TOWARDS THE CREATION OF A ROBUST PRIVATE SECTOR

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ADDIS CHAMBER

VOLUME I:

AACCSA POLICY PLAN 2025

HAND BOOK

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ACRONYMS & ABBREVIATIONS

AAAA	Addis Ababa Action Agenda
AACCSA	Addis Ababa Chamber of Commerce and Sectoral Associations
ABE	Alternative Basic Education
ADI	Africa Development Indicators
ADLI	Agricultural Development Led Industrialization
AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
AI	Artificial Intelligence
AIC	Akaike Information Criteria
ATM	Automated Teller Machine
AU	African Union
AUC	African Union Commission
BDS	Business Development Services
BI	Business Intelligence
BIC	Bayesian Information Criteria
BMO	Business Membership Organization
BPO	Business Process Outsourcing
CAD	Cash Against Document
CBE	Commercial Bank of Ethiopia
CBRLDP	Community Based Rural Land Development Program
CCI	Competitiveness Composite Index
CLRM	Classical Linear Regression Model
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment- Africa Region
CSA	Central Statistical Agency
DB	Doing Business
DB	Development Bank of Ethiopia
DBR	Doing Business Report
DFID	Department for International Development
DSA	Debt Sustainability Analysis
ECA	Economic Commission for Africa
ECDI	Early Childhood Development Indicator
ECM	Error Correction Model
EDRI	Ethiopian Development Research Institute
EA	Entrepreneurial Activity
EEDR	Ethiopian Education Development Roadmap
EIC	Ethiopian Investment Commission
EMIS	Educational Management Information System
EPRDF	Ethiopian People's Revolutionary Democratic Front
ERCA	Ethiopian Revenue and Customs Authority
ES	Enterprise Survey
ESDP	Education Sector Development Plan
ETB	Ethiopian Birr
ETH	Ethiopia
ETP	Education and Training Policy
EU	European Union
EVC	Expropriation, Valuation and Compensation
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
FESMMIDA	Federal Small and Medium manufacturing Industry Development Agency
FFP	Fit For Purpose
FJCFSA	Federal Job Creation and Food Security Agency
FSS	Forum for Social Studies
FTA	Free Trade Area
FX	Foreign Currency
GCI	Global Competitiveness Index
GDP	Growth Domestic Product
GDP	Gross Domestic Product
GEMM	Grounding Enterprise-Market Model

GEM	Global Entrepreneurship Monitor
GEQUIP	General Education Quality Improvement Program
GFI'S	Global Finance Institute
GLS	Generalized Least Square
GLTN	Global Land Tool Network
GNP	Gross National Product
GO	Governmental Organization
GOE	Government of Ethiopia
GTP	Growth and Transformation Plan
HA	Hectare
HE	Higher Education
HIPC	Heavily Indebted Poor Country
HIV/AIDS	Human Immune Virus/Acquired Immune Deficiency Syndrome
HR	Human Resources
ICT	Information and Communication Technology
IDS	Intrusion Detection System
IFC	International Finance Corporation
IMF	International Monetary Fund
IOT	Internet of Things
IPDC	Industrial Parks Development Corporation
ITU	International Telecommunication Union
KII	Key Informants Interview
KM	Kilometer
KPI	Key Performance Indicator
KWD	Kuwaiti Dinar
LC	Letter of Credit
LDCs	Least Developed Counties
LIFT	Land Investment for Transformation
LL	Lower Limit
LN	Natural Logarithm
LPI	Logistic Performance Index
LR	Likelihood Ratio
LTV	Loan to Value Ratio
MFIs	Micro Finance Institutions
MINT	Ministry of Innovation and Technology
MOA	Ministry of Agriculture
MOE	Ministry of Education
MOFEC	Ministry of Finance and Economic Cooperation
MOFED	Ministry of Finance and Development
MOI	Ministry of Industry
MOLSA	Ministry of Labor and Social Affairs
MOSHE	Ministry of Science and Higher Education
MOUDC	Ministry of Urban Development and Construction
MOWUD	Ministry of Works and Urban Development
MPL	Micro Professional Level
MSE	Micro and Small Enterprises
MSMEs	Medium Small and Micro Enterprises
NBE	National Bank of Ethiopia
NCA	Normative Continuous Assessment
NETA	National Education and Training Policy
NGO	Non-Governmental Organization
NPC	National Plan Commission
ODI	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OFAG	Office of the Federal Auditor General
OLS	Ordinary Least Square
PLC	Private Limited Company
POS	Point of Sale
PPP	Public-Private-Partnership
R&D	Research and Development
RBV	Resource Based Approach
RE	Random Effect

REER	Real Effective Exchange Rate
SDPRP	Sustainable Development for Poverty Reduction Program
SME	Small and Medium Enterprises
SOEs	State Owned Enterprises
SSA	Sub Saharan Africa
STATA	Statistical Software Package
STEM	Science, Technology, Engineering and Mathematics
TOR	Terms of Reference
TOT	Turn Over Tax
TPLF	Tigray Peoples' Liberation Front
TT	Telegraphic Transfer
TTC	Teachers' Training College
TTLM	Teaching, Training Materials and Media
TVET	Technical and Vocational Education and Training
UBE	Universal Basic Education
UFA	Universal Financial Access
UL	Upper Limit
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCO	United Nations Education, Science and Culture Organization
UNIDO	United Nations Industrial Development Organization
UPE	Universal Free Primary Education
USAID	United States Agency for International Development
USD	United States Dollar
VECM	Vector Error Correction Model
WB	World Bank
WBGDB	World Bank Group Doing Business
WBGES	World Bank Group Enterprise Survey
WDI	World Development Indicator
WEDP	Women Entrepreneurs Development Program
WEF	World Economic Forum
WGI	World Governance Indicator
WTO	World Trade Organization
3D	Three Dimensional

FOREWORD

Since its establishment some 72 years ago, AACCSA has been at the fore front in advocating for the evolution of improved doing business environment and private sector development. It has been undertaking evidence-based researches, the outcomes and findings of which have served as inputs in policy advocacy initiatives. It has been promoting synergetic relationship with various stakeholders with the prime objective of enhancing private sector development. The chamber produced various research outputs, policy briefs, surveys and position papers, undertook impact assessment of specific government policies, etc. Cases in point include researches on important industrial issues, on trade, taxation, on SMEs, industry park development, on various Value Chains, women entrepreneurs, land lease rights, private sector development, access to finance, etc. The chamber has been presenting the results of its research works in various forums, seminars, and symposia, and distributing its research findings to various stakeholders. It has actively played its role in sponsoring, organizing and facilitating public-private consultation/ dialogue forums and in conducting numerous awareness campaigns through its media outlets.

The need for alternative, independent and professional policy initiatives concerning the Ethiopian economy and the private sector is more evident today than ever. In the absence of local capacities to formulate own policy, the vacuum so created will lure other foreign groups to fill the gap by injecting their interests. This is on top of huge opportunities the country lost from lack of transparent policy dialogue that could otherwise be mutually beneficial to both the public and private sectors. Operating in such a challenging environment makes it all the more urgent that private citizens, associations, chambers of commerce, academia, political parties, and all with various stakes and interests are engaged in the latest policy debates, not only at the national, but also at the regional and international levels. It is this kind of engagement that can test and ensure the feasibility of policy recommendations. The policy plan here in this document, therefore, aims to contribute its share in the national endeavor to strengthen the quality and impact of the policy outputs in a more planned and proactive manner than otherwise have been in the past.

Taking into account its incremental calling to play even higher roles at the national level in the future, AACCSA aspires to be a *unifying force for businesses to making Ethiopia the chosen destination by working together with all relevant actors towards the creation, sustenance, and nurturing of a pro-business environment that is conducive and competitive enough to sustain growth and development*!

AACCSA recognizes the impacts of the sweeping reforms that the new Government under Prime Minister Abiy Ahmed has been taking on all aspects of life in the country, including the private sector and businesses. Notable among them are:

- Reducing the budget deficit from 3.6% GDP (2018) to 3.4% of GDP in 2018-19
- Adopting a zero growth on government expenditure in real terms and no public sector wage increase for the fiscal year FY 2018-19
- Freezing of capital expenditure allocations for new public sector projects
- Reducing money supply growth with targets of 22% for broad money and 13% for reserve money

With a view to enhance private sector participation in the national economy, the new administration has also promised to introduce a set of liberal reforms, including:

- Part privatization of four big state enterprises – mainly the Ethiopian Airlines, telecom, electric power, logistics
- Full privatization of other state enterprises - focusing on sugar plants, railways, industrial parks, others
- Continued smaller privatizations per regular norms
- New Public Private Partnerships (PPPs) – with a focus on 17 infrastructure projects worth $7bn
- Planned opening of telecom sector - with target to attract two additional licensees/operators
- Opening of logistics sector to (minority) foreign ownership and ensuring FDI into logistics sector;
- Improving the doing business environment and establishing various working councils for the smooth implementation of the aforementioned reforms.

By late August 2019, as a clear sign of its monopoly over policy making and its commitment to sustain economic growth, the government further introduced policy pronouncements dubbed as ***"Home Grown Economic Reform"***. The reforms openly recognize the huge and critical macro-economic imbalances that continue to threaten the economy through record *high debt burden, critical shortage of foreign currency* and *rising inflation. S*uch an official recognition of the problem itself is a huge step forward and in fact it is a landmark deviation from previous governments' reports that capitalized in sending rosy pictures about the performance of the state-led economy which for long is said to be growing by double digits annually.

The Home Grown Reform package rests mainly on three pillars, namely macroeconomic, structural and sectoral reforms of the economy. The reforms further emphasize the importance of stabilizing the financial system, strengthening public financial sectors, and focusing on key and potential sectors such as agriculture, manufacturing, and mining as viable means to sustain economic growth, with a focus on tourism and SMEs.

The need to triple per capita income with the promise to reach low-middle income level, reducing poverty level by half, curbing the rapidly increasing external debt, the undesirable effects of the expansionary fiscal policy that has been crowding out the private sector, and galloping inflation rate *(that now stands at 19 percent)* are some of the most important additional challenges behind the design of the *Home Grown Economic Reform* package. In fact, one can surmise that the huge debt burden obliges the new administration to reduce much of its capital/infrastructure investment and eventually embark upon incremental privatization initiatives by transferring ownership of a few mega enterprises to the private sector. As many experiences elsewhere in the globe proved, when the government pulls out of these sectors, a huge gap is being created – a gap that the private sector should fill in[1].

We are also aware that parallel developments meant to impact mid-to-long-term outcomes of the country are under preparation. Mention should be made on the following:

- the Ten Year Rod perspective plan which, among other things, is expected to be based upon considerations of private sector development and Sustainable Development Goals (SDG),
- the Education Sector Road Map,

1 Lessons learnt from past privatization, clear cut processes employing standard valuation techniques, with balance and check and segregation of duties; corporate governance and transparency; putting in place a dedicated, autonomous, and accountable institutional arrangement for the entire process; third party stakeholders' involvement and parliament oversight are amongst the most serious considerations in this regard..

- the Public Private Partnership (PPP) Modality and guideline that has been enriched by inputs from relevant stakeholders,
- the road map that aspires to radically alter the country's financial architecture including the establishment of a stock exchange;
- the ICT road map that sets out with the ambition to create a digital economy, and other sector-specific measures such as
  - export diversification strategy by the MOTI
  - the road map to modernize the post harvest management practices of the agricultural sector has been laid out, etc
- A bill has also been submitted to parliament that aims at substantially diversifying and broadening the tax base thereby increasing the ratio of tax revenue as a percentage of GDP,
- Positive moves towards embracing the Africa Continental Free Trade Area (ACFTA) – which has been approved and ratified by Parliament and preparations are underway to fully join the ACFTA (including the establishment of all a national focal unit),
- Although Ethiopia has been complying with the WTO since 2008, full accession has remained elusive until now where an agreement is reached to make it happen (for goods and partial services) by both parties by late 2021.
- A new Investment Regulation (No. 270/2012) has been put in effect.
- Recent announcements in terms of securing the huge sources of foreign exchange to financing the various aspects of the reform.

All of these measures will help address productivity, efficiency, and competitiveness of the national economy and thereby boost growth. They are believed to open up and integrate the Ethiopian economy more with the globalized economy and maximize the benefits from increased access to international markets, including from ACFTA and WTO. In the eyes of AACCSA and the private sector, the reform initiatives are clear signs of a radical shift from the developmental state paradigm that has been in place for the past 27 years. But, will they be harbingers of hope and prosperity? For that, all stakeholders including the private sector should articulate their views in a more open, candid and organized manner and that is what this policy plan is all about.

While acknowledging the huge effort by the new government to undo our past shortcomings, the period under review, however, also witnessed the coming into shape of a host of "*new and emerging challenges"* that, for long, have been in the making. Some of these include the following:

- Disruptions of peace and displacement of poor communities has posed serious challenges to cope with demand – it created a situation of uncertainty on the movement of capital, persons and data and disrupted production;
- Macroeconomic instability characterized by rising inflation, cost of living, and instability of the local currency, the Ethiopian Birr;
- Inefficient and weak logistics system compounded by the land locked status of the country and inadequate physical infrastructure and cumbersome business regulations and processes;
- The educator-employer disconnect and the huge mismatch of skills being churned out of education sector as against those demanded by the private sector coupled with the rising unemployment of the youth; ;
- Weak and inefficient bureaucracy that might not have the requisite skills set and experience to lead and manage the new reforms, bringing to forth the need for the creation of *meritocratic bureaucracy*;
- The burden of inefficiencies within the tax system, which makes it difficult to anchor development on internally generated revenue sources;

- A culture of nepotism and strong perception of corruption, political interference and patronage in the delivery of public utilities, resulting into anticompetitive business practices that is eating into the country's scarce resources;
- Weak and poorly performing external trade, absence of established institutions, and lack of exposure and unpreparedness (as a nation) to cope up with the *(emerging and future)* challenges of joining multilateral and regional trade arrangements and managing a more open and liberalized economy;

These are formidable challenges that influence the country's responses in the short-to-mid-term. It is, thus, recommended that the government takes this as a unique window of opportunity to leverage and lay the foundation for the ***creation of a robust private sector*** that shoulders the responsibility of transitioning the economy to a viable, sustainable and private-sector-led economy.

We do recognize that in as much as the making of the above took decades, their undoing will equally be daunting and time taking. The task ahead is huge in terms of the huge resources they require to unmake them. Policy making should, thus, be one of cautious and phase-by-phase approach as the pace, timing, sequencing, and ensuring the feasibility of policy measures are equally important. It is a multi-stakeholder engagement where the private sector has a clear and positive role to play.

