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Amhara Region Business Agenda

Collaborative study by College of Business and Economics, Bahir Dar University and Amhara Region Chamber of Commerce and Sectoral Associations (ARCCSA) with Financial Support from the Swedish International Development Agency (SIDA)

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Acronyms

AACCSA	Addis Ababa Chamber of Commerce and Sectoral Associations
ARCCSA	Amhara Region Chamber of Commerce and Sectoral Associations
ADLI	Agricultural Development Led Industrialization
ATA	Agricultural Transformation Agency
CSA	Central Statistical Agency of Ethiopia
DB	Doing Business
ECCSA	The Ethiopian Chamber of Commerce and Sectoral Associations
EIC	Ethiopia investment commission
EPPCF	Ethiopian Public Private Consultative Forum
ERCA	Ethiopian Revenues and Customs Authority
ESLSE	Ethiopian Shipping and Logistic Service Enterprise
FGD	Focus Group Discussion
FMaSE	Ethiopian Federal Micro and Small Enterprises agency
GDP	Gross Domestic Product
GTP	Growth Transformation Plan
IFRS	International financial reporting standards
IMF	International Monetary Fund
IT	Information Technology
JICA	Japan International Cooperation Agency
MDG	Millennium Development Goals
MFI	Micro Finance Institution
MOA	Ministry of Agriculture
MOFEC	Ministry of Finance and Economic Cooperation
MoFED	Ministry of Finance and Economic Cooperation
MOI	Ministry of Industry
MOT	Ministry of Trade
MTS	Multimodal Transportation System
MUDC	Ministry of Urban Development and Construction
NBA	National Business Agenda
NBE	National Bank of Ethiopia
NGOs	Non-governmental Organizations
OECD	Organization for Economic Cooperation and Development
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty

PPD	Public-Private Dialogue
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
RBA	Regional Business Agenda
SDG	Sustainable Development Goal
SDPRP	Sustainable Development Poverty Reduction Programme
SNNPR	South Nation and Nationalities People Region
SPSS	Statistical Program for Social Sciences
SSA	Sub-Saharan Africa
SWOT	Strengthens, Weaknesses, Opportunities and Treats
ToR	Term of Reference
UNDP	United Nation Development Program

Executive Summary

This study examined the main legal, policy and administrative hurdles faced by the private business sectors in Amhara region, and come up with concrete recommendations. To achieve the research objectives, mixed methods approach which is the blend of both qualitative and quantitative approaches is employed. The study used both numeric and text information collected from a sample of private businesses operating in major cities of the region.

The major challenges for the private sector development in the Amhara region in order of priority, as the survey results revealed, are macroeconomic instability, corruption, lack of land access, tax administration problems, poor infrastructural development, lack of government support, thin markets for products, technological barriers, inadequate credit access, political and social instability, weak legal and policy frameworks, and management barriers.

Specifically, the Amhara region is exposed to unstable macroeconomic condition with hyperinflation and high currency crunch; severe corruption; inadequate land access with overpriced and unclear land-lease system, high rent for working premises, and unavailability of areas suitable for industrial investment; feeble tax administration with higher tax rates and haphazard profit estimation, poor professional assistance in clarifying tax rules and regulations for entrepreneurs, unclear tax structure and high cost of compliance to the tax rules and regulations; underdeveloped business infrastructures mainly inadequate and interrupted power and water supply; lack of government support and incentives; thin market for private sectors' products and services due to uncompetitive working environment that favors state-owned enterprises; difficulty in getting access to credit mainly due to complex and corrupted credit requirements, unfavorably high loan interest, biased loan treatment in favor of State-Owned enterprises, strict collateral requirements, risk adversity of loan providing institutions, poor creditors' rights, and lack of linkages between private sectors and credit providing institutions; and the recent political and social instability in the region.

Thus, it is recommended that the ARCCSA should strengthen its linkage with the regional government, the higher educational institutions in the region, NGOs and other stakeholders to help the private businesses through training and consultation on issues such as tax filling and reporting, fighting corruption, management of finance, and rules and regulations for business licensing and operation.

