youth employment strategies is also critical as the private sector has the resources,

expertise and capacity to generate wealth and the capacity needed to create employment opportunities beyond else.

The first growth and transformation plan (GTP I) was based on seven strategic pillars and focus on key sectors of the economy. During GTP I, the government has been engaged in huge infrastructure development and the Private sector development has been constrained due to limited access to finance. The plan also did not give considerable attention to private sector development. In other words, the strategic directions of the plan did not reflect the direction towards the growth and development of the private sector.

Considering the challenges and opportunities that are learned from the first GTP implementation and by taking the global economic condition into account, the second growth and transformation plan (GTP II) is formulated to realize Ethiopia's vision of becoming lower middle income country by 2025. Hence, the prime objective of the second growth and transformation plan is to attain an annual average GDP growth rate of 11 percent within stable macroeconomic environment, and to achieve rapid industrialization and structural transformation. In order to achieve the desired goals, GTP II has set nine strategic pillars:

From the document review and key informant interview, we have learned that unlike in the first GTP, in the second growth and transformation plan the government gives attention for quality investment in all sectors of the economy. As a result, ensuring quality, productivity, competitiveness and efficient utilization of existing capacity is the major strategic direction of the plan. Private sector development will also be given a better emphasis during the second GTP implementation period compared to what has been done during GTP I.

More precisely, the private sector has the opportunity to participate in agriculture, industry, service and trade sectors intensively. To this end, a number of incentive and support packages including income tax exemption, duty free import of capital goods and development of industrial parks are designed to encourage the private sector to enhance its role in attaining rapid growth and sustainable development in the country.

Although a number of incentives and support packages are designed to encourage the participation of the private sector in the growth and development of the country during GTP II implementation period, there are a number of challenges that hindered the private sector to contribute in the development process of the country. These includes inefficient government bureaucracy, foreign currency regulations, access to finance, corruption, lack of basic lack of infrastructure (particularly electricity). Key informants contacted at various private sector associations also identified these problems as major constraints for the growth and development of private sector in the country.

Thus, enhancing the participation of the private sector in the country growth and development should take into account the above key constraints. There is a need to explore new ways of working with the private sector in order to harness its expertise and resources for inclusive and sustainable development. To address the financial constraints there is a need to use innovative financial instruments to leverage additional financing for the private sector. The government should also explore how to enhance the role of Diasporas in the development of the private sector in countries of origin, in particular to promote investment and knowledge transfer.

Finally, the government should also recognize that public/private dialogue could promote an environment conducive for responsible investment, the creation of decent jobs and sustainable development, and enhance policy effectiveness. Promoting public/private dialogue also responds to growing demand from private sector to become more engaged in the policymaking.

1. Introduction

1.1. Background

Ethiopia has been one of the fastest growing non-oil dependent countries in Africa and has made tremendous social and economic gains in the last decades-real GDP growth averaged 10.8% per annum (OECD 2015). Expansion of the services and agricultural sectors account for most of this growth, while manufacturing sector performance was relatively modest. Furthermore, study shows that private consumption and public investment explain demand side growth with the latter assuming an increasingly important role in recent years (World Bank 2016).

Similar progress has also been achieved in the area of poverty, human development and capacity. For instance, poverty in both urban and rural areas has been reduced substantially from 39 percent of Ethiopians living below the national poverty line (US$0.6 per day) in 2004/05, to less than 30 percent six years later (World Bank 2012) which makes Ethiopia to see the second fastest rate of reduction in Africa (Geiger & Moller 2015).

To build on the implementation of previous poverty reduction strategies the government initiated GTP in 2010 and GTP II in 2016. GTP I aims to sustain rapid and broad-based growth path witnessed during the past several years and eventually end poverty and also achieve the Millennium Development Goals in Ethiopia by 2015 (MoFED 2010).

During the implementation of GTP it has been noted that limited role is envisaged for the private sector and the financing needs for the public sector crowd out private sector credit on the domestic side (Geiger & Moller 2015; World Bank 2011). As such, the private sector was not able to play significant role and the bulk of the private sector contribution is in the services and informal sectors.

Building on the positive achievements and lesson drawn, GTP II focus on ensuring rapid, sustainable and broad-based growth through enhancing productivity of agriculture and manufacturing, improving quality of production and stimulating competition in the economy (National Planning Commission 2016).

More specifically the plan aim to sustain the accelerated growth and establish a springboard for economic structural transformation and thereby realizing the national vision of becoming a lower middle-income country by 2025 (National Planning Commission 2016, P. 80). The plan clearly identified that among other things, low level of private investment in manufacturing, is responsible for the slow pace of structural transformation from agriculture to manufacturing (National Planning Commission 2016, P. 8).

In this regard, there is a need to favor the private sector by focusing on steps to improve the investment climate and create more room for private sector activity so that the large public investment outlays on infrastructure could translate into human development.

Cognizant of this, the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) commissioned this brief study to assess the role of the private sector plays an important contribution in GTP II and come up with policy proposals to remedy major problems. This report presents results of the study and outline key recommendations.

1.2. Objective of the Study

The main objective of the assignment is to assess the role of the private sector plays in GTP II. The specific objectives of the study are to:

- Analyze the opportunities provided for the private sector in the GTP II; and
- Identify the major bottlenecks of the private sector that undermine its participation in GTP II as well as in playing its role in the development process as one of the key actors.

1.3. Scope of the Study

The scopes of the study include the following issues:

- Explain the role and the contribution of the private sector in the economic performance of the Country;

- Explain the major pillars and strategies of GTP II
- Explain the roles of the private sector provided in GTP II;
- Explain how the current issues of the private sector are entertained\addressed in GTP II;
- Identify the major challenges that would potentially undermine the participation of the private sector in the implementation of GTP II as well as in the development process of the country;

1.4. Methodology

Document review is the main data collection technique for this study. Accordingly, the first and second growth and transformation plans (GTP I & GTP II), the country's investment proclamation and regulations, and empirical literatures related to private sector development are meticulously reviewed.

Key informant interviews are also conducted with relevant stakeholders including government institutions. In depth discussion with conducted with experts of Ethiopian Economics Association, representatives of Ethiopian Leather and Leather Products Producers and Exporters Association, as well as experts of Ethiopian Meat and Dairy Industry Development Institute.

1.5. Organization of the report

This reminder of the report is organized as follows. The next section reviews the role and contribution of the private sector in Ethiopian economy, briefly discuss GTP I, present the major pillars and strategies of GTP II and identify roles of the private sector provided in GTP II. Section 3 describes the current issues of the private sector in Ethiopia and discussion how these issues are addressed in GTP II. We conclude with some comment about the implication of the key bottlenecks on the potential contribution of the private sector and suggest some policy options.