Economic development and transformation are formidable tasks that no single actor can shoulder on its own. As the huge and successful experiences of East Asian countries show, while the Government has a pivotal role to play in creating the initial basis for economic development and kicking off the transformation process, it must then quickly nudge and nurture the private sector to continue the process of economic development and transformation. AACCSA believes that Ethiopia has *reached that point in time* of unleashing the private sector's potential to *bringing development by anchoring it on sustainable foundations*.

Two mutually reinforcing objectives lie behind the preparation of this policy plan. On the one hand, AACCSA recognizes the fact that our country is in a state of sustained and far reaching changes in all walks of life and these changes need professional support. On the other, this policy plan underpins the chamber's desire to guide its policy advocacy work in delivering answers to the pressing and burning issues of businesses all over the country.

The overarching goal of AACCSA's Policy Plan -2025: ***to provide the chamber*** *(and through it, the Ethiopian private sector)* ***with an instrument that will help it articulate its views and forward its positions and contributions regarding the improvement of the Ethiopian business environment in a much coherent and proactive manner,*** with the deliberate intention to enhance the chamber's overall credibility.

In this light, the Policy Plan aims at identifying policy, legal and administrative hurdles faced by businesses with a view to *developing concrete policy proposals and recommendations as potential inputs to be incorporated into the Home Grown Reforms package* and *help guide the policy dialogue between the Government and the private sector, with a clear intent to making Ethiopia's business operating environment more business-friendly, thereby enhancing competitiveness and sustaining economic growth*.

It is also worth mentioning that a combination of different approaches have been pursued in the design and development of this policy plan.

- A group of prominent consultants were hired (to work with in-house professionals) with the purpose to build the rationale for the development of sound and logical policy proposals on pre-identified strategic areas for action.
- The reform initiatives of the new administration are thoroughly assessed, with a focus on the legal, regulatory and administrative barriers to doing businesses in Ethiopia
- In depth brain storming workshops were organized to gather inputs and reflections from pertinent stakeholders, including from prominent business leaders and sectoral associations representatives;

A total of eight independent research studies were thus conducted, enriched by stakeholders validations and inputs, and they are blended together to form one coherent volume, the summaries of which are presented in this *summarized policy handbook version of the policy plan*.

Finally, this document is an expression of AACCSA's unflinching commitment in support of the economic policy reforms under way in the country by continuing to work as part of the solution[2]. By so doing, AACCSA wishes to convey a clear message that it cannot stand as a casual and indifferent bystander pretending as if nothing has changed and nothing has improved. It is an expression of the chamber's and its more than 17,000 business members that the Ethiopia we want can-and-shall only be a reality by our collective efforts - private and public alike.

Let's work together
and win as one Ethiopia!

Addis Ababa Chamber of Commerce & Sectoral Associations
February 2020
Addis Ababa, Ethiopia

2 It should be underlined that all of this is against a back drop of wide spread political activism that has chocked the breathing space for decent thoughts and stifled civilized debate on the fate of the nation's economy.

CONTENTS

1

REDUCED BUDGET DEFICIT & DEBT BURDEN

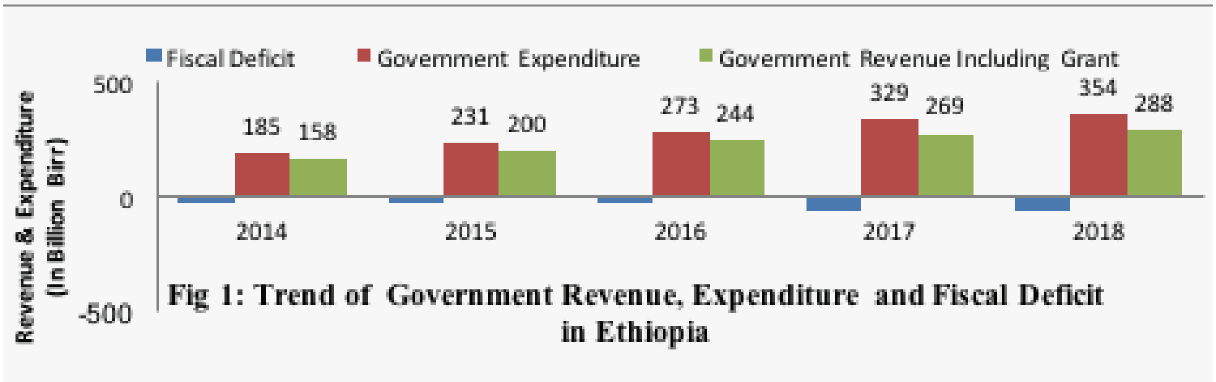
Ethiopia is at a crossroads as it faces a daunting challenge of debt accumulation, which adversely affects overall economic development. Government Debt to GDP in Ethiopia averaged 34.57 percent during 1991-2018, reaching its apex of 60% in 2018 from a record low 24.70% in 1997 (World Bank Report). In 2016, Ethiopia ranked 109th out of 186 countries, in terms of its share of debt to GDP, and the country claimed the 29th position in terms of debt per capita. The increase in debt is mainly attributed to increase in public deficit. The government capped the overall budget deficit at 3% of GDP through a general fiscal rule over the past years. However, the overall budget deficit (in 2016/17) including grant turned out to be 3.4 percent of GDP. The gap was financed from both external (48.1 percent) and domestic (51.9 percent) sources through borrowing instruments.

If not abated soon, an econometric projection made also shows that *the ratio will be reaching as high as 75.5% in 2025*. If the debt trend is not managed with in short period of time, the extent of the problem could be worse. The government has been struggling with debt burdens that outweigh its export earnings, the growth rate and even the level of its gross national products. The external indebtedness acts as an obstacle to the restoration of the conditions needed for sustaining growth, and it is a real threat given the wide spread poverty and structural rigidities.

1.1. Trend Analyses

The Ethiopian government revenue and expenditure shows an increasing trend but the increase in expenditure by far exceeds the increase in revenue.

Fig 1: Trend of Government Revenue Expenditure and Fiscal Deficit In Ethiopia

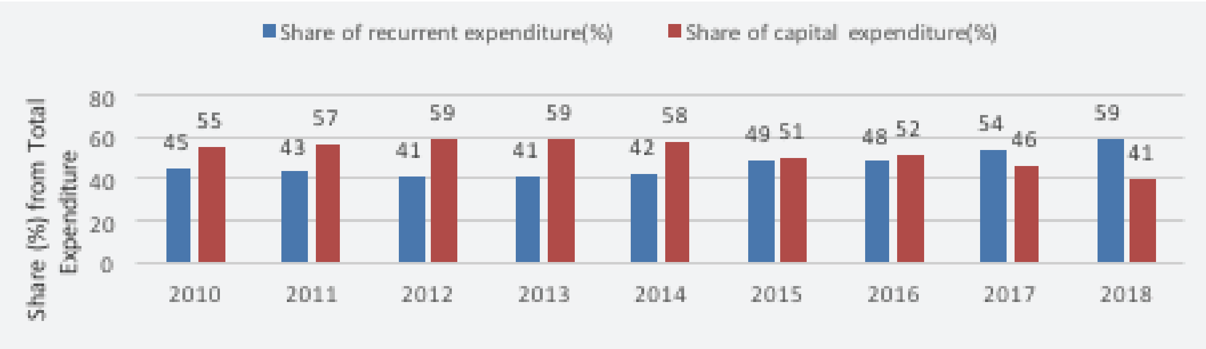


Source: NBE (2018)

For example, the government expenditure increased from ETB 185 billion in 2014 to 354 billion in 2018. Besides government revenue showed an increase of 85 percent from ETB 158 billion in 2014 to ETB 288 billion in 2018. As a result, fiscal deficit increased by more than 140% (from ETB 27 billion to ETB 67 billion in the same period. This has resulted in increasing dependence on domestic and foreign sources such as FDI, remittances, official development assistance, and external debt for financing the budget deficit.

As shown in fig. 2 below, from 2010-2018 the average share of capital and recurrent expenditure from the total public expenditure reaches at 53% and 475 respectively. From 2017 onwards, total general government expenditure shows an incensement arising mainly from the increase in recurrent expenditure which stood at Birr 210.5 billion in 2018 and its share in total expenditure became 59.4%.

Fig 2: Trend of Expenditure Composition



Source:

Both external and domestic debts have been increasing over the period 2013/14-2017/18, showing an average increase by 87.3% (IMF, 2018).

As shown in figure 3 below, external debt stock shows a continuous increment since 2010 and reached USD 26.6 billion in 2017. According to UNDP (2018), the increase in external debt stock in 2017 is partly attributable to larger than planned net resource flows resulting from new external project loans disbursements from IDA, EXIM-Bank of China , as well as borrowings by SOE's from commercial and suppliers' creditors during the year indicated. Ethiopia's exorbitantly high dependence on China requires particular attention. Ethiopia has taken at least USD 12.1 billion from Chinese creditors since 2000. Overall, the country owes USD 29 billion collectively to the Middle East, the World Bank and others than China. This implies that around 17% of the debt portfolio is concentrated on loan from China.

Fig 3: Trend of Total External Debt Stocks in Ethiopia

Source: WDI and IMF Database (2019)

The country's external debt stock to GNI ratio stood at 33.2 percent in the year 2017. In this connection, the external debt burden as measured by debt services to export of goods and non-factor services increased to 20.8 percent in 2017, from 17.2 percent in the year 2015. During the year 2017, principal payment was 72% while the payment for interest and commission was about 28 percent. As a result of the ETB devaluation in October 2017, the external debt in terms of ETB has risen significantly and expected to increase further since grace periods on non-concessional debt acquired so far will expire.

Total merchandise export earnings reached USD 2.8 billion, while imports in value terms were above 15 billion (2017/18). As a result, trade balance showed a deficit of 12.4 billion. On the other hand, the current account deficit (including official transfers) amounted to USD 5.5 billion, lower than USD 6.5 billion same period of previous year mainly due to increase in net private transfers, improvement in deficit of net services and merchandise trade deficits despite decline in net official transfers. The overall balance of payments deficit stood at USD 201.6 million compared to USD 658.6 million surpluses a year before.

According to Global Financing Integrity (GFI) estimations, between 2005 and 2014, an estimated average of USD 1, 259 million to USD 3,153 million left Ethiopia every year. This is equivalent to average GDP growth loss of 2.2% per year. Data from the same source shows that between 55% and 80% of the illicit financial outflows leaving Ethiopia originate through trade mis-invoicing. This figure accounts for up to 29% of Ethiopia's total international trade or 97% of the total aid inflows.

1.2. Major Issues and Areas for Improvement

The major factors for the worsened deficit and debt situation include the following:

1.2.1. Financing Gaps between Revenue and Expenditure

- The Ethiopian government revenue and expenditure indicates an increasing trend but the increase in expenditure by far exceeds the increase in revenue which results in growing budget deficit. The relative increase in government expenditure that has been observed in recent years is attributed to rising spending on pro-poor and growth enhancing sectors. On top of this, regional governments are primarily undertaking recurrent expenditures, which further put additional strain on the federal government to finance large scale national capital projects. The result reveals that Ethiopia's external debt stock; debt to GDP ratio; total debt service shows a continuous increment.

- Inadequate tax-to-GDP ratios which are still below the GTP target and Sub-Saharan average despite substantial improvement in domestic revenue in recent decades.

1.2.2. Recent difficulties in sustaining economic growth, bringing structural transformation, and accelerating poverty reduction due to macroeconomic imbalances, political instability, growing corruption and growing age dependency ratio.

1.2.3. Current account deficit mainly due to trade imbalances and weak export performance

1.2.4. Illicit financial outflows, slow structural transformation in the economy, substantial tax incentives like tax holidays and other exemptions.

1.2.5. Extensive and inefficient government expenditures, problems with prioritization and weak project management.

1.2.6. Lack of domestic institutional capacity to mobilize resources

1.2.7. Government over involvement in the economy

1.2.8. Absence of regulation in state borrowings, enhancing the productivity of foreign loans and reducing corruption associated with foreign loans

1.2.9. Low yielding efficiency of the debt

1.2.10. Reliance on external borrowing which is not sustainable given Ethiopia's high risk of external debt distress

1.3. Implications and consequences of indebtedness on private sector performance

No.	Driving Forces	Implication to the Private sector Development
1	Limited productive use of resources in particular low level of productivity in agricultural sector, leads to fail loan repayment.	Earning capacity of private sector is limited and poor transformation.
2	Systematic and bureaucratic corruptions done by public government officials elected and trusted by the people making their government default on their existing foreign loans.	Creating systemic risk over the private sector and discourage them not move fast in the investment. Example, 84% of firms who got license in last 25 years are not able to start investment activities.
3	Persistent inflationary pressures following the dwindling level of foreign currency reserve, leads to Aggravation of BOP deficit.	Stuck private investors not even to access foreign currency to run their business.
4	Low export earnings which limited the paying capacity of the government.	Shortage of foreign currency, discouraging private sector.
5	Decline in the flow of concessional assistance and consequent greater reliance on costly commercial borrowing.	Private investors developed dependency syndrome and being crowded out.

No.	Driving Forces	Implication to the Private sector Development
6	Deterioration in the terms of trade for primary producing countries.	Private firms would not be able to be competent in the international market.
7	Moral Hazard. If debt always gets written off, it may encourage some firms to take on more debts with the hope that they would be written off. If debt write off is too generous, banks may be unwilling to lend to firms in the future leaving them short of finance.	Private investors live with moral hazard and become opportunists, rather than being entrepreneurs.

1.4. Major Policy Recommendations

A total of 32 alternative proposals are tabulated here under as recommendations to deal with identified issues and challenges facing the debt burden and budget deficit.