1. Introduction

1.1 Back Ground of the Study

United Nations adopted the Millennium Declaration which spanned the period 2000 to 2015, provided a comprehensive framework of core values and principles in the areas of sustainable development, human rights, peace and security. The MDGs have helped to lift more than one billion people out of extreme poverty, significantly reducing the number of people suffering hunger, preventable death and illness; and enabling unprecedented numbers of girls and boys to attend school more than ever before (UNDP, 2015). In 2015, UNDP introduced 17 Sustainable Development Goals (SDGs) and 169 targets as new universal Agenda at the conclusion of the Millennium Development Goals (MDGs). SDGs seek to build on the Millennium Development Goals and complete what they did not achieve (UNDP, 2015). This new goals and targets came into effect on January, 2016 to the next 15 years till 2030. SDGs provide clear guidelines and targets for all countries to adopt in accordance with their own priorities and the environmental challenges of the world at large. Many countries including Ethiopia mainstreamed the MDGs and SDGs into their national and sub-national development plans and strategies, and implemented specific measures intended to achieve the associated targets (National Plan Commission , 2017).

Ethiopia is recognized for having taken ownership of the MDGs agenda and integrating them into successive national development plans such as Sustainable Development Poverty Reduction Program (SDPRP), Plan for Accelerated and Sustained Development to end Poverty (PASDEP), and the first Growth and Transformation Plan (AACCSA, 2008). According to Norwegian Institute of International Affairs (2018), except for MDG 3 on promoting gender equality and women's empowerment and MDG 5 on maternal health, Ethiopia has been successful with regard to the MDGs. The MDGs were implemented through effective government leadership and coordination of all stakeholders in an organized and structured manner throughout the country.

Industrial development is used as one of the pillars of MDGs, and value adding private sector is considered as the engine of the sector's and overall economic growth. Lessons have been drawn from the experience of implementing the MDGs and, Ethiopia has accepted and endorsed the 2030 Agenda for Sustainable Development with national commitments and ownership to implement it as integral part of its national development framework. The Ethiopian government frame its national vision by considering a range of economic and environmental issues, some of which had not been previously addressed by the Millennium Declaration and integrates SDGs in to the second growth and transformation plan which span from 2016 to 2020 (Norwegian Institute of International Affairs, 2018).

Indeed, the private sector has a crucial role to alleviate poverty by enhancing productivity, creating job opportunities, keeping prices of essential goods and services down, and widening the tax base for the government which in turn support the public investment. Without strong support for private sector with government and NGOs, Ethiopia cannot achieve the vision of becoming a middle income country by 2025 by achieving rapid, broad-based, sustained and equitable economic growth to eradicate poverty. By recognizing the vital role of private sectors for rapid and sustainable economic growth, the Ethiopian government has been implementing policies, strategies and development plans to guide the private sector. Regardless of the government effort in promoting and acceleration private sector, private investment in Ethiopia is far below potential. The investment contribution of the formal private sector to the GDP is at 8.8%, which is much lower that the Sub Saharan average (18%) (Triodos, 2013). According to World Bank data, Ethiopia Ranked at 164th out of a total of 187 countries in GNP per capita terms in 2017 in terms of GNP per capita measured at purchasing power parity. Besides, the current political context, uprising and revolution especially in two most populated regions, i.e. Amhara and Oromia, have an impact on the performance of business community. As Chawdhury (2016) stated, political instability can directly hurt a country's economy by affecting the investment decisions of the firms. It takes time to make the investment decisions by the private firms especially by the manufacturing firms. The expectations on the future policy and financial return depend very much on general, socio and macro-economic conditions. If the expectation is dim in future then the development in economic sector is almost impossible for any country (Chawdhury, 2016).