1.6. Limitation of the study

Although there is much remains to be done, our work generates important findings related to the potential role the private sector to the economy, the opportunity given to the sector in the second GTP and issues that hinder the participation of the sector.

However, the following caveats need to be noted regarding the present study. First, the time bound and budgetary constraints does not allow us to investigate the problem more thoroughly. Second, the study used key informant interview to corroborate results found from secondary sources. However most of the time it was difficult to get quantitative data from key informants particularly with regard to major challenges of the private sector. Finally, the data presented in the report are at aggregate level. Sector specific assessment would give a more robust finding.

2. The role and contribution of the private sector in Ethiopian economy and in the second GTP

2.1. An overview of the first growth and transformation plan (GTP I)

Ethiopia has implemented a five year (2010/11 – 2014/15) broad based growth and transformation plan that was aimed to sustain a rapid and a double digit economic growth that could enable the nation to attain millennium development goals (MDGs)(MOFED 2010). The fundamental principles of the first growth and transformation plan (GTP I) were to sustain faster and equitable economic growth, maintaining agriculture as a major source of economic growth, creating favorable conditions for the industry to play key role in the economy, enhancing expansion and quality of infrastructure development, enhancing expansion and quality of social development, building capacity and deepen good governance and promote women and youth empowerment and equitable benefit. (MOFED 2010).

During GTP I, the government has been engaged in huge infrastructure development and the Private sector development has been constrained due limited access to finance. The plan also did not give considerable attention to private sector development. In other words, the seven strategic pillars of the plan did not directly reflect the direction towards the growth and development of the private sector. In line this the key informants we contacted at various private sector association also argued that the first growth and transformation plan was a surprise to private sector representatives. That is the government did not properly consult the private sector on the plan. Generally the private sector representatives argue that private sector development is totally a missing element in the first growth and transformation plan.

Accordingly, the private sector contribution to GDP has not been grown as expected by the government. However, there is a considerable improvement in private investment in agriculture particularly in horticulture and floriculture sub sectors (MOFED 2010, P, 9).

Regarding the industrial sector, during GTP I the government had believed that Micro and Small Enterprise (MSE) development is a springboard to create vibrant large and medium manufacturing enterprises. To this end, the five-year interventions towards promotion and development of MSEs enabled the enterprises to create about 4 million new jobs(MOFED 2010).

Although the government initiative towards private sector development has not been satisfactory during GTP I, there has been a plan to encourage the private sector to play a key role in the development of large and medium enterprises. To this end, the government has tried to strengthen the existing industry development institutes (like textile and leather industry development institutes) and established new institutes that would support private investors engaged in or interested to invest in food and beverage, chemical, pharmaceutical, cement, and meat and dairy industries (MOFED 2010).

Moreover, the government had tried to develop industrial parks that would contribute for the growth and development of private sector in the manufacturing sector. Because industrial parks avoid the hassles to acquire land, finance for construction of working premise, and the intended one-stop-shop service within the parks will also avoid unnecessary bureaucracies at various government institutions.

However, as the primary strategic pillar of the first GTP was sustaining rapid and equitable economic growth, the government had given a greater emphasis on the development of growth enhancing sectors such as infrastructure (hydro-power, telecom, road and railway) and social sector (education and health) developments. From the key informant interviews we have learned that these overambitious public investments resulted in a serious liquidity constraint for private sector development during GTP I implementation period.

To further support the private sector, the government developed the industrial park –the first one in Bole Lemmi in Addis Ababa City Administration- in collaboration with the Chinese government. The government as also facilitated the establishment of Eastern Industry Zone at Dukem. The construction of the other industrial parks was also begun in different parts of the country. The government had also encouraged the private sector to involve in the privatization process of public enterprises. In this regard, within the first GTP implementation period, it had privatized a total of 32 public enterprises in the form of direct selling and joint venture(National Planning Commission 2016).

Considering the challenges and opportunities that are learned from the first GTP implementation and by taking the global economic condition into account, the second growth and transformation plan (GTP II) is formulated to realize Ethiopia's vision of becoming lower middle income country by 2025 (National Planning Commission 2016).

The next section briefly discusses the strategic pillars of the second growth and transformation plan of the country.

2.2. Strategic pillars of GTP II

The second Ethiopia's growth and transformation plan is formulated based on nine prime strategic pillars.

2.2.1 Maintaining rapid, sustainable and equitable economic growth and development

During the first GTP, it was aimed to sustain rapid and equitable economic growth through promoting investment in growth enhancing sectors like infrastructure development which create a greater number of jobs in MSEs or informal sectors (MOFED 2010). Similarly, in second GTP, the government aimed to exert concerted and coordinated effort that would enable to ensure rapid, sustainable and equitable economic growth that translates into creating decent job opportunities accompanied by significant poverty reduction and structural transformation. Similar to the first GTP, agriculture will remain as a major source of growth and industrial development will be given special emphasis. The second GTP has also given strong emphasis on promoting service sector to play its role in creating decent jobs, enhancing productivity, quality and competitiveness in all sectors of the economy (National Planning Commission 2016, p. 81).

2.2.2 Improve the quality, productivity and competitiveness; and increase the production capacity of productive sectors to reach the potential production capacity of the economy

The second GTP has enormous concern for quality, productivity, competitiveness and existing capacity utilization in all productive sectors of the economy. For instance, in the agriculture sector, it is aimed to identify all possible challenges that hampered the growth and development of small scale and commercial crop and livestock production so that significantly improve the existing production capacity both in terms of quantity and quality (National Planning Commission 2016, p. 83).

Pertinent to industrial sector, it is planned to promote those industries that would potentially utilize agricultural products as an input and create strong linkage between the two sectors. Moreover, it is aimed to enhance existing industries technological capabilities (technology adoption and imitation) so that to achieve productivity and quality improvement in all priority manufacturing industries. To this end, the nation will exert massive effort in the dissemination of a Japanese management philosophy called Kaizen(National Planning Commission 2016, p. 83).

2.2.3 Enhancing the transformation of domestic private sector

According to key informants interviewed at various private sector associations, during GTP I private sector development has been overlooked by the government, and the plan has also given little emphasis on the growth and development of private investment. However, in the second growth and transformation plan the government has targeted to promote private sector development (i.e. domestic and foreign direct investment) in the manufacturing sector as well as other sectors of the economy(National Planning Commission 2016).

In GTP II implementation period, multi-dimensional approaches will be pursued to transform the domestic private sector. Firstly, small manufacturing enterprises will be encouraged and supported to realize their transition to medium and large scale manufacturing enterprise category. Secondly, favorable environment will be created to ensure that construction companies invest in manufacturing of construction inputs. Third, strategies will be designed and implemented to redirect and encourage trade and service enterprises to shift their investment to the manufacturing sector for sustained growth and economic structural transformation. Finally, the government will also give special emphasis to enhance the linkage (i.e. knowledge and technology transfer) between domestic and foreign enterprises operating in the country by introducing various incentive and support packages(National Planning Commission 2016, p. 84).