Box-1.1: Major Policy Recommendations

No.	Major Issues & Areas for Improvement	Specific Policy Recommendations
1.	Governance and Regulatory Framework	**1.** Re-establishing an independent National Bank of Ethiopia and limiting Public Sector Borrowing Rate (PSBR) and payment obligation **2.** Creating a more conducive Policy Framework for Remittances **3.** Enacting policy to control illicit financing, **4.** Improving tax administration and revision of presumptive tax schemes to broaden the tax base. **5.** Instituting a National Code of Conduct for Corporate Governance to address issues of corruption, loan and economic mismanagement and to illicit corporate responsibility within business corporations **6.** Establishing legal and institutional framework for regional fiscal discipline and debt management **7.** Strengthening debt management essentials such as Debt Management Facility (DMF) **8.** Mandatory regulation & Debt Management Facility (DMF) encompassing the following elements: (i) develop a toolkit that help to formulate an effective Debt Management Strategy (ii) undertake debt management performance assessments; and (iii) provision of debt management and domestic market development technical assistance and advisory services **9.** Revisiting the investment proclamation along pro-business/private lines **10.** Reintroducing and institutionalizing Public Investment Framework (PIF) that was in operation in the country before 1992
2.	Alternative Financial Sources	**1.** Employing innovative solutions - Public–Private Partnerships (PPPs), securitize infrastructure assets by implementing cost reflective tariffs. **2.** Public resource allocation from unproductive sector to productive & scale up capacity **3.** Diversifying sources of foreign loan (bi-lateral, multilateral, etc.) rather than reliance on single source/country

No.	Major Issues & Areas for Improvement	Specific Policy Recommendations
3.	Domestic Resource Mobilization	**1.** Fostering tax payer education and sensitization, encouraging voluntary tax compliance and strengthening enforcement **2.** Setting an optimal tax rate of direct and indirect that do not discourage private sector **3.** Promote domestic savings to enhance the financial capacity of the country and withstand shortfalls in external financing
4.	Institutional Devel-opment, Monitoring and Evaluation	**1.** Establish a special project management office/body to provide professional support to projects, thereby improving the quality of public spending and resources allocation **2.** Mainstreaming professional M&E of huge infrastructural investment to ensure that revenue streams generated in local currencies are strong to meet the debt obligations
5.	Capacity Building	**1.** Augmenting capacity to take advantage of debt relief facility **2.** Capacity building on fiscal control mechanism for regional governments **3.** Increasing spending on infrastructure and agriculture to foster economic growth and improving household welfare respectively.
6.	Enhance the Bal-ance of Payments situation of the Country	**1.** Increasing export growth and diversification, including quality and destination of exports **2.** Nurturing massive foreign earning in sectors like services, mining and tourism **3.** Securing hard currency injections from international players **4.** Sustaining aid and foreign investment inflows into Ethiopia
7.	Development of the Private Sector via relocating public spending	**1.** Allocation of significant credit from the public to the productive private sector **2.** Shifting public resources from administration to manufacturing industry that generate a positive impact on structural change process in Ethiopia **3.** Enhancing/encourage investment of the private sector (domestic and foreign via FDI) via incentive and credit policy
8.	Financial Sector Development	**1.** Expanding outreaching capacity of banking industry to all corners of the country **2.** Enhancing the efficiency of financial institutions
9.	Improving the macroeconomic situation and debt management	**1.** Securing a sustainable increase in real GDP growth, openness of the economy to the rest of the world and infrastructural development **2.** Restoring public confidence by regaining economic and political stability

Developing a system of transparency on loan amount, approval and disbursement by engaging relevant stakeholders and working in earnest on the development of appropriate modality for repaying loan by negotiating creditors is a matter of urgency.

1.5. Major Goals, KPI and Targets

The following six KPIs are forged to monitor progress in the implementation of the recommended policy options for action by government.

Box-1.2: Major Goals, KPIs & Targets

Strategic Action	KPI	Unit of Measure	Baseline	2025	Target	Remarks
Lowering Public Deficit and Debt	**1.** Number of regulatory frameworks issued to ensure proper Public Debt Management practices	Number	2	6	10	Including public sector external borrowing policy , regulations, Public Debt Management facility
	2. The %age contribution of Private sector to GDP	%age of GDP	26.8%	35%	40%	Growing attention to Privatization, PPP, conducive policy environment , etc.
	3. Amount of fund budgeted for Public Private Partnership Programs	Amount set aside in USD	7 Billion USD	14 Billion USD	14 Billion USD	There is huge room to expand this, if the gov't involves the private sector.
	4. PPP Project agreements consistent with PPP framework signed	Number	17	30	30	In 2017/18, the government has announced 3 road and 14 power supply projects.
	5. Government Fiscal Deficit as % of the GDP	% of GDP	3.4	3.8	3	Accepted standard
	6. Total Government Debt as % Gross Domestic Product	% of Gross Domestic Product	60	75.5	40	As per the IMF recommendations, the ratios of public debt to GDP should not be higher than 40% for developing Countries
	7. Share of tax to GDP	%age to GDP	11	18	16	SSA average = 18% Gov't will continue with reforms, broaden tax base, improved oversight on sate enterprises

2

INCREASED TRADE

The Ethiopian economy registered an average growth of 8.6% during the first three years (2015/16 – 2017/18), despite a slowdown to 7.7% in 2017/18. Industry contributed 3.1% points to the growth recorded, while services and agriculture accounted 3.3 and 1.3 percentage points respectively. The five year Growth & Transformation Plans (GTPs I &II) of the country emphasize the need to increasing the export share of merchandize trade and manufacturing industry. Despite this, however, the trade performance of the country has been dismal. The export sector has been suffering from low volume of exports that is concentrated on a few primary agricultural commodities (coffee, vegetables, oil seeds and floriculture).

According to the World Bank Group (3rd Economic Update, June 2014), rising exports have contributed to Ethiopia's remarkable growth performance over the past decade. Buoyed by favorable external conditions, exports also helped create jobs and earn much-needed foreign exchange. The way Ethiopia created and nurtured a high-value horticulture industry and expanded its air services exports was an encouraging example of "self-discovery."

That assessment, however, could not last long due to a combination of factors. A recent drop in export prices has exposed underlying vulnerabilities in export structure and highlighted the importance of strengthening competitiveness. Ethiopia is vulnerable to such price swings because unprocessed and undifferentiated agricultural products dominate its exports. While benefitting from upward price trends since 2003, the sustained drop in prices, starting end of 2014, of key commodities led to the worst export performance in a decade. To overcome this challenge, renewed efforts must aim to improve competitiveness, including through value addition and export diversification.

Ethiopia's export earning as a percentage of GDP have dwindled over the past 7 years, from 12.48 % (in 2013) to a mere 7.74 % (in 2017). Even this best case performance of the economy in 2013 is far below the average for the four comparator countries (in the Eastern Africa sub-region, namely: Kenya, Tanzania, Uganda and Rwanda), which stands at 16.2% (in 2017). This has caused severe shortage in the availability of foreign exchange within the national economy to the detriment of businesses and stifled overall national economic growth the country has enjoyed during the past ten or more years.

Total merchandise export and import stood at USD 2.8 billion and USD 15.2 billion respectively in 2017/18, yielding a staggering trade deficit of USD 12.4 billion. Of this, the share of agriculture industry and mining amounted to 74.5%, 18.9% and 4.3% respectively. Major export destinations for Ethiopian goods were Asia (39.8%), Europe (28.7%), Africa (20.0%), and USA (9.9%). In recent years, this has shown a shift towards developing countries particularly Africa, where just the two neighboring countries, Somali and Djibouti, account for 15.45% of Ethiopian total exports. Export of goods and non-factor services, as a ratio of GDP, stood at 9.4% in 2014/15, which then fell to 7.8% in 2015/16, and again fell to 7.6% in 2016/17 and rose again to 8.4 percentage points in 2017/18. The ratio is among the lowest in the world and it is even lower than the average for Sub Saharan African economies, where the figure stands around 12% of GDP. [3]

It has also been stressed that more than "what" is being exported it is the "how" that is hindering potential. There is scope for improving the quality of existing commodity exports, through basic value addition, such as coffee wet processing or machine flaying of animal skins.

Ethiopia's export sector is currently too small to contribute to structural transformation. In East Asia, booming exports helped shift economic activity and workers away from low-productivity agriculture into higher productivity manufacturing and sustain high rates of economic growth for decades. Ethiopia has the lowest ratio of merchandise exports to GDP among populous countries in the world; it has half as many of exporting firms as Kenya (which has half the population of Ethiopia), and average exporter size is small.

2.1. Major Issues & Areas for Improvement

Ethiopia's export trade faces a number of challenges' including the lack of a comprehensive trade policy to lead and guide both domestic and international trade, low production, low productivity and low value addition, poor quality and limited standards of export goods, lack of export diversification, inefficient trade logistics, uncompetitive transport cost and customs procedures, inconvenient business environment and underdeveloped private sector, supply side constraints, inadequate access to foreign currency, stringent international market requirements and Non Tariff Measures (NTMs), and lack of research and development, issues of quality infrastructure, etc.

The business environment itself favors incumbent firms and deters new entrants into export businesses, and even so, no "export superstars" are emerging. The export sector lacks dynamism in terms of firm entry and exit. Rather than, increasing in scale, new entrants to the export market are already often relatively well established in other businesses such as trading. This may be due to the fact that smaller firms have limited access to credit, which would have allowed them to increase the scale and scope of their activities. On the other hand, despite a favorable environment for incumbents, they are yet to emerge as multi-product and multi-destination export superstars.

Ethiopia lags behind most of its peer countries in the Sub-Saharan Africa and elsewhere mainly because trade and commerce has so far been regarded as a "non-productive" sector, without having a clear policy direction for its development during the past 3 or more decades. The country is even reluctant from joining available regional economic cooperation (RECs) and trading blocks, such as the Eastern Africa Community; and it is not even a full-fledged member of the COMESA. It is only in March of this year that parliament has ratified the country's signatory to the Africa Continental Free Trade agreement. Despite its strategic positioning and central roles in the economic and diplomatic life of the continent, and despite its celebrated air line industry which has been playing a unifying role in Africa, the country could not benefit from the inter-Africa trade opportunities.

The domestic trade which encompasses both formal as well as informal trade also has many challenges, including policies that marginalize the private sector, absence of free and competi-

3 On the other hand, import of goods and non factor services as a ratio of GDP, stood at 30.3% in 2014/15, fell to 27.1% in 2015/16, further fell to 23.5% in 2016/17, and to 22.8% in 2017/18. In other words, the comparison of the two ratios as defined by the resource gap in subsequent years was -20.9% in 2014/15, -19.3% in 2015/16, -15.9% in 2016/17, and -14.4% in 2017/18, indicating the huge imbalances and deficit associated with the performance of the economy in international trade.

tive markets, state dominance and anticompetitive practices.

On the other hand, the impact of illicit trade (both imports and exports) has been the cause for significant resource loss. According to the Federal Customs Authority's report (2010 E.C), Ethiopia lost around 16.2% of its taxable revenue due to illicit trade transactions in the country - the most contraband items being imported to the country include electronics, garments of various kinds, perfumes, cosmetics, drugs and armaments, out of which cloths, electronics and tobacco accounted for 54%, 165 and 8% (2012-2014) respectively of the total value of contraband imports.

2.2. Major Policy Recommendations

Box-2.1: Major Policy Recommendations

No.	Specific Policy Recommendations
1	*Comprehensive Trade Policy* - A comprehensive policy to improve the international trade is should be produced by involving all concerned actors, notably the private sector.
2	*Export Diversification* – although this is implied and can be dealt with in the process of crafting a comprehensive trade policy, special attention should be placed to shift the export profile of the country away from primary agricultural products to manufactured and value added ones including the export of services and tourism, including diversifying geographic destinations.
3	*Trade Logistics* - There is a critical need to fix the huge logistics infrastructure gap in Ethiopia and making it competitive and efficient. Enacting a law that enhances the public –private investments in logistics infrastructure is an important first step to improve the inbound and outbound logistics, which at present is contributing to rising costs for both import & export costs, in addition to its role in facilitating/expediting the country's integration into Global and Regional VCs.
4	*National Trade Facilitation Agency* - *enacting a r*egulation to establishing a dedicated institution that deals with the coordination and capacity development of all actors involved in trade facilitation, private and public alike with the purpose to smoothen and expedite the flow of capital, persons and data and minimize non-tariff barriers (in the local markets as well). Such an institution can base itself on the lessons learnt from previous export promotion agency experiences in the country and it should also look into means and ways of enhancing the international trade flows of the country. It will also create a full-fledged data center of its own for evaluating and monitoring purposes of the trade performance for domestic and international market, including market information data base that can be accessed at the national level and at all districts in the country.
5	*Incremental investment in Standard and Quality Infrastructure and decentralizing the services* of the conformity assessment infrastructures and the laboratories to the points of need with the intent to increase their accessibility to economic agents engaged in the production and export of products, through the active involvement of the private sector in a PPP modality. Important steps in this regard could encompass revisiting the investment proclamation and make it attractive for private investment in NQI as well and e*nsuring* that goods and services in the domestic market meet the required standards and SPS requirements;
6	*Revisiting the existing one and developing a standard and modern pro-business competition policy* and law to eliminate unfair trade practices, bolstering the capacity of inspection and other law enforcement agencies.
7	*Promoting import substitution* and provide the necessary support to local investors and importers to engage in substituting foreign products and services by local production; by coordinating with relevant ministries and agencies, including the private sector on the adoption of a national targeted import substitution of 35% of the total goods that are being imported into the country are made by local industry.

8	*Ensuring that all national policies and practices* on taxation and licensing are supportive of competitiveness of Ethiopian products. Enacting a comprehensive regulation to manage the operation of informal trade by, inter alia, developing standards, opening appropriate marketing corridors and centers, efficient border trade systems, together with the necessary incentives;
9	*Establishing a Court of Commerce* that can flexibly facilitate and deal with trade- and commerce-related issues in the domestic and international market thereby reduce the normal and lengthy time it takes in the court of litigation.
10	*Pursuing macroeconomic policies* and practices that are consistent with the country's objective of increasing exports and enhancing competitiveness;
11	*Establishing a top notch trade negotiating team* (inclusive of chambers of commerce, relevant government agencies and academia) to lead negotiations in the ACFTA and WTO and other regional and global trade agreements and RECs to set a legally binding strategic framework in the benefit of the country;
12	Expanding local market facilities and linkages through improved infrastructure and payment systems along PPP modality
13	Improve networks of markets in rural areas and ensure rural access with better roads.
14	Fostering local market expansion in local public procurements by instituting affirmative action in public procurement for local industrial products by government agencies
15	Protecting the trade sector from counterfeits, unsafe goods and illicit goods in the local market. Improve the capacity of customs and immigration, expand their reach, and reduce fraud.