Accordingly, the Ethiopian government acknowledged the role of the private sector to attain the sustainable economic growth and poverty alleviation, and took aggressive measures on industrialization and structural transformation under GTP-II with an ambition to reduce the share of agriculture and increase the role of industry in the national economy. In addition, Amhara region chamber of commerce and sectoral associations (ARCCSA) is exerting its effort through its Private Sector Development (PSD) Hub project to engage the government in addressing policy, legal, and administrative barriers of the private sector growth in Ethiopia. While ARCCSA will continue to hold consultation forums with the regional and federal governments on significant issues of business communities in the region, it seeks to formulate a Regional Business Agenda (RBA) that capture and prioritizes concerns of the private sector. RBA is believed to help the business community to use its capabilities to stimulate policy, legal and administrative reforms by identifying policies, laws and administrative practices that hinder business activity and articulating them clearly to policy makers along with concrete recommendations on reforms that would help to remove the barriers and improve the overall business climate. The Agenda would further serve as an instrument for members to be well informed about public policies that concerns them most for preparing the ground for voicing the concerns in a unified manner. Thus, this study identified and prioritized policy, legal, and administrative barriers to the business community in Amhara region and come up with practical policy recommendations for both the Amhara regional and federal government.

1.2 Objectives of the Study

The overall objective of the study is to articulate the Business Agenda for the Amhara region. The study aims at identifying policy, legal and administrative hurdles faced by the private business sector in Amhara region with a view to come up with concrete recommendations to address these constraints. To this end, the study would be used as an input in furtherance of a robust dialogue between the state and federal government and the private sector.
Specifically, the study addressed the following objectives:

- Examine opportunities and challenges for good policies and regulatory frameworks;
- Identify the policy, regulatory, administrative, and technical barriers faced by the private sectors in Amhara region;
- Prioritize the policy, legal and administrative barriers of the private sector development in Amhara region;
- Recommend concrete policy actions and steps to overcome the challenges and to reduce the identified barriers to the private sector development.

1.3 Basic Research questions

In line with the broad objectives in the previous section, this study has the following central and specific research questions.

Central Question: What are the main policy, legal and administrative barriers to the success of the private business sectors in Amhara Region, and how the Ethiopian government and respective concerned stakeholders could address the existing and potential challenges to the development of the business environment in the region?

Specific Questions:

- What are the opportunities and challenges for good policies and regulatory frameworks in the region?
- What are the major policy, regulatory and administrative barriers faced by the private sectors in Amhara region?
- What are the possible concrete policy actions and steps to be undertaken by the government and concerned stakeholders to overcome the challenges and to lessen the identified barriers to the private sector development in the region?

1.4 Scope of the Study

In order to ensure that the research project is manageable, it is necessary to demarcate the study. The general scope of the study is to identify the major policy, legal and administrative problems that hinder business activity, and to articulate them clearly along with well-argued alternatives (where applicable) and concrete recommendations on reforms and measures that would help to improve the business climate in the region. Basically, the study covers the issues of the business community in major towns of the region, namely, Bahr Dar, Gondar, Dessie, Woldiya, Debre Markos, and Debre Tabor.

Specifically, the study examined the following issues:

- Policy, legal, and administrative actions impacting business start-up and competitiveness of the private sector;
- Factors limiting the ability and willingness to invest in the region;
- Legal, policy and administrative barriers for proper tax compliance;

- Legal, policy and administrative barriers affecting access to finance, proper business sites (land) and other essential services from the public offices;
- Policy, legal, and administrative barriers with Sectoral level impact; for instance, sectors such as construction industry, manufacturing sector, textile, leather, and horticulture;
- Easiness of doing business in Amhara region relating to starting a business, dealing with construction permits, registering property, paying taxes, transport, and enforcing contracts;
- Government support for the growth of private sectors in the region;
- Other barriers relevance to the private sector development in Amhara region including environmental hazards and managerial factors.

1.5 Conceptual Framework

The private sector is a crucial agent for a country's sustainable development and poverty reduction through different channels: sources of revenue for government, capital investment, competition, and employment creation. As firms grow, they provide a larger source of tax revenues to the government, which in turn supports increased public investments. The tax they pay to their respective governments might be used to finance pro-poor programs such as health and education. The capital investment by private firms could also help the poor with employment generation as the establishment of new businesses would create new job opportunities. Moreover, by providing competition, the sector will promote efficient production that keep the price of essential goods and services down, thereby increasing the real effective incomes (purchasing power) of the poor. Household income would improve when productivity rises, job opportunities increase, and competition for workers drive up wages. It also helps to allocate a country's human capital resources to their most productive uses, enhancing general economic welfare, and encouraging further growth and development.