2.2.4 Expanding the accessibility and ensure the quality infrastructure development through strengthening the implementation capacity of the construction sector.

The fourth strategic pillar of the plan stipulates that the nation will ensure reliable and affordable infrastructure development. This will be achieved by enhancing import substitution, technology learning and job creation in the construction sector(National Planning Commission 2016).

The private sector investment will also be encouraged in infrastructure development particularly in areas that are open to private investor in the investment regulation. The government will also give special emphasis to infrastructure development such as road, railway, dry port, air transport, energy, telecommunication, water and irrigation schemes that will result in attracting domestic and foreign investment, creating market opportunities, enhance competitiveness and increase regional economic integration. In addition, the post-2015 global and regional development goals related to infrastructure development will be mainstreamed and implemented in line with prioritized national development goals(National Planning Commission 2016, p. 85).

2.2.5 Fostering the governance and management of rapid urbanization to accelerate economic growth

The country is in a phase of rapid and accelerated urbanization with urban population growth rate of 4.8% (World Bank, 2016). This apparently requires appropriate and proactive management as well as long term planning. In consequence, unlike the first GTP implementation period, in the second growth and transformation plan the government will give due emphasis for the quality of urban governance and management. Accordingly, reducing urban unemployment, addressing housing problems, and improving agricultural sector productivity through creating strong backward and forward linkage between urban and rural development will be given special attention as well.

The government will also give particular emphasis for urban infrastructure developments like road, water, electricity, as well as adequate solid and liquid waste disposal management systems. In addition, climate change problems will also be addressed by building climate resilient urban centers. Due attention will also be given to create a decentralized urban administration and to strengthen urban management capacity as well as finance and revenue management systems (National Planning Commission 2016, p. 87).

2.2.6 Accelerating and ensuring the sustainability of Human Development and Technological Capability

Accelerating the growth of human capital is a key to ensure quality, productivity, competitiveness, growth and transformation. Moreover, availability of healthy and skilled labor force will apparently enhance the technological capabilities, as well as knowledge and technology absorptive capacity of industries (ILO 2010).

In this regard, in the second GTP, the government will give special emphasis towards the growth and development of quality social service (education and health). It is also aimed to encourage and support technological learning and innovation practices in all sectors of the economy. Besides, networking among research institutes, manufacturing industries and service providing institute will be promoted to enhance technological learning and innovation. The government will also undertake a comprehensive and close monitoring and support to activate the implementation of the country's science and technology innovation policy and strategy. (National Planning Commission 2016, p. 88).

2.2.7 Promote democratic and developmental good governance through enhanced implementation capacity and public engagement

Ethiopia achieved remarkable economic and social development during the first GTP period(MOFED 2010). In order to sustain these achievements, the government has planned to exert considerable efforts to strengthen the full implementation of reform programs (like BPR, BSC, Kaizen) which have been implemented at all administrative level over the last years.

Due attention will also be given to modernize the tax system and to build efficient custom clearance procedure, as well as to improve the land administration system. Moreover, the government will be committed to ensure transparency and accountability of public institution through income and property registration of government decision-makers at all administrative level(National Planning Commission 2016, p. 90).

2.2.8 Promote women and youth empowerment, participation and equity

Women and youth empowerment, and ensuring their involvement in the democratization process and good governance practices as well as socio-economic and cultural development processes are the other major strategic pillar of Ethiopia's second growth and transformation plan. To this end, special credit privilege and access to productive assets will be facilitated for women and youth through various development initiatives(National Planning Commission 2016, p. 91).

2.2.9 Building climate resilient green economy

In an attempt to ensure equitable and sustainable growth, it is mandatory to build climate resilient green economy. In this regard, during the second GTP implementation period Ethiopia will focus on adaptation to climate change and mitigation of greenhouse gases emissions, reducing greenhouse gas emission through enhancing productivities of crop and livestock sub-sectors that improve food security and income of farmers and pastoralists, and protection and rehabilitation of forests for their economic and ecosystem services(National Planning Commission 2016, p. 92).

2.3. The role of the private sector in economic development

There are several definitions of the private sector available in the literature, according to Petkoski & Jarvis (2005)private sector is defined as:

- A portion of a country's economy which is not controlled by the government;

- All organizations in an economy that are not controlled by the government, including privately owned businesses and non-profit organizations;
- A part of the economy not under the control of government and that functions through market processes;
- The firms in an economy owned by shareholders or individuals.

More succinctly, Lienert (2009) defines the private ectoras those entities of the economy that are owned by the private sector. In broad terms, there are four key groups of private sectors relevant to local and international development (Kolli 2010):

- Multinational small, medium and large enterprises;
- Locally based small, medium and large enterprises;
- Individuals, including the self-employed, diaspora groups, volunteers, experts, etc.; and
- Non-governmental organizations.

Kolli (2010) estimated that the share of the private sector in the GDP of Ethiopia at current prices is 84.8 percent in 2008/09, out of which the bulk of the private sector lies within the informal sector (Kolli 2010, P.24).

In a market-oriented economy, private sector plays a vital role to poverty reduction through various channels. It can reduce income poverty by enhancing productivity, reducing unemployment, and creating competition among workers so that drives up wages. Private enterprises can also help to keep prices of essential goods and services down and increasing the real effective incomes of poor people by producing essential goods and services in large-scale production. On top of this, private sector growth can provide a government a large source of tax revenues, which in turn supports increased public investment (Petkoski & Jarvis 2005).

Private sector can also served as a source of employment. According to Waddell (2002) the involvement of the private sector in youth employment strategies is critical as the private sector has the resources, expertise and capacity to generate wealth and the capacity needed to create employment opportunities beyond else.

Levin & Kaddar (2011) showed a well by creating favorable environment the private sector could provide effective health services in low- and middle-income countries.

In general the private sector has a potential to be a source of iinvestment, employment, tax revenues in the developing world. The sector has also a potential to provide critical goods and services and is key to ensuring the efficient flow of capital (IFC 2016).

To sum up, the private sector has a key role drive of economic growth and thus eradicate poverty (IRC 2016). Private enterprises do not only promote economic growth and reduce poverty, but they contribute in provision of employment opportunities for the poor, better standard of living. This means that supporting the private sector development, through increasing entrepreneurial capacity building is critical step towards achievement of sustainable economic growth.

2.4. Opportunities for the private sector in GTP II

2.4.1. Opportunities in the agriculture sector

The ultimate goal of the government of Ethiopia is to achieve rapid and sustainable growth by taking aggressive measures on industrialization and structural transformation. This implies the nation has an ambition to reduce the share of agriculture and to increase the role of industry in the national economy.