2.3. Goals, KPIs & Targets

Box-2.2: Goals, KPIs & Targets

No	KPI	Unit of Measure	Baseline	2025	Target	Remark
1	Trade policy	Regulation	There is no comprehensive and consolidated trade policy	Issue and effectively implement trade policy document	A dynamic and effective trade policy document	
2	Trade Facilitation and Promotion Agency		There is no a dedicated institution for trade facilitation and export promotion	Establish a functional institution for trade facilitation and export promotion	Efficient institution for trade facilitation and export promotion	
3	Measures to exploit opportunities in bilateral, regional and multilateral trade	Number of engagements	Work on progress in accession to WTO and AfCFTA	Increased trade by fivefold as a result of accession to WTO and AfCFTA	Increased trade by six fold as a result of accession to WTO and AfCFTA	Rules , negotiations, facilitations
4	Export in goods revenue as percentage of GDP	% of GDP	3.2	16	21	
5	Logistics Performance Index (LPI) rank	Rank	126	62	40	

6	A credible and effective trade competitive and consumer protection authority	Effective Institution	Ineffective and less trustworthy authority	A credible and effective trade competition and consumer protection authority	A credible and effective trade competition and consumer protection authority	
7	Efficient modern domestic marketing corridors	Number of corridors	Inefficient domestic marketing system	Four Modern Domestic Corridors	Six modern domestic corridor	
8	Establish a National Trade Data center	Number	0	3	4	
9	Establish accredited certification and Testing Centers	Number	2	8	10	Privately owned Testing Centers
10	Promote import substitution	%age	NA	35% of the total goods that are being imported into the country are made by local industry	30% of the total goods that are being imported into the country are made by local industry	Kenyan Experience

3

EASIER DOING BUSINESS ENVIRONMENT

Private sector contributes to economic growth through job creation, innovation activities and tax revenues. In Ethiopia the share of private sector to GDP stands at about 85% in 2008/09, where the informal sector takes the lion's share. This is an indication that Ethiopia needs to frame its socio-economic development policies and strategies towards private sector and entrepreneurship.

Businesses in Ethiopia are confronted with a multitude of challenges emanating from unfavorable policy and inefficient legal framework on the one hand and implementation of policies and laws on the other, which resulted in doing business difficult in Ethiopia. There are ample evidences showing that doing business in Ethiopia is not such an easy venture relative to comparator countries. The country's doing business rank has deteriorated over time, it declined from 116th in DB2009 to 159th according to DB2020 though the country reformed some indicators. Other counties like Kenya, Rwanda and Tanzania have shown significant improvement in doing business.

3.1. Major Issues & Areas for Improvement

3.1.1. Starting a Business - Starting a business has been harder in Ethiopia than in comparator countries, except Uganda. High cost and bureaucratic procedures put Ethiopia at the bottom of starting a business rank relative to the comparator economies. The country's rank in starting a business has declined though four reforms have been made since DB2010. As per DB2010 Ethiopia was the second-best country (rank: 93rd) next to Rwanda (rank: 11th) where starting a business was easier, compared to the three comparator countries. However, this is reversed according to DB2020, where Ethiopia second to last with a rank of 168th, while Rwanda became the top performer.

Inefficient and excessively burdensome business regulations have created stringent red tapes that hinder doing business in Ethiopia. Business environments are not attractive enough for business community to start business easily. Obtaining business registration certificate and licensing of new business and renewal of incumbent business is time taking due to the inefficient business regulations.

3.1.2. Registering Property - It requires 15 procedures (DB2005) which reduced to 7 in DB2020. As per DB2020, it takes 52 days to register property in Ethiopia while the best performer, Rwanda, can do it within 7 days. Quality of land administration of Ethiopia is the lowest relative to the four comparator economies. These situations put Ethiopia the bottom and deteriorating rank in registering property. Out of the four economies, Ethiopia is second country (142nd) where registering property is difficult next to Tanzania (146th) while Rwanda is the top performer (3rd) as per the DB2020.

In Ethiopia property rights are weak and inefficient due to regulations and directives as well as pertinent administrative structures that change frequently. It degrades their confidence to reinvest due to the unpredictability and long processing delays. Weak property rights indicate weak enforcement of contracts and registering property. This is implied in costly and time consuming for firms for resolving commercial disputes which creates delays and exposes firms for high transaction costs.

Weak property registering in Ethiopia is reflected in long procedures, high cost, long time and low quality of land administration. This reduces the likelihood of firms to use asset/land as collateral in order to access finance. Moreover, weak contract enforcement and registering property degrades firm's value which exacerbates firm's finance constraint. Enforcing contracts in Ethiopia takes 530 days, trial and judgment 290 days and enforcement of judgments takes 210 days.

3.1.3. Getting Credit - Access to credit is not easy in Ethiopia. Compared to Kenya, Rwanda, Tanzania and Uganda, Ethiopia has the lowest credit bureau coverage, credit registry coverage, and the weakest legal rights. Depth of credit information index is 0 in DB2020. The country's getting credit rank declined from 123rd in DB2009 to 176th in DB2020 while all the four comparator countries significantly improved it (Rwanda from 145th to 4th, Tanzania from 84th 67th, Uganda from 109th to 80th while Kenya improved from 5th to 4th during the time under consideration). Due to shortage of finance, business enterprises are unable to run their business enterprises at full scale, to develop new services and products, and boost their competitiveness. Insufficient loan size, very short period of loan repayment, huge collateral requirements, lack of transparency on loan conditions, increasing loan interest rate, extended time and duration of loan approval, lack of diversified sources of finance, and absence of joint liability group are the bottlenecks of the borrowers.

3.1.4. Paying Taxes -Paying taxes is the most difficult thing to do in Ethiopia relative to the four comparator economies. Number of payments per year in Ethiopia increased from 19 in DB2009 to 29 in DB2020. It is too bureaucratic which leads to high cost of tax compliance. Business firms also perceive that tax rates are high and tax administration is inefficient.

3.1.5. Enforcing Contracts - Contract enforcement is relatively better in Ethiopia next to Rwanda when compared to its comparator economies though the rank of Ethiopia is deteriorating globally. It deteriorated from 57th in DB2010 to 67th as per DB2020. Even though cost of enforcing contract is the lowest and fewer procures are required to do the same in Ethiopia, the longest time (530 days) required to enforce contracts and the lowest quality of judicial procedures affect performance of enforcing contracts.

3.1.6. Resolving Insolvency - This is another area where the country is getting worse over time, relative to comparator economies. More specifically, its rank declined from the rank of 77th in DB2010, of course 2nd best performer next to Uganda (53rd), to 149th in DB2020 compared to the comparator countries. Lowest quality of insolvency framework and long time required to solve insolvency contributes to this lowest performance.

3.1.7. Human Capital and Research - Ethiopia lags behind its comparator economies with respect to human capital and research. The Global Innovation (2019) report ranked Ethiopia 124th in human capital and research. Adults literacy rate in Ethiopia is the lowest, even below the Sub-Saharan average, compared to the comparator economies. This contributes to the low entrepreneurial rate, growth and productivity.

3.1.8. Infrastructure - Availability and quality of infrastructure play a paramount role in helping private sector to flourish. Believing this, the GoE Ethiopia has been investing infrastructure development. Regrettably, the country's rank in infrastructure development remains low. The Global Competitiveness report (2018) ranked Ethiopia 123rd economy of the world in infrastructure availability and quality while the Global Innovation Index (2019) put it at the rank of 99th. Shortage and unreliable electric supply, water, telecommunications and roads are critical challenges to firms. Specially, getting new connection (electricity) takes long time. Moreover, logistic performance of Ethiopia is poor, and it is challenging to trade across borders.

3.1.9. Economic Freedom - This is the crucial element for an economy in general and private sector in particular, to grow and prosper. However, economic freedom in developing countries like Ethiopia is the one hindering entrepreneurs from starting-up new businesses easily or operating their businesses efficiently. Business freedom, financial freedom, and investment freedom are the most important forms in Ethiopia which impede doing business.

3.1.10. Entrepreneurship Policies and Institutional Framework - The policies and institutions to develop entrepreneurship in the country are either not efficient or not conducive to encourage entrepreneurial activities. Specifically, regulatory efficiency (as expressed by oppressed business freedom) and rule of law (involving property rights, judicial procedures and government integrity) indicate that there are lacking policies and institutional frameworks in Ethiopia. Ethiopia has one of the lowest entrepreneurial activity rates in Sub-Saharan African countries.

3.2. Major Policy Recommendations

As a conclusion, Ethiopia needs to undertake critical and substantial reforms on its economy to create an environment conducive enough for businesses. Economic freedom of agents in the country needs to be improved. More specifically, reform is required to improve rule of law (property rights, judicial effectiveness and government integrity), regulatory efficiency (business freedom, labor freedom and monetary freedom), and market openness (trade freedom, investment freedom and financial freedom). A set of detailed and specific recommendations that are tabulated hereunder are prepared for action by government. Upgrading and revising approaches and interventions on property rights, ethics and corruption, protection of investors and minority shareholders' interests, efficacy of corporate boards, reporting standards

Box-3.1: Major Policy Recommendations

Major Issues & Areas for Improvement	Policy Recommendations
1. Starting a Business	1. Reducing bureaucratic procedures through digitization of registration and licensing processes 2. Improving bureaucratic efficiency and streamlining process procedures through one-stop-shopping 3. Reducing costs related to get business registration and licensing
2. Registering Property	4. Improving quality of land administration system and digitizing registration procedures
3. Getting Credit	5. Reducing interest rate 6. Increasing loan size 7. Extending loan repayment period 8. Improved credit information
4. Enforcing Contracts	9. Strengthening judicial effectiveness, 10. Improving quality of judicial process, 11. Digitizing filing system and case management system
5. Paying Taxes	12. Digitizing filing and paying taxes 13. Reducing the tax compliance burden on smaller businesses 14. Reducing the frequency of value added tax filings by companies.
6. Resolving Insolvency	15. Digitizing resolving insolvency procedures 16. Making insolvency proceedings more accessible 17. Strengthening insolvency framework
7. Getting Electricity	18. Reducing bureaucratic inefficiencies by digitizing processes 19. Improving reliability of supply and transparency of tariffs
8. Trading Across Borders	20. Reducing time required to check export documentary compliance and border compliance by digitizing the procedures 21. Reducing cost of export compliance bureaucracy 22. Making import compliance procedures and bureaucracy simple 23. Reducing cost of import compliance
9. Dealing with construction permits	24. Removing bureaucratic obstacles 25. Digitizing the procedures 26. Streamlining project clearances
10. Protecting minority investors	27. Making easier to sue directors 28. Improving corporate transparency 29. Improving shareholder rights 30. Improving shareholders' access to information
11. Logistic Performance	31. Integration of customs, product standards, tax, rules of origin 32. Improving the quality of private logistics services
12. Global Innovation	33. Enhancing innovation input (institutions, human capital and research, infrastructure, marketing sophistication and business sophistication) 34. Improving innovation output (knowledge and technology output, and creative output) 35. Strengthening university-industry research collaboration and linkages 36. Improving state of cluster development

3.3. Goals, KPIs and Targets

Most of the KPIs employed are internationally recognized and applied, and to a large extent, they are disaggregated by sub-indicators, and are shown together with appropriate targets that are developed to monitor progress and improvements in the Doing Business Environment. Most of these are in tandem with the WBDB Report and also with the ones that are being applied by the government. As such, the differences are in the level of ambitions and targets. Yet, for ease of presentation in this summarized version of the policy plan handbook, the following summarized version is prepared to highlight the chosen KPIs.

Box-3.2.: Major Goals, KPIs & Targets

Indicators	2020	2025	Benchmark Country
1. Starting a Business			
Procedures (Number)	11	5	Rwanda
Time (Days)	32	4	Rwanda
Cost (% of min. capital)	45.4	0	Rwanda
2. Registering Property			
Procedures (Number)	7	3	Rwanda
Time (Days)	52	7	Rwanda
Cost (% of property value)	6	0.1	Rwanda
Quality of land admin index (0 – 30)	5.5	28.5	Rwanda
3. Getting Credit			
Strength of legal rights index (0–12)	3	11	Rwanda and Kenya
Depth of credit information index (0–8)	0	8	Kenya, Rwanda and Tanzania
Credit bureau coverage (% of adults)	0	36.4	Kenya
Credit registry coverage (% of adults)	0.4	10.4	Rwanda
4. Enforcing Contracts			
Time (days)	530	230	Rwanda
Cost (% of claim)	15.2	64.5	Rwanda

Indicators	2020	2025	Benchmark Country
Quality of judicial processes index (1-18)	7	16	Rwanda
5. Paying Taxes			
Payments (number per year)	29	9	Rwanda
Time (hours per days)	300	90.5	Rwanda
Total tax and contribution rate (% of profit)	37.7	33.2	Rwanda
6. Resolving Insolvency			
Time (years)	3	1.5	Kenya
Cost (% of estate)	14.5	10	
Recovery rate (cents on the dollar)	27.3	40.3	Uganda
Strength of insolvency framework index (0-16)	5	15	Rwanda
7. Getting Electricity			
Procedures (number)	4	3	Kenya
Time (days)	95	30	Rwanda
Cost (% of income per capita)	768.5	615	Kenya
Reliability of supply and transparency of tariffs index	0	6	Rwanda
8. Trading Across Borders			
Time to Export			
Documentary compliance (hours)	76	19	Kenya
Border compliance (hours)	51	16	Kenya
Cost to exporting a product	NA	NA	-
Documentary compliance (US$)	175	102	Uganda
Border compliance (US$)	172	143	Uganda
Time to import			
Documentary compliance (hours)	194	48	Rwanda

Indicators	2020	2025	Benchmark Country
Border compliance (hours)	72	45	Kenya
Cost to import			
Documentary compliance (US$)	750	115	Kenya
9. Dealing with construction permits			
Time (days)	136	97	Rwanda
Cost (% of warehouse value)	12.6	3	Kenya
Building quality control index (0–15)	11	15	Rwanda
10. Protecting minority investors			
Extent of disclosure index (0–10)	3	8	Rwanda
Extent of director liability index (0–10)	0	9	Rwanda
Ease of shareholder suits index (0–10)	2	9	Kenya
Extent of shareholder rights index (0–10)	0	6	Kenya
Extent of ownership and control index (0–10)	0	6	Kenya
Extent of corporate transparency index (0–10)	0	5	Kenya
11. Logistic Performance Index			
Customs	2.6	2.65	Kenya
Infrastructure	2.13	2.55	Kenya
International shipments	2.54	2.62	Kenya
Logistics quality and competence	2.39	2.81	Kenya
Tracking and tracing	2.24	3.07	Kenya
Timeliness	2.49	3.18	Kenya
12. Global Innovation			
Global Innovation score	24.16	31.13	Kenya
Innovation linkages	17.4	45	Kenya

4

IMPROVED COMPETITIVENSS

Competitiveness is often used to describe economic strength of an entity against its competitors in global market economy in which goods, services, people, skills, and ideas move freely across geographical borders (Ambastha and Momaya, 2005). The macro dimension of competitiveness more or less dwells on institutions, policies, and factors that determine the level of productivity and long-term prosperity of a nation (WEF, 2017). On the other hand, the micro perspective lodges from the firm perspective. Competitiveness is the ability of firms to produce and sell goods and services of the right quality at the right price and time which is dictated not only by productive efficiency but also performance in terms of quality,innovation, marketing and cost (Balkyte and Tvaronaviciene, 2010).