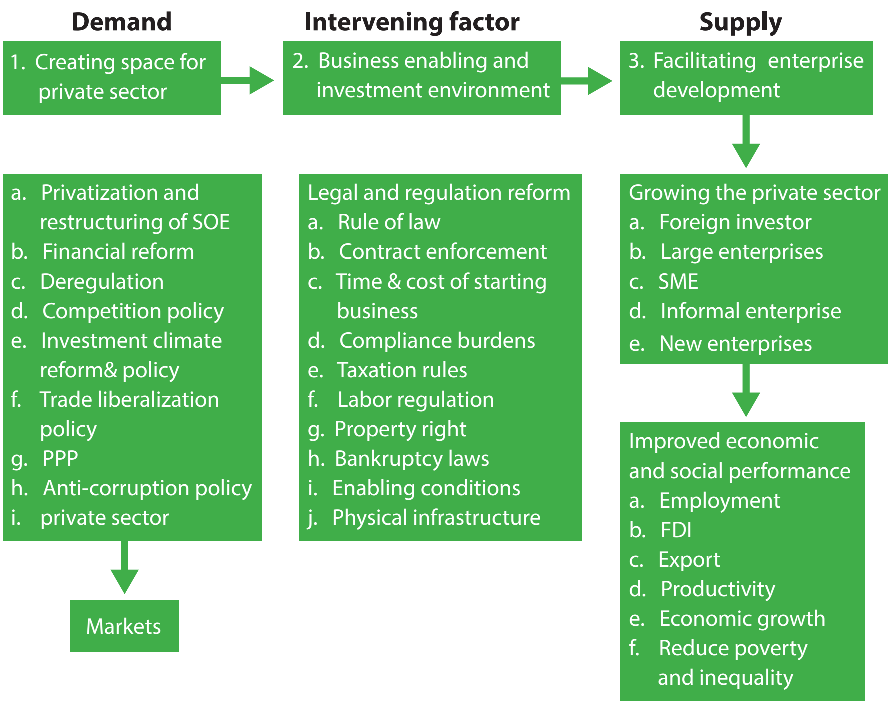
However, the private sectors face many constraints such as finance, infrastructure, technology or skills and investment climate mainly in developing countries, Ethiopia in particular. Hence, governments should design business-friendly policies that could address those constraints and to promote private sector participation in the attainment of the SDGs. Recently, the Government of Ethiopia committed itself to implement the stabilization and structural adjustment program to remove cost-price distortions, improve market related incentives, promote private enterprises and exports, and liberalize the economy and to reduce the role of the public sector in the economy. By 2002, Ethiopia had issued the first three-year Sustainable Development Poverty Reduction Programme (SDPRP), which covered 2002-2005. In 2005, Ethiopia launched the first five year Plan for Accelerated and Sustainable Development to End Poverty (PASDEP) carrying forward the SDPRP strategic directions but also bringing in new elements and scaling up the efforts to achieve the Millennium Development Goals (MDGs). The PASDEP had strong emphasis to strengthen economic growth and reduce poverty in the period 2006-2010 by accelerating economic growth and market oriented agricultural development, reinforcing social sector service delivery, embracing the private sector, accelerating export growth and reducing the country's infrastructure gap, pursuing the urban agenda, promoting human resource development, unleashing the productive potential of women, protecting environmental degradation, and strengthening economic and democratic governance. Latter the GTP-I, the successor of the PASDEP, was launched in 2010 for the period 2010-2015. During the period of GTP I, Ethiopia registered strong and broad-based economic growth with an average annual GDP growth rate of 10%, but with limited success in bringing structural transformation.