To achieve this the government of Ethiopia aim to reduce the projected percentage share of agriculture and allied activities in GDP from 41% in 2014/15 to 35.6% by 2019/20 and to increase the share of industry from 15.6% in 2014/15 to 22.8% by 2019/20(National Planning Commission 2016).

However, this does not mean that the issues of quality, productivity, competitiveness, and efficient utilization of existing capacity are neglected in the agriculture sector. Rather agriculture will remain as the main source of growth in the second growth and transformation plan. To this end, the government will give special emphasis to investors interested to establish industries that can create strong linkage with the agriculture sector.

The agriculture sector in turn will be nurtured by the government to supply sufficient and appropriate input to the industries. Therefore, to achieve this national goal the private sector is expected to play enormous role in the agriculture sector. The opportunities given to the private investors in the agriculture sector are summarized in table 1 below.

Table 1 opportunities given to the private investment in agriculture sector

Opportunities given in GTP I	Opportunities given in GTP II
1. investment in floriculture 2. commercial farming in low land areas 3. high value horticulture products in highlands and close to major cities	• The private sector will be encouraged to contribute in crop and livestock production both in commercial and smallholder farming systems • Unlike GTP I, in the second GTP, there is no expansion plan in the floriculture sector in which the private sector can involve.

Source: (MoFED 2010; National Planning Commission2016)

More specifically, the agricultural investment areas fully open for domestic and foreign private investors with the respective income tax exemptions are clearly stated in investment regulation no. 270/2012, and it is briefly summarized in Annex 1 of this report.

2.4.2. Opportunities in the industrial sector

During GTP I, the main strategic direction of the industrial sector was development of micro and small enterprises, as they are believed to be a spring board for the growth and development of private sector investment in general and large and medium manufacturing enterprises in particular(MOFED 2010). However, in the second growth and transformation plan the major strategic directions of the government are to establish light manufacturing industries, which are labor intensive and benefiting citizens, globally competitive and leading in Africa and environment friendly; to establish the foundation, which enables to create an industrialized country by moving into the development of strategic heavy industries(National Planning Commission 2016).

Moreover, the government aimed to create opportunities that would enable high-tech industries to contribute to the development of the nation's industrial sector. This clearly shows a major shift in the strategic direction of industrial sector form MSE development in GTP I into large and medium light manufacturing industries as well as heavy and high-tech industries in GTP II. In light of these strategic directions the opportunities given to the private sector to contribute to the development of manufacturing sector are illustrated in table 2 below.

Table 2 Investment opportunities given to private investment in the industrial sector

Opportunities given in GTP I	**Opportunities given in GTP II**
1. Micro and small enterprises; 2. Large and medium enterprises such as: textile and garment, leather and leather products, sugar and sugar related industries, cement, metal and engineering, chemical, pharmaceutical and agro processing industries; 3. Private sector also encouraged to use the facilities developed in industrial parks, 4. Private sector can also create productive joint-venture with the government; 5. The private sector can also grasp the opportunities that would be created through the privatization process of public enterprises.	• All the opportunities given to the private sector in GTP I will also be available in GTP II implementation period. However, the focus of the government will be towards attracting quality investment, enhancing production and productivity, boosting export shares, accelerating technological learning and strengthen linkage among industries. • With regard to industrial park development, the private sector will have a better opportunity in GTP II because the government has planned to allocate 7 million square meter of land for investors interested in the manufacturing and related sectors. • The other peculiar feature of GTP II is that the government will give due attention towards the transformation of domestic investors from trade and other service sectors into manufacturing sector. • There is also plan to expand the manufacturing sector by identifying new investment areas in biotechnology, petrochemicals, electricity and electronics, information and communication

	technologies. This would also create a further opportunity for the private sector to contribute in the national economy.

Source: (MoFED 2010; National Planning Commission 2016)

More precisely, manufacturing investment areas fully open to domestic and foreign investors as well as investment areas reserved only for domestic investors are clearly articulated in Ethiopia investment regulation no. 270/2012. Annex 2 and 3 respectively summarizes manufacturing investment areas fully open to domestic and foreign investors and areas reserved only to domestic investors with the respective income tax exemption period.

2.4.3. Opportunities in the mining sector

During the first growth and transformation plan, the main focus of the government was to create favorable environment for private investors for exploration and development of mineral resources(MOFED 2010). Among the various government initiatives that were aimed to support the private sector include: undertaking collection, analysis and interpretation of geo-science information for potential investors. Broadly speaking, the main strategic direction of the mining sector during GTP I was creating institutional and regulatory framework that develop favorable environment for the private sector to contribute towards the development of the mining sector.

Similarly, during the second growth and transformation plan, the government is targeting to improve the sector's policy, legal-frameworks, regulatory and working systems of the government(National Planning Commission 2016). The major strategic directions of the mining sector during the second growth and transformation plan are expanding the production of minerals for foreign exchange generation and import substitution for local industries.

The government also aimed to give due attention to value addition to minerals, and producing mineral inputs for the manufacturing sector development. Hence, the private sector can participate in all these activities during the second growth and transformation. Table 3 summarizes the investment areas or opportunities given to the private sector in the mining sector during the second growth and transformation plan.

Table 3 investment opportunities given to private investors in the mining sector

Opportunities given in GTP I	Opportunities given in GTP II
1. Exploration and development of mineral resources, 2. Mineral and petroleum investment expansion, and 3. Artisan mining practices	• All mining investment areas given to the private sector during GTP I are also open for the private sector during the second growth and transformation plan implementation period. In addition to these, private investor interested in mineral value addition and production of mineral inputs for the manufacturing sector highly encouraged by the government.

Source: (MoFED 2010; National Planning Commission 2016)

2.4.4. Opportunities in infrastructure development

The overall strategic directions of infrastructure sector during the second growth and transformation plan are ensuring infrastructure that supports rapid economic growth and structural transformation, creating mass employment opportunity, creating an institution having strong implementation capacity, ensuring public participation and benefit, constructing decentralized infrastructure development system, solving financial constraints, ensuring fairness and profitability and ensuring integrated planning and administration of infrastructure development(National Planning Commission 2016).

In light of these strategic directions, the private sector has given numerous opportunities through which they can contribute to the nation's infrastructure development endeavor. Accordingly, the private sector can participate in in infrastructure subsectors like road development, telecommunication, energy, railway and transport and logistics(National Planning Commission 2016). The specific opportunities designed for the private sector in each subsectors are illustrated in table 4 below.