The Ethiopian government has been designing development programs and policies that could foster the country's competitiveness through productivity improvement. Albeit all those efforts, however, the country's global competitiveness did not exhibit significant improvement in the last ten years. For instance, for the year 2015/16 alone, it ranked 109th out of 144 countries and its scores were below the African average on export diversification, productivity and technological upgrading (WEF, 2016).

4.1. Major Issues & Areas for Improvement

4.1.1. Policies and Strategies that Support Competitiveness

i. *Consumer Protection & Trade Practice Proclamation(s)* - The major objective of trade practices proclamation (No. 329/2003) was to secure a fair competitive process and safeguarding the interests of consumers, impeding anti-competitive practices and stopping market monopoly behavior and/or agreements, and monopolization. It further prescribed infringements of property right of individual firms and of trade policy which implied intellectual property rights (IPRS). The Trade Competition and Consumers Protection Proclamation (No. 813/2013), which is in practice in Ethiopia, came into force on 21 March 2014.

ii. *Industrial Policy* - The industrial policy has two basic dimensions of divergence and convergence in terms of its relation with the competition policy. The convergences aspect of industrial policy is productmarket intervention aimed at promoting competition; while, the divergences are that industrial policy promotes specific industries or sectors, with the creation and promotion of national champions being the key element of that policy. Therefore, exposure of protected firms for both internal and external competition will enable to mitigate the divergence effect on competition of industrial policy. The target industries in this strategy are export oriented and labor-intensive industries (e.g. Textile, leather, agro-processing, cement, etc). The main crafted policy instruments are direct support for selected export sectors through capacity building and other means; provision of economic incentives and preferential credit scheme; and cluster development.

iii. *Competition Policy* - Ethiopia's Industrial Policy and Competition Policy are mutually supportive, and not in conflict with one another. It facilitates the entry of new players in the market, thereby increasing competition, and reducing the levels of market concentration, provision of general economic incentives and capacity building across the prioritized industries and sectors that do not distort the level playing field for competitors in the industries and sectors. The instruments used also do not grant exemptions from the country's competition law, or create regulatory barriers to competition.

iv. *Trade Policy* – One of the main disadvantages of trade policy in the country is the fact that it has been reducing competition, and escalations of trade protectionism leading to lower economic efficiency and competition on a global scale. Ethiopia does not have a comprehensive trade policy which was systematically linked to sectorial policies and strategies. The following summarizes the nature and y effects of current trade policies applied in Ethiopia:

- They applied a 10.3 percent average import tariff rate; grant export incentives through the provision of tax holydays etc.
- They did not bring about the desired export sector competitiveness. For example, in 2015, the share of firms with positive level of export was only 7% (CSA, 2017).
- One of the reasons for poor export participation in Ethiopia is attributed to a rather more lucrative domestic market than exporting due to price incentives created in the domestic market caused by trade and non-trade barriers.

As presented below in Table-1, in Ethiopia simple average duty rate for raw materials is 14.85 %, 23.95% and 17.49% for raw materials, consumer goods and WTO HS industrial goods, respectively, which shows the rate by far exceeds some regional average. Overall trade protection is very large when considering tariff and non-tariff barriers. These factors push the overall anti-export bias to reach about 200% (textile and apparel) and 350% (leather and footwear) (Gebreeyesus and Kebede, (2017). However, the country is currently a member of international and regional trade agreements such as COMESA; African Economic Community (AEC); the African, Caribbean and Pacific (ACP) group of countries; (AGOA). Furthermore, a broad range of manufactured goods from Ethiopia are entitled to preferential access under the Generalized System of Preferences (GSP) in the United States, most countries of the European Union and other developed countries. All of these imply the need to revisit and even reduce the average trade protection and applied tariff rates.

Table I: Comparison of Ethiopian Duty Rate with Other Regions

Particulars	Simple Average Duty rate				Weighted Average duty rate			
	Ethiopia	All	LDCs	SSA	Ethiopia	All	LDCs	SSA
Raw materials	14.85	4.5	10.92	7.76	9.89	1.72	7.87	1.85
Consumer goods	23.95	7.6	16.03	15	15.42	3.9	12.23	10.55
Industrial	17.49	5.3	11.2	9.89	12.88	2.24	10.53	6.71

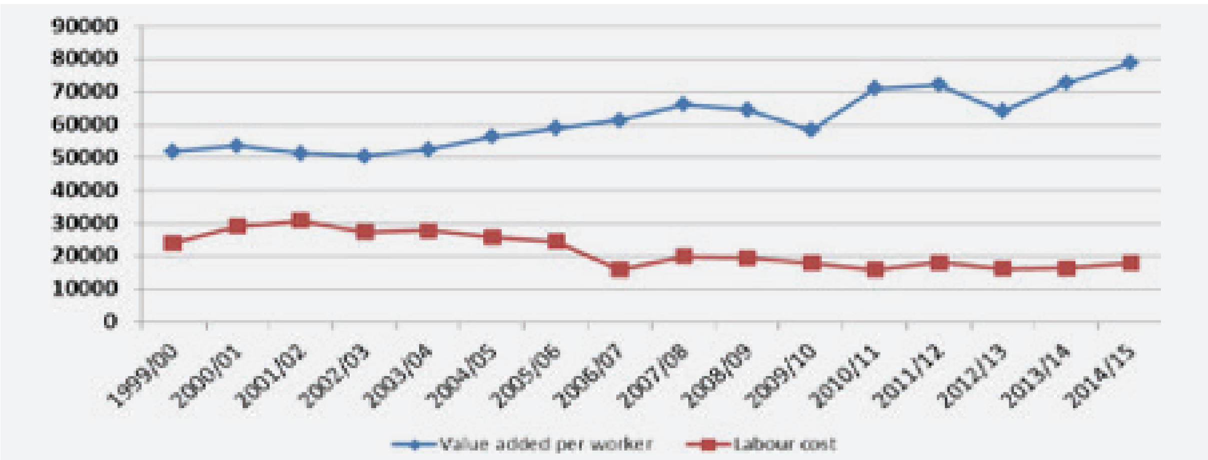
Source: PDC, 2018

i. *Investment Policy* - The investment policy is said to be competition friendly, in that it does not discriminate foreign and domestic investors. The incentive policy does not also discriminate between domestic and foreign investors though there are positive lists for FDI participation.

ii. *Procurement Policy* - Good procurement policy promotes efficiency (Robert D. Anderson, William E. Kovacic, and Anna Caroline Müller). In line with this, transparency, accountability, objectivity, fairness and non-discrimination are basic principles of the procurement policy of Ethiopia which is hoped to encourage competitiveness of the economy both domestically and internationally. The Proclamation No. 649/2009, in its preamble, sets out to ensure greater economy and efficiency; benefit and efficiency from bulk purchase; and utilize public money efficiently to derive maximumprofit.

iii. *Labor Law* - The competitiveness of the private sector depends also on other factors including the availability of skilled manpower. The labor law defines minimum conditions of work that must be observed by parties to an employment contract. The policy aiming at protecting workers from rent extraction of employers such as prohibiting discrimination in the labor market, empowering labor unions. Generally, the cost of labor in Ethiopia is low by African standards. Labor disputes in Ethiopia are resolved through the application of the law, collective agreements, work rules and employment contracts. Studies on the impact of Ethiopian labor laws on business efficiency and competitiveness indicated that Ethiopian workers had been overprotected by strict labor laws. This would mean that industrial growth and employment creation could be impeded by labor legislations as it stipulated minimum benefits that accrued to workers and restricted the rights of hiring and firing, thereby raising labor costs, reducing productivity and competitiveness.

Figure 1: Labor Productivity and Cost Trends in Ethiopia



Source: Kidanemariam, 2017

Looking at the manufacturing sector as a whole,

- Labor Productivity (LP) grew in real terms by 3.3% per annum over the period 2001/02 to 2010/11, while average labor compensation increased at a rate of 15.7% per annum
- Although both average labor compensation and LP have shown increasing trends, the former grew faster than the latter.
- Unit labor cost, an indicator of competitiveness, increased from 0.15 in 2001/02 to 0.22 in 2010/11, at annual average rate of 5.4%.
- This indicates a discouraging performance of the manufacturing sector in terms of labor cost competitiveness.

- Trends in labor productivity and labor cost presented in the above table shows that labor productivity grew up until 2007/08 beyond which there appears to be a fluctuating trend; and labor cost per worker has fallen broadly beyond 2001/02 and then it starts to raise 2013/14

i. *The National Science, Technology and Innovation Policy* stress the need for scaling up endogenous knowledge and linkage between firms in the economy. The policy clearly put the milestones on research expenditure, number of researchers and patents, utility models and technology licenses granted, and number of publications between 2010 and 2025.

ii. *Infrastructure and Logistics Support Policy* - The Ethiopian Infrastructure and logistic policy direction encompass providing supports and services for all sectors in trade facilitation, transportation, storage and logistics information systems; water, energy and telecommunication facilities as well as dedicated and selective infrastructure support given to particular initiatives involving clusters, industrial districts and R&D facilities. Despite the fact that Ethiopia's industrial policy is largely export-oriented, the chosen growth model is being impaired by a highly inefficient logistics system.

iii. The WB and UNCTAD commonly use Transit Time (days), and Transit Cost (USD) as a basic unit to measure trade logistics. [4]Ethiopia's export transit time is about 42 days, which is much higher compared to even to landlocked comparator countries (Rwanda and Uganda). The time it takes to export is about twice as long for Ethiopia as it is for China, Vietnam, and Kenya.

In addition, the cost to export a 20-foot container is 2660 USD; this means that Ethiopia pays an additional cost of 310 USD per 20-foot container compared to Kenya and 2060 USD compared to Vietnam. The high inland transport cost in Ethiopia is explained by variables such as distance to port; inefficiency characterized by lack of capacity & competitive behavior of transporters & operators, and waiting for supporting processes; and scale effect – lack of container freight stations. In Ethiopia, the document processing obliges exporters to process more than 8 documents. In Vietnam, number of documents range from 3 to 5. Lack of risk management inspection and control are mostly done manually, lack of automation/ICT and system is usually unreliable and down; and port fees, such that port costs in Djibouti are high compared to competing export locations in South and East Asia. The overall impact is lower competitiveness for Ethiopia in the global market.

4.1.2. Impact of Domestic Policies and Strategies on Competitiveness

One of the reasons for less competitiveness is associated with high share of imported materials among total raw material costs in all sectors except agro-processing and non-metallic products. Consequently, the ratios of value added to production for manufacturing remain at a low level. Growth Accounting Analysis results have also shown that Tobacco, Apparel, Leather/Footwear and Wood products are TFP - driven growth sectors. But the majority of the priority sectors notably Food/Beverages, Textiles, and Chemicals, are either labor-driven or capital-driven. Furthermore, the TFP contribution in these sectors is quite low relative to other sectors, which definitely hampers expansion of those priority sectors.

4.1.3. Status of the Overall Economy Competitiveness

According to the WEF (2017), Ethiopia is ranked 109 out of 144 countries in 2016 in its overall competitiveness. From 2012 to 2016 the GCI increased slightly from 3.6 to 3.8, showing not this much significant change.

4 Time to export is the time necessary to comply with all procedures required to export goods. Transit Cost (USD) includes all the fees associated with completing the procedures to export the goods. These include costs for documents, administrative fees for customs clearance and technical control; customs broker fees, terminal handling charges and inland transport.

Labor productivity gaps between Ethiopia and selected developing countries shows that taking Kenya, the aggregate productivity index as a base in 2000, it is observed that the aggregate labor productivity differentials between Vietnam and Kenya converged in 2016, and between Kenya and Bangladesh narrowed; whereas that of Ethiopia and SSA low income countries when compared with Kenya remained constant in the last 17 years between 2000 and 2016 (PDC, 2018). This entails that Ethiopia's competitiveness has not been improving across years. Agriculture is a major productivity drag; it will take several years for Ethiopia to reach to the productivity levels of Kenya and other countries. Recently productivity seems to be improving particularly in the industrial sector. On aggregate, productivity grew at 6.5% per year between 2005 and 2017.

Additional challenges include the following:

i. The public and private manufacturing sectors are filled with unskilled labor that does not produce services and goods in the required amount and quality.

ii. The existence of too small and inefficient labor, financial and goods markets create additional cost to private sector.

iii. Uncompetitive behavior of firms via price cutting and under and /or over invoicing affects the government revenue which in turn affects financial capacity of the government.

iv. The non-availability of sufficient foreign currency to the private sector that adversely affects its competitiveness in international trade.

v. Bureaucratic licensing, corrupt auditing system, weak access of infrastructure, unstable political system, political violence and radicalism, macroeconomic instability, high rate of youth and skilled labor unemployment.

vi. Weak Public-Private partnerships, university- industry linkage, and improper government interventions on private sector.

All of these call for the introduction of series of legal and policy changes in order to promote competitiveness among the private sector and the economy at large.

4.2. Major Policy Recommendations

Realizing effective partnership and collaboration between the state and the private sectors is the framework to be adopted if the country has to improve its overall competitiveness. The following specific interventions are forwarded:

Box – 4.1: Policy Recommendations

1. Redesigning the economic policy with the clear intent to deliver inclusive and broad-based economic growth;
2. Revising existing trade incentive schemes and mechanisms to create a vibrant business ecology;
3. Improving the investment climate with the purpose to boosting the capacities and competitiveness of local private investors;
4. Establishing incentives for the promotion quality educations, participation of skilled labor in all sectors of the economy, increasing expenditure on R&D, strong and reliable institutions, infrastructure, that induce and promote competitiveness of the private sector.
5. Integrated sector planning that promotes sectoral linkages which can as well shape and change the nature of the interactions between the private sector and public sector
6. Conducting sectoral competitiveness assessment and identifying specific challenges.
7. Enhancing the energy supply and ensuring adequate provision of electricity to all sectors of the economy,
8. Creating efficient and flexible labor, goods and financial markets by addressing the markets failures and developing stable macroeconomic system.
9. Regulating local competition, ensuring effective implementation and monitoring of the anti-monopoly policy,
10. Reducing trade barriers (such as lowering trade tariffs and simplifying the customs procedures) and working on the National Quality Infrastructure, and allowing more foreign investment and modernizing the policies on FDI.

4.3. Major Goals, KPIs & Targets

Standard goals and 4 KPIs that are being employed by international organizations such as the World Bank for intra country comparisons are employed and they are tabulated for easy reference as follows.