Based on the GTP-I implementation, the focus areas of Ethiopian government under GTP-II are bringing structural transformation by promoting industrial development, tackling inequality and unemployment mainly in urban areas, and maintaining a stable macro-economic environment by correcting imbalances in savings and investment as well as in supply and demand. With GTP-II, the country aims to realize vision of becoming a middle income country by 2025 with rapid industrialization and structural transformation.

In general, the majority of the above policies and programs relate strongly to private sector development. The main points of action are improvement in agricultural production, encouragement of traditional exports such as coffee and stimulation and diversification of non-traditional exports, introduction of credit rating for banks, improvement of the coverage of Micro Finance Institutions (MFIs), better linkages between agriculture and industry and better competitiveness in the international market.

The major components of PSD are captured in the framework in Figure 1 below. The first set of framework components relates to creating market space for the private sector, which has a lot to do with deregulation and improving the investment climate. The second set of frameworks focus on government interventions through legal and regulation reforms. Thirdly, increases in the scale and scope of private sector contribution to economic growth outcomes will occur if the government reduces its role in the economy and/or if the private sector increases its role. In the context of developing and transition countries, where the government often assumes a more active role in economic activity, actions are needed to create a larger market space for private (Stevenson, 2010).

Figure 1: Private sector development conceptual framework



Therefore, the main intent of this study is to identify policy, legal and administrative constraints faced by private sector, prioritize those barriers, and provide practical recommendations to address those barriers.

1.6Technical Approach

For this study, the researchers follow a step wise approach that involves four interrelated steps as discussed in the subsequent paragraphs.

Step 1: Preliminary Assessment

Discussion with ARCCSA about work plan and approach was conducted. Then the researchers reviewed relevant policy documents and reports including the Amhara region's and the country's GTP-I, GTP-II, private sector related plans and procedures, policies, programs, strategies, literatures, reports, studies and others related sources that would have relevant information about the issues to private sectors.

Step 2: Information Gathering
After the initial assessment, different data gathering tools such as structured questionnaire, document reviews and Focus Group Discussions are employed to collect the proper data for the research problems and objectives at hand.

Step 3: Data Review and Analysis
Once the proper data is collected through reliable sources, the researchers checked the reliability of the data and conducted a thorough assessment to identify the main policy, legal and administrative barriers to private sector development in the region; prioritize those barriers faced by the private sectors; and provide policy recommendation to tackle the identified barriers.

Step 4: Report Preparation and Presentation
The findings of the thorough analysis and review are presented in the form of a report and the first draft is submitted to the ARCCSA for comments. Then, the final draft report will be prepared after incorporating comments from PSD Hub of ARCCSA. For further improvement, presentation will be conducted to ARCCSA, professionals to the field and key stakeholders to solicit additional inputs on the draft report. Finally, a final report will be prepared and submitted to ARCCSA after incorporating all valuable comments and suggestions that collected from the validation workshop.

1.7 Research Methodology

This section presents research methodology adopted to examine the main barriers to private businesses in the Amhara region in line with the problems and objectives stated in the previous sections. The main subsections subsequently discussed include research approach, population and sample, research data and collection instruments, and data analysis methods or techniques used for this study.

1.7.1 Research Approaches

Having the research problems and objectives stated in the previous sections, mixed methods approach which is the blend of both qualitative and quantitative approaches is employed. The data collection involves gathering both numeric information and text information. Indeed, mixed approach is characterized by its time-intensive nature of analyzing both numeric and text data, and requires a great level of effort from the researcher such as need for extensive data collection.