Table 4 Opportunities provided to private sector in the country's infrastructure development

Opportunities given in GTP I	Opportunities given in GTP II
1. ***Road development:*** The private micro and small contractors as well as large and medium construction companies can engage in rural and urban road construction 2. ***In the railway subsector:*** it was aimed to encourage the private metal industries to produce sleepers, locomotive and rail spare parts and inputs for railway network infrastructure construction. 3. ***In the Energy sector:*** local contractors and manufacturers has been given the opportunity to participate in universal access program that comprises provision of electricity for rural towns and villages, commercial agricultural production and irrigation pumping. Moreover, private investors could involve in bio-fuel development during GTP I. 4. ***Telecommunication***: micro and small enterprises has been involved in the construction of telecom infrastructure like construction of network towers and related facilities. 5. ***Transport service***: there was a plan to increase the capacity and role of private sector in transport service provision. For instance, the private sector can provide air transport service using aircraft with a seat capacity up to 50 passengers.	• All the opportunities given to the private sector during GTP I will continue in GTP II implementation period as well. However, the government will make some capacity building activities throughout the plan period. For instance, it will strengthen the capacity of contract administration, design management and construction administration. • It is also planned to increase the quality and quantity of local construction management companies. • Unlike in GTP I, during GTP II the government aimed to encourage the private sector to produce materials that can be used for water supply, sanitation and irrigation. • The government will also provide financial and technical support to establish professional oriented water drilling enterprises/share companies in the country. • It is also aimed to encourage the participation of the private sector in the development of medium and large scale irrigation systems. • In the transport subsector, one of the major strategic directions is to build the

	capacity of the private sector so as to play its role in provision of transport and logistics services.

Source: (MoFED 2010; National Planning Commission 2016)

In addition to these, according to the country's investment regulation no. 270/2012 grade 1 construction contracting including water well and mineral exploration drilling activities are fully open to private investment (both domestic and foreign). The investment regulation has also exclusively reserved construction contracting below grade 1 for domestic investors. Both foreign and domestic private investors can also involve in real estate development. Regarding energy sector, the regulation also stated that both domestic and foreign private investors are allowed to invest in electricity generation, transmission and distribution.

2.4.5. Other opportunities and support to be provided to the private sector in GTP II

The government of Ethiopia is committed to the private sector development and clearly indicates different incentives and support in its second GTP. The plan states that the private sector associations will be further strengthened and strong participatory systems will be established across all stakeholders to enhance the private sector (National Planning Commission 2016).

Recognizing the capacity gap the governments is committed to invest on the technical capacity and the competitiveness of the domestic private organizations particularly those engaged in the construction business.

The government also aim to improve the transparency and accountability through continuous public private dialogue and aim to transform the domestic private sector by supporting the existing small manufacturing enterprises to grow and transition to medium and large-scale manufacturing enterprises (National Planning Commission 2016).

Clearly indicating opportunities for the private sector in key areas and consciously addressing the issues raised by the private sector in shows that the government is committed to and works towards a private sector-led growth.

3. Current issues of the private sector in Ethiopia

The country aimed to achieve sustainable economic growth and transformation through nurturing the industrial sector in general and the manufacturing sector in particular(National Planning Commission 2016) A better investment climate that fosters the growth of existing firms and encouraging the creation of new firms is key to attracting and enhancing private investment. Business environment affects the performance of all firms, irrespective of their size and capacity (World Bank 2015).

According to World Bank (2015) the top five problematic factors for doing business in Ethiopia are: inefficient government bureaucracy, foreign currency regulations, access to finance, corruption, inadequate supply of infrastructure. The subsequent subsections describe the current issues of the private sector and how it addressed in the second growth and transformation plan.

3.1. Access to finance

Access to finance is a top obstacle to small and medium enterprises as firms in Ethiopia are more likely to be credit constrained than global comparators. It is argued that micro-enterprises and large firms in Ethiopia have relatively better access to finance than small and medium enterprises (SMEs). SMEs are considered as a missing middle in the country. In this regard data from the World Bank (2016) shows that while only 16.4% of firms using banks to finance working capital in Ethiopia in 2015, 41.1% and 21.4% of firms relay on banks to finance working capital in Kenya and Uganda respectively in 2013. Moreover, the value of collateral needed for a loan (as percent of loan amount) in Ethiopia is 296.2%, while the sub-Saharan average is 214.2%.

Form the key informant interview conducted with representatives of Ethiopian Economics Association, different divisions of Addis Ababa Chamber of Commerce and Ethiopian Leather Industry Association, we have also learned that access to finance is a major obstacle to do business in Ethiopia. Both prospective and operational investors in the country have limited access to finance their initial investments as well as working capital requirements.

Although access to finance is identified by various stakeholders as a major constraint to private sector development in Ethiopia, private sector investment is considered as one of the strategic direction to achieve sustainable economic growth during GTP II implementation period. During GTP II, private sector investment is expected to be financed largely from domestic source through various saving mechanisms(National Planning Commission 2016). Therefore, to balance the gap between domestic investment and domestic saving, the government has aimed to maintain the increasing trend in domestic saving.

The goal of GTP II is to finance at least two-third of gross domestic investment from domestic saving. To this end, target is set to increase the share of gross domestic saving in GDP from 21.8 percent in 2014/15 to 29.6 percent by 2019/20(National Planning Commission 2016, p. 111). To achieve this target, various policy instruments such as awareness creation and public mobilization; maintaining positive real interest rate; controlling inflation; expanding and improving financial institutions; implementing saving instruments and services such as saving for housing program, saving for investment equipment scheme, social security saving, health insurance saving, etc. will be undertaken. Moreover, accelerated economic growth and transformation, as well as expanding productive job opportunities are part and parcel of the strategy designed to promote domestic savings during the plan period.

However, discussion with key informant reveals that, this government plan related to increasing saving mobilization dimensions and efforts would only solve one side of the problem. Because there are also a serious problem of loan management or there is a chronic rent-seeking problem at financial institution particularly in credit management divisions. Thus, the government effort should also focus on creating a strong regulatory framework for supervision and regulation of financial institutions operating in the country.

To ameliorate the challenges related to the financial sector further, the government aimed to enhance the performance of financial industries by introducing various capacity building measures and improve banking practices to ensure healthy competition. In addition, support will be provided to private banks and financial institutions to improve the coverage and quality of the financial services that they provide and help them to minimize non-performing loans and improve their profitability.

Banks will also be encouraged to modernize their activities through adoption of international best practices. Moreover, during the GTP II period, existing activities in the finance industry related to industrial information system; modern, secure payment and money transfer system, automated IT application as well as other improvements that modernize the sector further will be applied(National Planning Commission 2016, p.110).