Box-4.2: Goals, KPIs & Targets for Improved Competitiveness

S. No.	Selected KPI	Particulars	UMT	Baseline	2025	Target
1	Global Competitiveness Index		Rank	126th /141	90th	85th
	1. Institution		Rank	126th /141	90th	80th
	2. Innovation Capability		Rank	118th /141	76th	70th
	3. Access to Electricity		%age of total population	45.5 %	68.1 %	75 %
	4. ICT Adoption		Rank	137th /144	95th	85th
2	Export Logistic Cost (Uni-modal)	20'cost	USD	2200	1760	1320
		40' cost	USD	3731	2984.8	2238.6
3	Average Import Logistic Cost	Uni-modal	USD	5265	4212	3159
		Multi- modal	USD	5208	4166.4	3124.8
4	HDI (calculated using indices of life expectancy, education & income)	Country Level	Index	0.4778	0.515	0.55

5

IMPROVED ACCESS TO FINANCE

Finance is unarguably a critical factor for enterprises to succeed in their drive to build productive capacity, compete, create jobs and contribute to growth and poverty alleviation. On the other hand, financial challenges (both domestic and forex) were evidenced to be the most pressing problems constraining the business community. Domestic credit to private sector refers to financial resources provided to the private sector by financial corporations, through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment.

Problems regarding the availability and accessibility of finance constitute another commonly shared and highly emphasized hurdle to doing business in Ethiopia. Many of these problems revolve around the limited availability or size of loans, the restrained accessibility mainly due to stringent conditionality's, and difficulties in accessing foreign currency. Most of these issues are the result of laws or regulations of the National Bank of Ethiopia (NBE).

5.1. Major Issues & Areas for Improvement

The World Bank's report (2015), underlined the fact that *"economic transformation has been lack-luster, as state-owned enterprises (SOEs) continue to play a dominant role in the economy",* where SOEs investment ranged between 3.4 and 10 percent of GDP between 2007/08 and 2013/14. At hind sight, one could argue that the approach taken by Government to rely more on SOE investment *"worked well during the period of growth acceleration as SOEs were used as vehicles for public investment to close the infrastructure gap and to ultimately crowd-in the private sector."* The issue, however, is that continued dominance of SOEs left (and it has continued to leave) little space for the private sector by crowding out credit markets and access to foreign exchange. As evidences show, state-owned banks accounted for about two-thirds of banking system deposits in 2014/15 and the SOEs share of credit from the banking system reached 20% percent of GDP in the same year. Moreover, when one looks at the ratio of private sector's credit to GDP, Ethiopia truly lags behind its peers.

The average figure for the chosen five comparator countries (Kenya, Egypt, Tanzania, Uganda and Rwanda) was 23.6 percent (2016). Since then, private sector credit Ethiopia is only about a mere 9 percent, being the lowest when compared to more than the 20 percent average of the Sub-Saharan Africa.

Ethiopia's rank in getting credit was worsening over the last decade. The best ranking was 123rd in 2009 and the worst 176th in 2020. The rank for Kenya, Rwanda, Tanzania and Uganda in 2020 respectively was 4th, 4th, 60th, and 73rd with scores of getting credit(0-100) in their oder of appearance 95,95,65, and 60. Ethiopia's score was extremely small, which was fifteen. Credit to the private sector as a percent of GDP has shown improvement since the past five years. But it remains below that of the SSA average and comparator countries like Kenya, Tanzania, Rwanda and Uganda. Its share is expected to increase from the current value of 29% to 30.2% in 2025. The share of credit going to the private sector was as high as 36 percent of total credit back in 2011/12 but has fallen even further to 32 percent as of June 2018.

i. Lack of Finance - The effect on the performance of businesses was considerable. Firms with better access to finance registered high employment and sales growth, and those with better access to loan exhibited employment growth of 0.3 percentage points and sales growth of 0.82 percentage points higher than firms with no access to finance. On the other hand, enterprises that faced longer time to get foreign currency scored 0.2 percentage points less sales growth than those who managed to get timely foreign currency.

ii. High Bank Concentration - The concentration with dominance state banks embodies the banking system in Ethiopia. Furthremore, most of them are located in the capital, Addis Ababa with close to 36% of bank branches and 54% of insurance branches were found to operate in Addis Ababa.

iii. Higher Collateral - The average colateral of 296.2% of the value of propery is far higher than the comparator countries of Kenya, Rwanda, Tanzania and Uganda; under valuation of collateral, unclear rules and restricted collatralizable list of items that usually precluded movable items charactrize the loan practice.

iv. Insufficient and Costly Loan Processing - Getting credit takes considerably long time, procedurally complicated, small in size and more biased to foreign investors. The loan processing was found to take from 3 months up to a year or so that could make businesses abandon the project. The bank loan process was attached to different expenses including stamp duty, payments to the city council, and service charge that would ultimately make the extra cost up to 8% of the loan size.

v. Loan Maturity Period and Loan Size - Short-term loan maturity challenges enterprises performance. The maturity period especially short-term ones with maturity period less than one year reaches before the enterprise start normal functioning and capable to repay it. Furthermore, loan rationing is not uncommon in the credit market. This constrains from optimal performance.

vi. NBE Stringent Directives - Both banks and Micro-finance institutions claim shortage of loanable fund to the private sector in part by the NBE restrictive directives regarding credit. Banks face cap to lend 27% of the credit supply to the government and the amount of short-term loans not to be more than 40% of the total outstanding loan.

vii. Absence of Alternative Sources of Finance - Ethiopia is yet benefitting from available venture capital opportunities. The country doesn’t have a clear policy framework to make potentially high growth entrepreneurs benefit from. As outlined above, credit markets are constrained by lack of liquidity and excessive collateral requirements from banks. Thus, private equity and venture capital can be a good alternative to address the financing needs of enterprises.

viii. Acute Shortage to Foreign Currency - Access to, management and regulation of foreign currency affects businesses that engage in international businesses. Accessing forex is highly bureaucratic. The bureaucracy can take from a minimum of two months up to three years. And the criteria to allocate forex are not clear. Opening letter of credit is also time taking and expensive that erodes the investors working capital. Access to forex has significant effect on sales growth. The empirical analysis shows, enterprises that faced long queue scored 0.2% less sales growth than those who managed to get forex shortly.

In particular, there is absence of a *Strategic Policy-Based Engagement with the Ethiopian Diaspora* is recommended. The Ethiopian Diaspora continued to remit USD 3.7 – 4.5 Billion in the past two or more years. Despite its being a key foreign exchange earner for the country, however, the engagement with this organized body of Diaspora in many parts of the globe has been sporadic and non-strategic. In this regard, it is prudent to start aligning a proactive policy to this revenue source by linking and attaching the inflows of forex with national projects aiming at the expansion and improvement of health, education and infrastructure development in the country.

5.2. Major Policy Recommendations

Foreign exchange and related financial policies, high foreign exchange intermediation fees, international payment restrictions, sector specific legislative and regulatory framework, land policy, and financial consumer protection were also reported to constrain enterprise performance that require the attention of government and relevant stakeholders.

A list of 25 recommendations that are detailed by their corresponding issues are tabulated as follows.

Box-5.1: Major Policy Recommendations

No.	Major Issue and Area of Improvement	Specific Policy Recommendation
1	Higher Order Initiatives	**1.** Establishing specialized banks for small and medium enterprises, additional development banks **2.** Recommendations towards creating cashless society **3.** Financial inclusion for women, youth and rural population **4.** Creating other additional banks to create more access for long term finance by the private sector **5.** Branding Ethiopia to pull in financial resources and catching international dynamics in financial sector and **6.** Enacting new law that regulates Equity Financing in the country
2	Collateral	**7.** Increasing legally the types of items to be used as collateral, e.g. use of movable assets as collateral and a well-developed credit information system. **8.** Strengthening guarantee schemes (public or private) in a coordinated manner, especially for small enterprises that cannot manage accessing finance from formal lending institutions for the lack of credit history. **9.** Facilitating the use of intellectual property as collateral to encourage innovative ideas & projects **10.** Employing universal collateral evaluation techniques
3	Short-loan maturity	**11.** Revising the NBE directive for short loan maturity (making the short loan maturity to be more than 2 years) to enable banks extend sufficient loan to the private sector and reduce the amount of non-performaning loans.
4	Narrow Credit Base	**12.** Preparing clear policy framework to introduce capital market to broaden the financial resources. **13.** Strengthening lease financing services - both state and private lease service providing organizations.

No.	Major Issue and Area of Improvement	Specific Policy Recommendation
5	Flexiblity in Treatment of Sectors and Businesses	**14.** Flexibility in the selection of sectors in credit allocation needs to include non-priority sectors together with revising the loan allocation procedures between private and state-owned enterprises with the intent to enhance the catalyzing effect of private sector to economic growth.
6	High Bank Concentration	**15.** Liberalizing the financial sector to attract new banks, enhance competition, innovation and service delivery.
7	Access to Foreign excahnge	**16.** Ensuring fair, transparent, and priority-based allocation of forex **17.** Addressing the root causes of illegal capital outflow **18.** Encouraging remittance through different mechanisms including incentive packages, account opening, easy deposit mobilization. **19.** Reducing the incomparably high LC charges and 100% deposit of the foreign exchange value in local currency to open LC to manageable and justifiable levels (to 30%), **20.** Revisiting the time and limits placed on retention accounts so that exporters can utilize more of their foreign currency over a longer period **21.** Revisiting and reducing the 30% of forex that banks surrender to NBE as a requirement **22.** Simplifying paperwork and reducing logistics and reducing the amount of time which foreign exchange is blocked or held up until disbursement **23.** Extensive research and evidence-based policy on liberalizing the forex market **24.** Strategic Policy-Based Engagement with the Ethiopian Diaspora **25.** Enhancing coordination among relevant stakeholders engaged in the forex market and international trade including NBE & Customs

5.3. Goals, KPIs and Targets

A set of six indicators (KPIs) are identified to monitor progress in the policy regulation arena.

Box-5.2: Major Goals, KPIs & Targets

KPI	Baseline	2025	Target	Remark	Means of Achievement
1. Credit to the Private Sector (%age share to GDP)	29.15	30.2	40	Highest CI	• Preparing loan policy to allocate loan proportionally to both government and private sector • Making the lending rate competitive
2. Getting Credit • Rank • Score	176th 15	8th 95	8th 95	Kenya 2019 Kenya/Rwanda 2019	• Establishing bankruptcy laws, strengthening/ opening credit information and credit bureau
3. Collateral Requirement (% of loan advanced)	296	100	100	Proposed value most banks	• Ensuring strong property right and registration, strengthening guarantee schemes

KPI	Baseline	2025	Target	Remark	Means of Achievement
4. Bank Concentration Index	82.21	73.84	64.33	Current Kenya	• Revising Minimum capital requirement • Liberalizing the banking sector
5. Foreign exchange Reserve (billion dollars)	3.99	4.3	5		• Promoting export, liberalizing the forex market, Incentive packages to formal remittances
6. Specialized Banks (no.)	2	5	5	-	• Import-Export Bank, etc
7. Alternative sources of finance (number)	3	5	5	-	• Capital market • Regulation on Equity Finance

6

IMPROVED ACCESS TO SKILLED LABOR

There are a number of strategic problematic issues related to the quality of education and the mismatch in qualifications and skills, access skilled labor, prevalence of high unemployment, poor internship and certifications, etc.

Despite the remarkable achievements gained with the relentless effort made in the education sector since the imperial period with regards to creating better access to education for citizens including in remote pastora list communities, the quality dimension is still questioned. The formulation and implementation of such egalitarian policies and strategies that help the supply of middle and higher level skilled manpower to sustain economic growth rapid industrialization, agricultural productivity, and structural transformation remained common denominator for all sectors.

6.1. Major Issues & Areas for Improvement

Despite the formulation and implementation of such egalitarian policies, the supply of middle and higher level skilled manpower to sustain economic growth rapid industrialization, agricultural productivity, and structural transformation mismatches in skilled manpower remained common denominator for all sectors. Mismatches in skilled manpower are manifested in many aspects. One is the assignment of educational administration and trainers or teachers. In many cases, political solidarity undermines merit or experience and capacity. Second, the industry is either misrepresented or did not participate in the implementation of the technical and vocational training and education where as its legal role ranges from occupational standard preparation to practical trainings and outcome based assessment and certification. Third, the strategy itself when coming to standardization of study units, preparation of TTLM and outcome based assessment, and certification it is taken from others without further consideration of the reality in Ethiopia.

Moreover, a dilemma persists on whether generalists or specialists to train in institutions so as to meet the demand of the labor market, i.e. there is role confusion and mismatch. Generally, the educational system in Ethiopia has been challenged by the question of quality and mismatch in qualification though there are undeniable successes in terms of access and equity at all levels for all citizens. Thus, quality and qualification mismatch needs relentless effort from all stakeholders to access skilled labor in the era of rapid economic growth and structural transformation.

Employment enforcement is too weak for it can impact on cost minimization and profitability of industries. TVET trainers are inexperienced and have gaps at practical and/or theoretical aspect of the training such as in arithmetic and trigonometry which have critical application in technical works. And this is against the strategy which stipulates the assignment of trained professionals having required competence, experience and ethics in the profession to serve as trainers. Trainers could therefore hardly properly equip students with the required skills that meet the needs of the industry.

Moreover, viewed from the general academic education to TVET and higher education, producing skilled and qualified human power based on the need of the labor market is questionable. And this can be evidenced by the relevance of the general education, the skill of trainees and trainer as well as training system implementation. Finally, usually trainers' engagement on action research and transfer of appropriate technology happens inefficient and ineffective and the nexus between permanent employment and joint employment- in the light of cooperative training is almost absent.

The prevalence of high unemployment rate in Ethiopia is attributed to either the limited capacity of the economy or labore market to sink the excess supply of new graduates and the employability of graduates being below standard. Such discrepancy is also exacerbated by the weak/absence of well functionning labor market management system and rural-urban labor migration. The task of linking employees and employers using modern communication system and to help the promotion of full, productive, and freely chosen decent employment in Ethiopia is still inefficient. Although there are some initiatives by state and non-state actors, the impact is still minimal and job retention and security, job search and acquisition, access to job information, and technology and digital literacy are unclosed gaps as regards issues of unemployment.

The macro-micro mismatch in skills was identified as one of strategic problems that resulted from deficiency in the training system of institutions (colleges and universities), financial constraint (capital intensive), prior background and competency of trainers and candidates among others. This indeed contributed to mismatch in qualification and high unemployment rate in the country. Young Ethiopian graduates lack soft and hard skills required by companies. Besides, the youth has gap in entrepreneurship skills that limits the pursuit of self-employment, which is also exacerbated by lack of coordination among stakeholders. Issues related to licensing and low wages, the attitude of the youth itself and that of the society towards self-employment and working MSEs are also contributory factors.