1.7.2 Population, Sample Frame and Sample

The study population consisted of all private businesses currently operating in the Amhara region. The sample frame includes all private businesses which are member to the Amhara Chamber of commerce in major cities of the region. List of business communities taken from ARCCSA, zonal and city chambers and regional trade and investment bureau. Regarding sample size determination, two stage sampling was used to undertake this research. In the first stage, the researchers select sectors from major cites of Amahra region (Bahir Dar, Dessie, Woldiya, Gondar, Debre Markos, and Debre Tabor) in which samples was taken and then select the required sample size from each cities. In the second stage, major sectors divided in to scale of enterprise; micro, small, medium and large scale, and the representative samples were selected based on their proportion. From each case area; respondents were taken on simple random base on the proportion of number of registered members. As with most other research, a confidence level of 95% is assumed. For 95% confidence level (i.e. significance level of α = 0.05), z = 1.96. This research used Yemane's formula for estimating the sample size (Yemane, 1967).

$$n = \frac{N}{1 + N(e)^2}$$

Where, n = sample size, N= population, and e = error estimate (0.05%) at 95% confidence interval.

$$n = \frac{29{,}452}{1 + 29{,}452(0.05)^2} = 395$$

According to data obtained from ARCCSA, the total active member of city chamber of commerce and Sectorial association is 32,952, and proportional numbers of samples are shown in the following table.

Table 1: Sample Size across Major Cities and Sectors Types

No	City	No. of active member	Sample Size (n)	Sample Distribution by Economic Sector		
				Manufacturing	Trade	Service
1	Bahir Dar	12,341	165	26	86	53
2	Dessie	3,252	44	8	9	27
3	D/Markos	4,324	58	9	33	16
4	Gondar	3,220	44	3	28	13
5	Woldiya	4,355	58	4	25	29
6	D/Tabor	1,960	26	1	12	13
Total	29,452	395	51	193	151	

Source: Own Computations

1.7.3 Data Collection Techniques

The first and foremost task in any statistical investigation is collection of the proper data. This study required collecting both primary and secondary data using quantitative and qualitative methods from relevant sources. The main data collection techniques used for this study are presented in subsequent sub-sections.

1.7.3.1 Document Review

A document review of various reports and documents were conduct to understand the context of the economic, political and legal environments for the business community. Documentary analysis conducted to obtain broad, in-depth and specific information from secondary data. The study has exhaustively reviewed all relevant documents, including GTP I and GTP II documents, legal and policy documents, regulation, previous studies and reports about private sector development, World Bank and IMF reports about the country, and Citizen Charter. This review provided a broader view and deeper understanding of the research problems and findings.

1.7.3.2 Structured Questionnaire

Data was gathered primarily through survey from business communities through structured questionnaire. For this study, 395 samples were selected from major regional cities in which questionnaire were administered and distributed, and 308 questionnaires were responded and used for analysis. The questionnaire was developed in line with the main objective of the study. The questions are adapted from prior studies and previously designed questioners but with certain modification to feet with regional context and the objective of the research. The questions were designed and arranged in a logical format and order. In order to ensure the comprehensiveness of data, the questionnaire consists of both open ended and close ended statements, many of which are statements stated on a 5 point Likert scale. Open ended part of the questionnaire consists of questions where the respondents were asked to describe the answers on the space provided for additional explanation and comments.

1.7.3.3 Focus group discussions (FGD)

A focus group discussion (FGD) is a good way to gather people together from similar backgrounds or experiences to discuss a specific topic of interest. The group of participants is guided by a moderator (or group facilitator) who introduces topics for discussion and helps the group to participate in a lively and natural discussion amongst them. For this study, FGD was conducted with selected business community's representatives and experts in concerned government offices to get high quality data in assessing barriers to private sector growth in Amhara region where participants can consider their own views in the context of the views of others. The numbers of participants in each discussion were four to five people arranged as member to three FGD groups. Experienced facilitator was selected to conduct a carefully planned and focused discussion. FGD members forwarded vast amount of information during their discussion. After finalizing the FGD, the researchers transcribed and coded the session. The FGD session was carefully analyzed and presented in the final report of the evaluation.

1.7.3.4 Field Observation

To cross check the data collected using the above methods, direct field observation was conducted. Field visits was done on selected sites (each sector based associations and institutions, and the selected business communities' locations), in consultations with the client and all relevant stakeholders.

1.7.4 Data Analysis Method

Data collected through the instruments above were considered for verification (for completeness), editing, grouping and classification of raw data. Then questionnaires encoded in to SPSS version 20 data entry application software.

Hand verification and cleaning of data is a continuous process and begins as soon as entered data is available.