3.2. Foreign currency regulations

Major issues for businesses operating internationally are delays in the approval and disbursement of foreign currency, as well as in opening letters of credit (LC). Bank approval of foreign currency requests and opening of LC can take from a minimum of two months to up to two years. Young and/or smaller firms are at a particular disadvantage(EPPCF 2014). In addition, the criteria, procedures and guidelines used by banks in allocating foreign currency are neither clear nor transparent, reducing predictability of bank practices and informed decision making on the part of businesses (EPPCF 2014). Key informants also argued that the foreign currency allocation system to the private sector is not transparent and firms are forced to wait for several months to get response for their application.

Regarding foreign exchange, the government is aimed to exert massive effort to encourage export and promote the establishment of export oriented manufacturing enterprises. Furthermore, a set strategies has been devised to promote healthy macroeconomic conditions with stable foreign exchange that will facilitate an internationally competitive private sector and also support key sectors that can serve as source of foreign exchange(National Planning Commission 2016) .

3.3. Availability of land

Availability of land is also identified as one of the major constraints for development and expansion especially for firms operating and intending to operate in Addis Ababa, where there is huge gap between supply of land and demand. Consequently land acquisition delays are very long, and investors complain of waiting for years and a minimum of six to twelve months(World Bank 2015). To mitigate the access to land constraint highlighted by investors, the Government has rolled out an Industrial Parks (IPs) development program that includes setting up IP sites in and around Addis Ababa, along with multiple regional cities(National Planning Commission 2016).

Developing industrial parks in the country is very essential and it can address the working premise requirement of domestic and foreign large enterprises. However, domestic small and medium enterprises require a plot of land to establish their own manufacturing premises thus, unless the government undertakes rapid reform in land management and administration systems of the regions and city administrations of the country, industrial park development alone cannot enable the nation to achieve the required goals. Moreover, the government should also develop transparent land allocation system for those interested to engage in the manufacturing sector.

3.4. Inadequate supply of infrastructure

Infrastructure is also one of the critical factors affecting firm’s productivity particularly in outlaying expansion areas. Electricity, telecommunication and access to roads are the biggest obstacle among others. For instance, according to the World Bank’s (2015) enterprise survey data, about 33% of firms operating in Ethiopia identified electricity as a major constraint. And the average number of days required to obtain an electrical connection in Ethiopia is 194.3 days which is much higher than the sub-Saharan average (33 days). Among infrastructure related constraints, power shortage and frequent outage is identified by key informants as major obstacle to do business in Ethiopia.

In this regard, the prevailing power supply interruption problem is planned to be addressed fully by upgrading power transmission and distribution lines. In GTP II, the government has also planned to exert massive effort to provide the required energy for the development of industrial, agricultural and service sectors. To achieve this, the strategy will focus on increasing the share of domestic component of constructing energy projects to over 50% and enhancing the research capacity required for development and bringing about technological improvements(National Planning Commission 2016).

In relation to alternative energy development, one of the major strategic directions concerns enabling the public benefits from modern energy by strengthening the capacity of stakeholders. The second strategy focuses on expanding renewable energy sources, which are clean and carbon-free including hydropower, wind energy, geothermal energy and solar energy sources to fulfill the energy demand of the country.

Focus will also be given to generating adequate power to support the rapid economic and social transformation of the country and for export. The generated energy will also be made accessible to rural and urban areas while giving utmost consideration for power saving. The third strategic direction is to expand biomass energy and thereby reduce fuel wood consumption, reduce deforestation and protect desertification. The fourth strategic focus is to use wind energy for electric light services and water pumping for socio-economic development(National Planning Commission 2016).

Generally, the government has set target to increase the power generating capacity of the country from 4,180MW in 2014/15 to 17,208MW by 2019/20; of which, 13,817MW is planned to be generated from hydro-power, 1224MW from wind power, 300MW from solar power, 577MW from geothermal power, 509MW from reserve fuel (gas turbine), 50MW from wastes, 474MW from sugar and 257MW from biomass. The government has also planned to reduce power loss from 23% in 2014/15 to 11% by the end of 2019/20(National Planning Commission 2016, p. 178)

3.5. Inefficient government bureaucracy

Business entry regulations and processes are consistently highlighted by the private sector as burdensome and obstructive of firm entry and dynamism(World Bank 2015). For instance, instance key informants also argued that the Ethiopian investment commission one-stop-shop service is not fully functional and investors are still required to visit various government offices to make their planned business operational. The custom clearance procedure is time consuming and seriously affecting the import and export flow in the country. It is also argued that the coordination between various government institutions is poor and very problematic to do business in the country.

In this regard, the government has planned to strengthen the on-going trading, business licensing and registration reforms comprehensively and more effectively to establish effective and efficient marketing systems, as well as promote the transformation of the domestic private sector. The other strategic direction is to create modern urban land administration system that promotes the utilization of urban land in an economically efficient manner for long-term developmental purposes rather than for short-term rents. Thus the institutional capacity in modern and effective urban administration system will be strengthened during GTP II(National Planning Commission 2016, p. 195).

3.6. Corruption

Corruption is also identified as one of the major challenges to private sector to do business in Ethiopia. For instance, the World Bank's (2015) enterprise survey indicates that about 27.9% of firms operating in Ethiopia identified corruption as a major constraint, while the Sub-Saharan average is 37.9%. On the other hand percent of firms expected to give gifts to get construction permit in Ethiopia is 51.2 %, which is much higher than the sub-Saharan average (29.5%).

Similarly, the Ethiopian government also identified corruption and rent seeking as the main impediments to overall socio-economic development. Hence, strengthening implementation capacity at all levels of government structure through effective implementation of existing policies and strategies to eliminate these shortcomings will be pursued during the next five years. Similarly, major emphasis will also be given to strengthening the developmental leadership and enhancing capacity of the civil service at all levels aimed at facilitating and strengthening stable democratic and developmental state that enables sustaining shared prosperity and overall development in the country(National Planning Commission 2016, p.89).

The other strategic direction is to strengthen the institutional capacity of the Ethics and Anti-Corruption Commission to intensify its fights against corruption and heighten public mobilization in combatting corruption and nurturing a developmental and ethical mind-set among the society. These efforts will be intensified during GTP II period in combating corruption and malpractices in both the private and public sectors. This will weaken the rent seeking political economy and create a fertile ground for the hegemony of a developmental political economy in the country(National Planning Commission 2016, p. 196).

3.7. Shortage of skilled labor

Skilled labor can be defined as a segment of the work force with a high skill level that creates significant economic value through the work performed (Investopedia, 2016). Skilled labor is generally characterized by high education or expertise levels and high wages.

In Ethiopia tertiary gross enrolment ratio 8% where the world average is 32% in 2012 (World Bank 2016). This shows that the country's education and training system is unable to produce enough qualified labor. This is more visible in the construction sector (Allafrica, 2015). This creates challenges for the private sector, because managers have to spend time finding the right employee. It should be noted that skilled labor is critical to attract more private investment particularly into the manufacturing sub sector.