Although internships and apprenticeships are being practiced by TVET colleges and universities, the practical implementation and volume of intakes are weak. This can be related to the absence of a legal framework which specifies the roles and responsibilities of all stakeholders. Participation of the industry is not as directed by the policy, hence both the quality of assessment tool and occupational standard is questioned. Therefore, outcome- based assessment and certification needs due attention in order to access skilled labor in the country.

The access to skilled labor, employment enforcement frameworks, qualification of leaders and trainers, and background and readiness of trainees can be relevant among other things. Employment enforcement is too weak for it can impact on cost minimization and their profitability of industries and getting industries governed by such a framework in cases when their survival is not guaranteed is difficult.

TVET trainers are inexperienced and have gaps at practical and/or theoretical aspect of the training such as in arithmetic and trigonometry which have critical application in technical works. And this is against the strategy which stipulates the assignment of trained professionals having required competence, experience and ethics in the profession. Trainers are inefficient to the extent that they hardly properly equip students with the required skills that meet the need of the industry.

Moreover, viewed from the general academic education to TVET and higher education, producing skilled and qualified human power based on the need of the labor market is questionable. And this can be evidenced by the relevance of the general education, the skill of trainees and trainer as well as training system implementation. Finally, usually trainers' engagement on action research and transfer of appropriate technology happens inefficient and ineffective and the nexus between permanent employment and joint employment- in the light of cooperative training is almost absent.

The prevalence of high unemployment rate in Ethiopia is attributed to either the limitation in the capacity of the economy or labore market to sink the excess supply of new graduates and the employability of graduates being below standard. Such discrepancy is also exacerbated by the absence of well functionning labor market management system and huge influx of rural-urban labor migration. The task of linking employees and employers using modern communication system and to help the promotion of full, productive, and freely chosen decent employment in Ethiopia is still inefficient. Large number of labor force is in fluxing from rural areas to urban centers seeking better job opportunity, which the industries could not sink. Beside that the industrial parks are built in the outskirts of the city where transport accessibility/affordability is very much limited. Finally, as compared to university, the TVET sector has better cater the need of the job industry in the form of wage and salaries, and self employment. The both the state and non-state actors job retention and security, job search and acquisition, access to job information, and technology and digital literacy are unclosed agendas under the topic of unemployment.

The macro-micro mismatch in skills was identified as one of strategic problems that resulted from deficiency in the training system of institutions (colleges and universities), financial constraint (capital intensive), prior background and competency of trainers and candidates among others. This indeed contributed to mismatch in qualification and high unemployment rate in the country. Furthermore, the youth has gap in pursuing self -employment and exercise informal livelihood activities.

Currently, the employability of the new graduates from various colleges and universities is in jeopardy that employers do not have the confidence whether the newly graduated employees are performing their duty as expected. Basing the education sector with skill requirement of the private sector would help create solid macroeconomic environment. This has definitely led to high unemployment rate in the country where huge numbers of new job seekers are added to the job searching environment every year. Thus, it is also recommended that the classes and apprenticeships should not provide in parallel modality, institutes shall be furnished with the required laboratory equipment, there should be strong link between the universities and colleges with the host industries that results in proper supervision and follow ups, and poor awareness of the industrial owners that reaches to the extent of refusal of the assigned trainees in their company should be raised.

The inability of the youth to search job is also exacerbated by lack of coordination among stakeholders, issues related to licensing and low wages, the attitude of the youth itself and that of the society towards self- employment and working Medium and Small Enterprises (MSEs). Young Ethiopian graduates lack soft and hard skills required by companies.

Although internships and apprenticeships are being practiced by TVET colleges and universities, the practical implementation was found weak. This can be related to absence of legal framework which specifies the roles and responsibilities of all stakeholders. Cooperative training as a practical attachment with industries is not with good effect because of lack of coordination between company (trainer) and institution (trainer) to plan and help trainees. The experience of other countries shows that the mission of TVET training could be achieved by the active participation of the industry in the preparation of occupational standard and training. Participation of the industry is not as directed by the policy; hence both the quality of assessment tool and occupational standard is questioned. Therefore, outcome- based assessment and certification needs due attention in order to access skilled labor.

6.2. Lessons Learned

The key lesson was learned from the Chinese education and labor production experiences. Accordingly, the Chinese compulsory education system has helped them to bring every school age children to school. This has contributed the country to produce skilled and qualified graduates in ample professions both in TVET and academic universities. Thus despite the fact that China is producing 1.5 million new graduates every year, the country suffers little from unemployed citizens due to the production of skilled and knowledgeable graduates due to large absorption capacity of the industries, especially of manufacturing.

6.3. Major Policy Recommendations

With the intent to address the aforementioned bottle necks and weaknesses inherited from the education policy and its implementation, the following policy proposals that help to augment the quality of education as a prerequisite for the production of skilled and qualified labor.

Box-6.1: Policy Recommendations

1. Reorienting the education system to quality and skills development
2. Incentivizing company training, internships, pre-service trainings for new graduates
3. Evaluating past performance through evidence-based impact assessment and developing a national entrepreneurship development that factors and addresses the needs of graduates
4. Promoting pro-business labor laws
5. Developing comprehensive linkage between employer industries and higher institutions
6. Reducing the number of unemployment,
7. Enhancing the volumes of internships and certifications,
8. Supporting the government to build and upgrade education facilities in the higher institutions, Increasing pre-service and in-service trainings,
9. Designing technological (online) channels of delivering education and introducing bridging (crush) programme for new graduates with low skill to make them employable;
10. Developing incentive packages to involve the private sector in COC

6.4. Goals, KPIs and Targets

In line with the concrete situations of the country and using prior study results as standard references, the following 6 KPIs and targets are identified.

Box -6.2: Major Goals, KPIs and Targets

S.N	Key Performances Indictors (KPIs)	Unit of Measure	Baseline	2025	Target	Remarks / Assumptions
1.	Share of private sectors' employment in the total employment of the country	%	19.5% (based on 2015 urban employment survey of Ethiopia, (CSA))	33.3 %	33.3 %	The share of employment to the private sector will increase by 2.76 % per year.
2.	Special University / TVETs /reskilling institutions	No.	0	10	10	2 special University / TVETs and reskilling center pre year will be established per year
3.	University- Industry Linkages created	No.	0	500	500	100 university-industry linkages will be created per year.
4.	Standard National Labor Market Information System	No.	0	1	1	One national standard labor market information systems will be developed over the policy period.
5.	Labor reforms made or proclamations issued	No.	Job polices , business labor law, university–industrial linkages , living wage , as well as safety issues	5	5	Five legal & policy reforms will be made over the policy period.
6.	Total budget allocated to the quality of education	Eth. Birr	268.5 million (General Education Quality Program (GEQP) 2012 EFY Budget allocated	805.5 million	805.5 million	GEQP budget will increase by three fold from the baseline budget.

The below are also reckoned to be monitored in tandem with the above:

- Reductions of unemployment rate from current 21% by private sector to 15%
- Increased participation & investment of private sector in skills and knowledge capacity improvement of new graduates
- Increased support by private sector to TVETs and universities
- Increased number of private sector employees who received on-job and pre-job training

7

IMPROVED ACCESS TO LAND

In Ethiopia, Land is a constitutional right and its integration as a right in the constitution is very important to ensure the land rights of citizens in a sustainable manner, regardless of its rigidity to make revision and amendments. Based on the general constitutional provisions, the country put in place urban and rural focused specific land policies, laws, programs and directives. The rural land use and administration, the urban land lease and expropriation, valuation and compensation laws are some of the major land policies governing land administration in the country.

Ethiopia has formulated and enacted different land policies and legal frameworks to increase the contribution of land to the national economy. All sectors of the economy - agriculture, industry or services directly depend on availability of land in a business friendly manner. The increasing population growth and urbanization call for a thorough review the existing land policies, and they necessitate alternative approaches to use the limited land resource in an efficient and effective manner.

Nevertheless, the existing land policies and legal frameworks with the sole state owned land tenure system are criticized by different actors and researchers for its limitation in ensuring landholders tenure security and the resulting inefficient and ineffective land related investments. Flexible and business friendly policy environment is required to respond the growing demand for land and to enhance the contribution of land, as a factor of production, for the national development.

Land issue in Ethiopia is associated with the socio-economic and political aspects of both the people and the state. In 2019 the Ethiopian Macroeconomic Handbook indicates that because of the limited supply of land, the government applies priority based land allocations for different development sectors.

7.1. Major Issues & Areas for Improvement

As pointed out earlier, land has been in the hands of the government by Constitution. It is the Regional States in the eight constituent regions of the country and the Federal Government in the centre that have the right to own and allocate land. Even the farmers who lived long since ancestral times have user rights only, with the probability that they might be evicted *(even if they have certificates entitlement)* at any time in the name of development projects. Initially, one of the basic arguments heard from policy makers was that if land is subjected to market forces, poor rural households could sell all their property and will eventually migrate and swell the ranks of the unemployed in the urban centers. But, even that argument could not stand the test of time as many already sold their property in *quasi-market* arrangements and migrated to cities. On top of this, land happens to be a *"bone of contention"* and huge source of insecurity and displacement, fueling the already ethnic division that ravages the country. In the eyes of many, land like all other factors of production is a scarce resource that need to be used efficiently, the mechanism of its allocation, therefore, calls for market forces to reflect its intrinsic values.

In its 2020 Ease of Doing Business[5] Report, the World Bank indicated that Ethiopia ranks lower in many of ease of doing business indicators among the 190 countries of the world Ethiopia ranked 159 countries with an average index of 48 with a slight decrease from the year 2019. The major strategic problems that deter land from playing its catalyst role for the socio-economic and political development of the country are confined to:

- limited supply and availability of land due to gaps in policy and legal frameworks,
- ever increasing and un-affordable land price for low and middle income population,
- lack of tenure security,
- information asymmetry,
- a huge stock of landless population coupled with high and increasing population,
- lack of good governance,
- prevalence of corruption,
- unfair and inappropriate compensation,
- dispute & conflict over the land resources,
- social inequality and
- shortage of basic infrastructures.

The land supply in mega cities including Addis Ababa has decreased because of multi-dimensional social, economic, demographic legal/policy and political factors. The amount of land prepared and supplied for development purposes by municipality cities in Addis Ababa and major regional cities has decreased in the GTP II period. There is high miss-match between supply and demand for residential, business, industry, urban agriculture, social sectors and other development projects and programs. Land supply with tender has been stopped in Addis Ababa city government two years ago because of the shortage of land supply in the expansion areas of the city. Hence, the only means of supply available in the city is land supply through allocation for projects having national economic significance.

The volatile political environment occurring in the country since the last four years is affecting the supply side, reducing access to land and investment and discouraged private business sector's engagement in the economy. Moreover, the low perceived tenure security on land holders due to gaps in the existing policy and legal frameworks leads to inefficient utilization of land and expansion of *informal land market*. This situation is highly observed in urban expansion areas of major cities of the country.

On the contrary, inefficient land utilization has also been observed by businesses who received land from the government through allocation mechanisms. This is partly attributed to lack of infrastructure, rent seeking behavior, lack of coordination and monitoring among land and investment sectors, presence of third party compliance on the land and weak land governance. On top of this, the role of the invisible actors in the land market contributed very much in escalating the land price in Addis Ababa.

5 Ease of doing business indicators: Starting a business, construction permit, getting electricity, property registration and getting credit access, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and employing workers.

7.2. Lessons Learned on Access to Land

The experiences of selected three countries, i.e. Malawi, Thailand, and Chile have been reviewed based on similarities in terms of their multiple and flexible land tenure system and land administration practices. Just like Ethiopia, the case countries have high population pressure on land for agriculture, residence and business. The lessons gained from these countries are:

- Using mixed/multiple land tenure system whereby land is owned by the public, private and customary/community,
- Using lease and freehold system
- Price (and pricing) modalities vary from country to country,
- Practicing registered public/state land with registration certificate to protect land grabbing and illegal settlement, and similar to Ethiopia, the case countries have electronic based strong cadastral land registration system.
- Designing alternative programs for landless youth and community members with different flexible approaches than the normal land tenure system,

In general, designing and formulating a land tenure system that reflects the specific contexts of countries is the lesson gained though the issue of ensuring social equity is still a challenge in all the case countries.

7.3. Major Policy Recommendations

To conclude, **b**etter access to land is the result of inter related policy, legal, administrative and institutional challenges and gaps. Access to land becomes a major concern for private businesses. Taking in to account the existing policies and legal frameworks, the land sector has opportunities as well as challenges that need the active engagement of all stakeholders. The major strategic problems on access to land in Ethiopia are unaffordable land price, lack of good governance, limited coordination for infrastructural facilities, unfair compensation and tenure in security. Important considerations include: tenure security, role of the state in land administration, treatment of landless youth in alternative agricultural programs, and improved and efficient land registration. Based on the review of policy documents and strategic problem analysis, the following alternative policy proposals are recommended for action:

Box – 7.1: Policy Recommendations

1. Putting in place a business friendly land allocation system and address shortcomings and barriers for ease of doing business as applied to improved land administration and addressing the institutional gaps.
2. Revisiting the existing land use policy and re-design an appropriate one that fits with the challenges of the time and one that adheres to the master/structural plans of cities to improve better access to land for business and development, with transparent land allocation mechanism by ensuring relevant stakeholders' participation and public scrutiny;
3. Enacting laws to do away with arbitrary, illegal displacement and unfair compensation of title deed owners which also negatively affects the supply of land in urban expansion areas of major cities; and respect by law the rights of citizens who are evacuated for compensation by ensuring and guaranteeing their sustainable livelihood;
4. Establishing strong Public–Private-Partnership that specifically deals with land issues where the private sector can play significant roles in infrastructural development where as the public sector should capitalize in strategic policy areas of ensuring improved land administration and management for efficient land utilization.
5. Reforming regulation by legalizing the viability of multiple landholding system in the hands of private, public and customary/community ownerships, through an organized learning process to get lessons from other countries having better experience in the optimal utilization of land resources as factor of production and thereby develop policies that fit the Ethiopian context;
6. Adopting the practice of institutionally organized and evidence-based policy involving private sector, government and research institutions to assess the relevance, effectiveness, efficiency, impact and sustainability of the ongoing land policies and recommend new ones.
7. Adopting an evidence-based regulatory impact assessment to develop legally binding joint venture regulations for innovative approaches that use a combination of market instruments, such as the ones where private land developers in Addis Ababa are working with capital constrained land owners to develop their land with an agreement for mutually beneficial outcomes through vertical growth modality,

7.4. Goals, Key Performance Indicators (KPIs) & Targets

Indicators are highly important to measure the performances of the land sector though shortage of uniform performance indicators on land sector is still a challenge. The key performance indicators on the roles of the private sector for better access to land are designed by considering international and national standards together with the desired outcomes and impacts. Accordingly, the following private sector focused targets were identified with their corresponding indicators.