The government have already noted and tried to address this issue in GTP II. In this regard, the focus will be given to address the shortage of highly skilled labor and infrastructure finance, to promote accelerated transfer of knowledge and technology, etc (National Planning Commission 2016, P.169). The government also aim to ensure the provision of human resource that will satisfy the nation`s demand for skilled human power (National Planning Commission 2016, p. 185).

4. Conclusions and recommendations

The government of Ethiopia long recognized the private sector's contributions to the growth of National economy. The private sector can play irreplaceable role in enhancing industrialization, creating massive job opportunity and transferring technology. As a result, the government introduced a variety of reforms aimed at improving macro-economic stability, accelerating economic growth, and increasing the private sector's share in the overall economic well-being of the country.

The government focus on the expansion of the infrastructure and improvement of institutional, organizational and regulatory frameworks is expected to improve the investment climate in Ethiopia and can be taken as a great opportunity for private sector development.

Unlike in the first GTP, during the second growth and transformation plan the government has aimed to give especial attention for quality investment in all sectors of the economy. As a result, ensuring quality, productivity, competitiveness and efficient utilization of existing capacity is the major strategic direction of the plan. Private sector development will also be given a better emphasis during the second GTP implementation period compared to what has been done during GTP I. The second GTP clearly identifies opportunities for the private sector in agricultural, industrial, mining sector as well as in infrastructure development.

Main issues that may hinder the participation of the participation of the private sector includes lack of access to finance, strict foreign currency regulations, lack of access to land, in adequate supply of basic infrastructures, inefficient government bureaucracy, prevalence of corruption and lack of adequate skilled labor.

As far as possible, the Government recognized these issues and has attempted to take these into account in formulating the second GTP by taking stock of recent performance and achievements as well as challenges encountered. In the second GTP the government aims to continue developing basic investment sectors, focus on expanding the export sector as in previous years, aim to maintain healthy macroeconomic conditions with stable foreign exchange, continue to invest on basic infrastructure including air, rail and maritime transport.

The financial sector is given due attention in the second GTP II and expected to play a key role. By promoting import-substitution for example by investing on metal, engineering, sugar, fertilizer and chemical industries, the government aim to save huge foreign exchange which would then be available to the private sector. At the same time, the industry and manufacturing sector is expected to register significant increases and the country's import/export system is expected to be overhauled. All these efforts are crucial to strengthening the private sector.

The key is beyond tax holidays and other exemptions there is a need invest on the enabling environment for this private sector to be able to function in the country. In this regard, it is also important to institutionalize Public-Private forum for continuous consultation between the government and businesses, to solve business obstacles on a continuous basis. This forum is expected to create business friendly environment by aggressively tackling the business obstacles.

In order to improve the investment climate for the private sector further, there is a need to explore new ways of working with the private sector in order to harness its expertise and resources for inclusive and sustainable development.

Serious effort is needed to improve and shorten the bureaucracy for the private sector. In this regard, the merits and qualification of people employed by government need to be assessed very carefully. Furthermore, business entry regulations and processes should be simplified to promote a dynamic and thriving private sector.

From the human resource perspective, higher education institution does not present opportunities for us to be able to produce the necessary skills that the industry wants in our country in sufficient number. Thus addressing shortage of skilled labor is critical to attract more private sector investment.

To address the financial constraints there is a need to use innovative financial instruments to leverage additional financing for the private sector. In particular, there is a need to improve the private sector's access to capital, long-term financing and financial services, to support particularly the financing of women and young entrepreneurs; to promote financing for enterprises in the social economy, vocational training schemes; and to support business-to business contacts and the take-up of best environmental practices.

Actions to increase small-scale enterprises' access to technology and markets should also be prioritized. Particular attention should be devoted to pro-poor sectors, which have a multiplying effect and create jobs matching the policy agenda of the government such as sustainable agriculture, agribusiness and enterprises, which promote a green low carbon and climate resilient economy.

The government should also explore how to enhance the role of Diasporas in the development of the private sector in countries of origin, in particular to promote investment and knowledge transfer.

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Annex 1: Investment areas fully open to private investors and incentives

Annex 1.1: The agriculture sector and the income tax exemptions

Sector	Income tax exemption in years	
	Addis Ababa & surrounding towns of Oromia	In other parts of the country
1. Annual crop production		
1.1 growing of cereals, leguminous crops and/or oil seeds and rice	Not eligible for income tax exemption	3
1.2 growing of vegetables and/or herbs	3	4
1.3 growing of fiber crops	Not eligible for income tax exemption	5
1.4 growing of annual crops (animal feed, medicinal crops, aromatic spices and similar crops)	2	3
1.5 production of certified seed	3	4
2. Growing of medium term crops		
2.1 growing flowers	3	4
2.2 growing medium-term fruits (strawberry, blueberry and similar crops	3	4
2.3 growing of medium-term spices, aromatic and/or medicinal crops (hulu, curmuma, black pepper and similar crops)	Not eligible for income tax exemption	4
3. Perennial crops production		
3.1 growing of perennial fruits (mango, avocado, banana, orange, papaya, grapes, passion fruits and similar crops)	Not eligible for income tax exemption	5

3.2 growing of beverage crops (coffee, tea and similar crops)	Not eligible for income tax exemption	6
4. Animal production		
4.1 farming of domestic animals and production of milk, eggs, raw wool and similar products	3	4
4.2 farming of wild animals and production of milk, eggs, and similar products	Not eligible for income tax exemption	3
4.3 farming of bees or honey production	2	4
4.4 production of silk	3	4
4.5 fish farming in artificial ponds (aquaculture)	3	4
5. Mixed (crop and animal) farming	3	4
6. Forestry	8	9

Source: Investment regulation No. 270/2012

Annex 1.2: The manufacturing sector and the income tax exemptions

Sector	**Income tax exemption in years**	
	Addis Ababa & surrounding towns of Oromia	**In other parts of the country**
1. Food Industry		
1.1 All forms of food industries other than manufacture of sugar, chocolate, candy and biscuits, macaroni & pasta, and baby foods	3	5
1.2 Manufacture of sugar	5	6
1.3 Manufacture of chocolate, candy, biscuits	1	2
1.4 Manufacture of macaroni & pasta	3	5
1.5 Manufacture of baby foods	2	4
2. Beverage Industry		

<table>
<tr><td>2.1 Manufacture of alcoholic beverages</td><td>1</td><td>2</td></tr>
<tr><td>2.2 Manufacture of wine</td><td>3</td><td>4</td></tr>
<tr><td>2.3 Manufacture of beer and beer malts</td><td>2</td><td>3</td></tr>
<tr><td>2.4 Manufacture of soft drink, mineral water, or other bottled water</td><td>1</td><td>2</td></tr>
<tr><td>3. Textile and textile products industry</td><td></td><td></td></tr>
<tr><td>3.1 Preparation and spinning of cotton, wool, silk and similar textile fibers.</td><td>4</td><td>5</td></tr>
<tr><td>3.2 Weaving, finishing and printing of textiles.</td><td>5</td><td>6</td></tr>
<tr><td>3.3 Other textile finishing activities</td><td>2</td><td>3</td></tr>
<tr><td>3.4 Manufacture of knitted and crocheted fabrics.</td><td rowspan="3">4</td><td rowspan="3">5</td></tr>
<tr><td>3.5 Manufacture of made-up textile articles, except apparel.</td></tr>
<tr><td>3.6 Manufacture of carpets</td></tr>
<tr><td>3.7 Manufacture of wearing appeal</td><td rowspan="2">5</td><td rowspan="2">6</td></tr>
<tr><td>3.8 Manufacture of accessories for textile products</td></tr>
<tr><td>4. Leather and leather products industry</td><td></td><td></td></tr>
<tr><td>4.1 Tanning of hides and skins up to finished level</td><td>5</td><td>6</td></tr>
<tr><td>4.2 Manufacture of all forms of leather products</td><td rowspan="2">5</td><td rowspan="2">6</td></tr>
<tr><td>4.3 Manufacture of accessories for leather products</td></tr>
<tr><td>5. Wood Product Industry</td><td></td><td></td></tr>
<tr><td>5.1 Manufacture of pulp and paper</td><td>5</td><td>6</td></tr>
<tr><td>5.2 Manufacture of paper packages</td><td>3</td><td>4</td></tr>
<tr><td>5.3 Manufacture of other paper products</td><td>1</td><td>2</td></tr>
<tr><td>6. Chemical and chemical products industry</td><td></td><td></td></tr>
<tr><td>6.1 Manufacture of basic chemicals (including ethanol)</td><td rowspan="2">5</td><td rowspan="2">6</td></tr>
<tr><td>6.2 Manufacture of fertilizers &/or nitrogen compounds</td></tr>
<tr><td>6.3 Manufacture of plastics &/or synthetic rubber</td><td rowspan="2">3</td><td rowspan="2">5</td></tr>
<tr><td>6.4 Manufacture of pesticides, herbicides or fungicides</td></tr>
<tr><td>6.5 Manufacture of paints, varnishes or similar coatings</td><td></td><td></td></tr>
</table>

6.6 Manufacture of soap, detergent and other similar products	2	4
6.7 Manufacture of man-made fibers	5	6
6.8 Manufacture of other chemical products	2	3
7. Basic pharmaceutical products and pharmaceutical preparation industries		
7.1 Manufacture of inputs for basic pharmaceutical products and pharmaceutical preparations	5	6
7.2 Manufacture or formulation of pharmaceuticals	4	5
8. Rubber and Plastic Products Industry		
8.1 Manufacture of rubber products	3	5
8.2 Manufacture of plastic products used as an inputs for construction of buildings, vehicles or other industrial products; plastic pipes or tubes and fittings used for irrigation and drinking water supply as well as for sewerage system	4	5
8.3 Manufacture of other plastic products excluding plastic shopping bags	1	2
9. Other Non-metallic Mineral Products Industry		
9.1 Manufacture of glass and/or glass products	4	5
9.2 Manufacture of ceramic products		
9.3 Cutting, shaping and finishing of marble and limestone (excluding quarrying)	1	2
9.4 Manufacture of lime, gypsum and/or similar coating	Not legible for exemption	2
9.5 Manufacture of millstone, glass paper or sound-absorbing or heat-insulating materials.	1	2
10. Basic Metal Industry (excluding mining of the mineral)		
10.1 Manufacture of basic iron and steel	5	6
10.2 Manufacture of basic previous and non-ferrous metals	3	4
10.3 Casing of iron and steel	4	5

11. Fabricated metal products industry (excluding machinery and equipment)		
11.1 Manufacture of structural metal products, tanks, reservoirs and containers or steam generators.	3	4
11.2 Except corrugated metal sheets for roofing and nails, manufacture of other fabricated metal products (hand tools, articles and similar products)	1	2
12. Computer, Electronic and Optical Products Industry.		
12.1 Manufacture of electronic components and boards	4	5
12.2 Manufacture of computers and peripheral equipment	3	4
12.3 Manufacture of communication equipment		
12.4 Manufacture of consumer electronic (television, DVD, radio and similar equipment)		
12.5 Manufacture of measuring, testing, navigating, control equipment or watches and clocks	3	4
12.6 Manufacture of medical equipment		
12.7 Manufacture of optical equipment & photographic equipment and other similar products	2	3
13. Electrical Products Industry		
13.1 Manufacturing of electric motors, generators, transformers or electricity distribution or control apparatus	4	5
13.2 Manufacture of accumulators or batteries	2	4
13.3 Manufacture of electrical wires or cables (including fiber optics) and related products		
13.4 Manufacture of electric lighting equipment		
13.5 Manufacture of domestic electrical appliances		
13.6 Manufacturer of other electrical equipment		
14 Machinery and equipment industry		
14.1 Manufacture of general purpose machinery (motor, lifting and handling equipment, pumps and similar)		

14.2 Manufacture of special purpose machinery (e.g. machinery used for agriculture, food processing, beverage, textile, mining production and similar activities)	5	6
15 Vehicles, Trailers and Semi-trailers industry		
15.1 Manufacture of motor vehicles	2	3
15.2 Manufacture of bodies/components for motor vehicles, trailers and/or semi-trailers	3	4
15.3 Manufacture of parts and accessories for motor vehicles	3	4
15.4 Manufacture of railway locomotives and rolling stock	5	6
15.5 Manufacture of other transport equipment (boats, bicycles, motor bicycles and similar equipment)	2	3
16 Manufacture of office and household furniture (excluding those made of ceramics)	1	2
17 Manufacture of other equipment (jewelry and related articles, musical instruments, sports equipment, games and toys and similar products).	1	2
18 Integrated manufacture with agriculture	4	5

Source: Investment regulation No. 270/2012

Annex 2: investment areas exclusively reserved for domestic investors in the manufacturing sector with the respective income tax exemption.

Sector	Income tax exemption in years	
	Addis Ababa & surrounding towns of Oromia	In other parts of the country
1. Finishing of fabrics, yarn, warp and weft, apparel and other textile products by bleaching, dying, shrinking, sanforizing, mercerizing or dressing	3	4
2. Tanning of hides and skins below finished level	Not legible for exemption	Not legible for exemption
3. Printing industry	Not legible for exemption	Not legible for exemption
4. Manufacture of cement	Not legible for exemption	Not legible for exemption
5. Manufacture of clay and cement products		

Source: Investment regulation No. 270/2012