Box-7.2: Major Goals, KPIs & Targets

No	KPIs	Unit of Measure	Baseline	2025	Target	Remarks
1.	Employment and jobs created by private sector in land development	No.	1.8 million jobs created by the construction sector (MoUDC,2016)	5 Million	5 Million	One million employment will be generated per year via land development by the private sector
2.	Land reforms made or proclamations issued	No.	• FDRE Constitution, • the land lease • rural land policies, • land management • land administration • urban land zoning / allocation	6	6	Six critical issues related to land will be reformed up to 2025 calendar period to improve access to land for the private sector
3.	Standard market based valuation assessments conducted on land and property for serving compensation	Number	0	10	10	2 standard market based valuations will be under-taken on yearly basis which will enhance accessibility of land
4.	Amount of land allocat-ed for business in Addis	Number	11 hectares based on City Administration Land Management Agency 2011 Report	110	110	Supply of land for business/investment will increase by ten-fold from the base line

In tandem with the above, the following can as well be employed to reinforce policy change tracking and monitoring:

1. Increased participation of private businesses in creating alternative sources of livelihood for landless youth
2. Increased participation of private business in (low cost) real estate development to reduce the housing problems of the middle and lower income households
3. Improved legal and attitudinal shifts of private sector in preventing corruption
4. Improved collaboration of private sector and the public sectors in infrastructure develop-ment through public-private partnership approach
5. Number of evicted households who received fair compensation schemes in nearby industrial zones

8

IMPROVED ICT INVESTMENT & DIGITAL ECONOMY

Digital technologies are re-shaping consumer behavior, social interaction, business models and government activities. Digital transformation provides industries with unparalleled opportunities for value creation and productivities. Digitalization has important implications for developing countries' growth prospects and productivity by exploiting economies of scale and network effects, raising the productivity of labor and capital, facilitating access to global value chains, in addition to its contribution to greater inclusion by lowering transaction costs and addressing information asymmetries associated with certain activities like access to finance. In Ethiopia, digital technologies, implemented on appropriate digital infrastructure, could greatly stimulate e-trade and e-commerce, which in turn creates new marketplaces enabling MSMEs to access larger and more competitive markets, attracting new investments, and creating jobs and growth.

8.1. Major Issues & Areas for Improvement

The main challenges in the digital economy and investment in Ethiopia are inefficient ICT legal and regulatory environment, low ICT product usage by businesses and customer like E-Commerce, under developed ICT infrastructure, under capacity of institutions and weak partnerships among them, less promotion and incentives for ICT start-ups, ICT skill gaps. Observed issues include the following:

- The insufficiency of non-digital infrastructure, including poor trade logistics and underdeveloped access to internationally operable payment methods, mars its opportunity to prospering from e-trade & e-commerce. Basic information infrastructures for postal and logistical services are not yet digitized and hence, with such unreliable and analogue geographical home address structure in place, it is difficult to deliver packages at the right place at the right time.
- The absence of ecommerce law that is aligned with others increases the price of operations and makes it very difficult to stimulate cross-border digital trade.
- Correspondingly, lack of trust and confidence in the market leads to a propensity to pay cash on delivery, further adding costs and slowing the take up of e-commerce in Ethiopia.
- Capacity building support for the digital start-up eco-system at the policy, funding and skills levels is another impeding challenge for digital economy development in Ethiopia.
- Access to internet infrastructure, connectivity & bandwidth, affordability, electronic government service, ICT skilled manpower, and weak investment in digital technology and digital innovation continue to be problem areas. The problem manifests itself through:
    - Unreliable connectivity & bandwidth
    - Lack of electronic government service (e-services).
    - Although there is available ICT skilled manpower, there is need for retraining to update skills through internships,

- Nor enough investment is being spent by companies on digital technology, digital innovation and integrated digital infrastructure.

The impact of digitalization on the economic growth of Ethiopia has further been analyzed by using a structured model for digitalization, [6] "***Simple Cobb-Douglas growth model***" that attempts to relate GDP to the fixed stock of capital, labor force, and digitalization:

i.e, $\ln GDP_{it} = a \ln K_{it} + a_2 \ln L_{it} + a_3 \ln Di_{it} + \varepsilon_{it}$,

Proxy variables were used for three components namely Digital Connectivity, Digital Technology and Digital Platform and variables used are Cellular mobile penetration rate, fixed telephone penetration rate, Population of Internet users, fixed broadband penetration rate, Internet security, wireless subscription, Internet servers; [GDP is gross domestic product , 'K' stands for capital accumulation of the country, 'L' stands for labour force which can access digital platforms, and 'Di' stands for weighted average of proxies for digitalization and product]

The Result shows that: R-square (coefficient of determination) is 95.3 % which means that the independent variables explained 95.3% of the variability of the dependent variable; and all factor variables are significant at 1% significance level. According to this result as *growth in digitalization affects growth of economy and on average (holding other variable constant) as digital economy grows by one percent, the economy of the country records 0.12 percent of growth.*

8.2. Country Experiences

In the past decades, countries focus was to assess the deployment and adoption of telecommunication and information technology infrastructure (broadband, mobile telephony, computers). But, research has been gradually expanding its focus to include dimensions such as the use of digital technologies (electronic commerce, electronic government, social networks) as well as the development of industries within the full digital value chain (Internet platforms, collaborative Internet services, etc.).

i. In Mauritius, ICT sector has become the third pillar of the economy in less than 15 years and is currently contributing to 5.6% of the country's GDP. Around 23,000 people are employed in the ICT sector with a value-added contribution of Rs 22 Billion to the economy, out of which, Rs 9.6 Billion constituted of exports of ICT goods and services. The sector is growing at the rate of 4.4%. It is expected that the ICT sector would contribute up to 10% of GDP annually and would create around 50,000 jobs by 2030 with the objective of Mauritius consolidating its leadership in Africa and improving its global rankings on major ICT Indices. It designed five Strategic Waves to achieve in 2030. They are ICT Infrastructure and Broadcasting; E-Government and Business Facilitation; Talent Management; Cyber Security and Cyber Crime; and Innovation and Emerging Technologies (Mauritius, 2019).

ii. The Kenyan ICT sector, dubbed as the "*Silicon Savannah*," has grown by an average of 10.8% annually since 2016, becoming a significant source of economic development and job creation with spillover effects in almost every sector of the economy. Kenya is currently provid-

6 The research behind this identifies critical challenges that the digital economy/investment faces in Ethiopia and recommends policy instruments and actions that need to be implemented. Related literatures on the subject matter were reviewed and supplemented with key informant interview to identify issues such as current performance of ICT utilization in business sectors, challenges faced and opportunities available in digitalizing the economy in Ethiopia. Descriptive and econometrics data analysis method have also been used to analyze the data.

ing Digital Learning Program for 93.4% of its public primary schools (World Bank, 2019). The government is providing basic infrastructure and supporting policy and regulatory frameworks, leaving it to private investors to build and operate. Kenya, following its ambition of being Africa's digital economy leader, launched a digital economy blue print for Africa, aimed at guiding African countries towards the adoption of digital technologies in order to participate and thrive in the digital global economy. (Kenya, 2019).

iii. In Senegal, the services sector constitutes an essential and growing part of the Senegalese economy—domestically in terms of contribution to GDP (59% in 2014), employment (38% of the working population in 2011), and in terms of cross-border exports (commercial services exports grew 7.2% per year from 2010 to 2013, on average). A number of factors have helped to shape Senegal's success in exporting information and communications technology (ICT) and business process outsourcing (BPO) services, including Senegal's specific commitments on basic and value-added telecommunications under the General Agreement on Trade in Services (GATS), Senegal's additional commitments on the World Trade Organization's (WTO's) Telecommunications Reference Paper, the inclusion of tele-services (i.e., BPO) in the list of sectors to benefit from preferences under the investment code, and the targeting of telecommunications in the list of infrastructure services constraining enterprise growth under the Action Matrix of the Enhanced Integrated Framework.

iv. Morocco has developed a digital transformation strategy that aims to accelerate innovative digital solutions through e-government services, private sector digitalization, and the use of digital financial services to promote inclusion of individuals and MSMEs. In Morocco, 17.3 percent of citizens in urban areas made online purchases. Morocco's techno-parks host start-ups and small and medium-sized enterprises (SMEs) specializing in ICTs (World Bank, 2019).

8.3. Major Policy Recommendations

For ease of presentation, the major policy recommendations for action by the government are tabulated here under, together with corresponding policy instruments.

Box-8.1: Policy Recommendations

No.	Policy Recommendation	Policy Instruments
1.	Ensure a pervasive and effective infrastructure for the digital economy.	**1.1.** Improving the supply of technical infrastructure through encouraging the private sector and international financial institutions for investment in the telecommunication sector. **1.2.** Ensure independent regulation for Telecommunication infrastructure. **1.3.** Enhance data infrastructure by incentivizing development of local data (Server) Cloud computing centers. **1.4.** Accelerate rollout of high-speed broadband infrastructure to attract foreign firms and support business innovation and productivity across the economy. **1.5.** Developing IT service Standards

No.	Policy Recommendation	Policy Instruments
2.	Creating an enabling environment for digital ecosystem.	**2.1.** 2.1. Enhance industry and university linkages. **2.2.** 2.2. Provide specific support for building higher-level capacities among digital entrepreneurs. **2.3.** 2.3. Creating special access to finance to encourage ICT investment. **2.4.** 2.4. Creating policy initiatives for the private sector to engage in the establishment of central database center **2.5.** 2.5. Encourage private sector participation for the digital economy through PPP and FDI. **2.6.** Establish an online payment platform through which: **2.7.** Companies can buy/sell software, infrastructure and platforms as a service over the cloud **2.8.** Payments are made in legal and efficient way.
3	Strengthening institutional capacity for the digital economy.	**3.1.** 3.1 Establish legal framework for e- commerce, digital transactions and platforms. **3.2.** 3.2. Develop effective public private partnerships across digital economy in financing, innovation, capacity building, etc. **3.3.** 3.3. Raise awareness and understanding of digital economy.
4.	Promoting use of ICT to enhance business efficiency	**4.1.** 4.1 Provide financial support (subsidy, tax exemption, etc.) for ICT goods and services to help accelerate access and affordability. **4.2.** 4.2 Create or expand ICT hubs, incubators and accelerators that support and boost digital entrepreneurship. **4.3.** 4.3 Enhance the role of electronic services (B2B, B2C) provision by which companies and individuals can handle their purchase and sales online.
5.	Putting in place the appropriate safety measures/ regulations to reduce the emergent unintended consequences (i.e. reduction in benefits and harms) associated with the digital economy.	**5.1.** 5.1 Establish competition policies to mandate operators to expand coverage into marginalized (low-income / rural) regions **5.2.** 5.2. Develop or update cyber security practices and regulations; **5.3.** 5.3. Enhance cyber security agencies and capabilities **5.4.** 5.4. Extend conventional crime legislation to cover online activity **5.5.** 5.5. Introduce measures for sharing and reporting information related to cyber attacks **5.6.** 5.6 Legislate right to online privacy as part of data protection

8.4. Goals, Targets & KPIs

With the intent to monitor and measure the impacts of the aforementioned policy recommendations improvement over the course of the coming five years, the following six indicators are developed.

Box-8.2: Major Goals, KPIs & Targets

No.	Key Performance Indicators	UMT	Baseline	2025	Target	Remarks
1	ICT Value Addition					
	1.1 Share of the ICT Sector value added in GDP	%	n/a	6%	6%	Mauritius
	1.2 Value added in Telecommunication to GDP	%	3% (2019)	8%	8%	Mauritius

No.	Key Performance Indicators	UMT	Baseline	2025	Target	Remarks
2	Employment in the ICT Sector	qty	20,782(2013)	400,000	400,000	MCIT
3	Employment in ICT Occupation in the Economy	qty	50,968 (2019)	1.5M	1.5M	MINT
4	Trade Service using Digital means (e-payment, E-commerce)	rank	141/151(2019)	<100	<100	Mauritius
5	Rank in the ICT Index	rank	108/127 (2019)	60	60	WB
6	Trade related to the digital Economy					
	6.1 Trade in ICT goods as a share of total export	%	1.7 (2016)	4.2%	4.2%	WB
	6.2 Trade in ICT Service as a share of total export	%(%)	2.4 (2016)	8%	8%	WB

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CONCLUSION

The forgone warrants two straight forward conclusions:

1. As a document, this volume is an expression of AACCSA's unflinching commitment in support of the economic policy reforms under way in the country by continuing to work as part of the solution. By so doing, AACCSA wishes to convey a clear message that it cannot stand as a casual and indifferent bystander pretending as if nothing has changed and improved. It is an expression of the chamber's and its more than 17,000 business members that the Ethiopia we want can-and-shall only be a reality by our collective efforts - private and public alike.

In particular, the document touches on almost all walks of life pertaining to the national economy, with a focus on private sector development. It offers a menu of more than 135 recommendations, the details and specific nature of which could vary – some being mid-long-term direct policy recommendations while others could as well be used in immediate/short term adjustments to existing regulations. Close to 60 KPIs have also been introduced to track and monitor changes in the policy making arena.

2. As a policy plan, this document underpins the chamber's desire to guide its policy advocacy work in delivering answers to the pressing and burning issues of businesses all over the country. It is AACCSA's instrument to drive its policy (reform) agenda and direct its policy advocacy works for the coming five years until 2025. In particular, the targets and key performance indicators (KPIs) are carefully identified to measure progress of the policy reforms/change by taking into account the following criteria:

    i. Better overall results *compared to other* countries – e.g. GDP-growth, GDP per capita, HDI, etc

    ii. Better yardsticks to gauge overall *results in teh country,*

    iii. Better measures to monitor overall results exclusively as a *result of proposed policy reforms,* e.g. starting a business, trading across borders, unemployment, etc

    iv. *Number of* relevant regualtions and policy reforms enacted,

    v. Number of isntutional reforms udnertaken, etc

As such, the document serves as the basic reference and planning document of the chamber's policy advocacy works. Each year, AACCSA sets annual targets with corresponding KPIs to follow up policy initiatives put in place by the policy making bodies of Government and monitors their progress against set indicators and targets. It will serve as a reference guide to undertake further in-depth researches, impact assessments (including RIA), and will also help to organize meetings, conferences, seminars, policy briefs, media campaigns through TV, radio and other print media on chosen and selected areas of policy recommendation to get what it wants in the interests of its members, businesses and the national economy at large. *It is a living document and by working on it and using it as a guide let's keep it alive!*