When compiling and analyzing the collected data and documents, the researchers exert at most effort to make the data analysis and interpretation proficient and clear, and to ensure that findings or results are presented fully, understandably, and fairly. Upon completion of data collection, descriptive method of data analysis was used by the researchers in order to meet the stated research objectives. Detailed explanation and interpretation of the collected data was made by presenting the data in the form of tables, frequency distribution, percentage and other suitable forms of data presentation with the help of SPSS 20 software packages. In analyzing and interpreting the collected data and documents, the researchers ensured that conclusions are carefully distinguished from the factual findings, and great care was taken to ensure the conclusions and the findings are consistently presented. A Matrix present that prioritized lists of policy, legal and administrative barriers for private sector growth in the region.

1.7.5 Data Quality Management

Quality data is crucial to all studies. To ensure that the findings are true, i.e. findings accurately reflect the situation, triangulation was employed. The researchers also understand that relevance; validity, reliability, objectivity, integrity, completeness, generalizability, and utility are critical aspects to consider when assessing quality for data. To this end, the following procedures were undertaken to ensure the quality of the data and findings of the analysis;

- Goals, objectives, indicators, and research questions are clearly stated;
- Detailed plan for data collection and analysis was prepared beforehand;
- Data collector was trained about objectives of the survey, and methods for data collection;
- Experienced and responsible staffs were hired for the field work;
- Data quality check conducted at every stage on the field (coding, entering cleaning, verification and analysis stage); and
- Ensure the confidentiality of the collected data.

1.7.6 Ethical Consideration

Ethical considerations can be specified as one of the most important parts of the research. Ethical standards prevent against the fabrication or falsifying of data and therefore, promote the pursuit of knowledge and truth which is the primary goal of research. In conducting this task, the researchers established clear intentions and procedures to assure the privacy of respondents and the confidentiality of the information they provided. To this end, informed consent and privacy of the subjects of respondents assured and whatever information they provide, including the identity of individual respondents and all information that might identify a respondent with his or her responses kept confidential. In the verification of information, the data encoders and all that are involved are strictly instructed to protect the identity of respondents from outside disclosure.

2 Business Climate and Private Sector Development in Ethiopia

2.1 Introduction

Private sector is defined as any organization in a nation's economy or jurisdiction that functions through market processes, and are not under the direct control of government. This definition clearly includes all economic activities undertaken in the economy, excluding those in the public sector, namely, the General Government, public financial corporations and public non-financial corporations (Kolli, 2010). It covers all private actors – the poor and rich, individuals and businesses – engaged in risk taking to generate income or profits. According to the Organization for Economic Cooperation and Development (OECD), the donor community conceives the private sector as a basic organizing principle for economic activity where markets and competition drive production, and private initiative and risk-taking set activities in motion (OECD, 2008).

Indeed, private sector development demands a good investment climate, which is characterized by political stability; confidence in the future; mutual trust, understanding, dialogue and collaboration amongst stakeholders; rule of law; protection of citizen's rights; diverse democratic institutions; and smooth legal, fiscal, regulatory, and administrative frameworks governing all spheres of private initiative in a predictable, consistent and impartial manner. The investment climate, mainly in developing countries, should have effective policies providing opportunities and incentives for firms from microenterprises to multinationals to invest productively, create jobs, promote economic growth and alleviate poverty (World Bank, 2005). Accordingly, Ethiopia recognized the crucial role of the private sector in the process of sustainable economic and social development, and took different development initiatives to boost the private investment since early 1990s. This is articulated in, in the important policy-plan documents, SDPRP (2002), PASDEP (2005), GTP I, GTP II and other policy documents. Since the formulation of the first growth and transformation plan, greater focus on understanding the potential contribution of the private sector as well as formalizing how this contribution could best be realized was encapsulated.

However, Africa's legal and regulatory environment for private sector ranks amongst the least business friendly in the world. African entrepreneurs face more hurdles in registering businesses and obtaining business permits than other regions. For instance, Sub-Saharan Africa (SSA) comprises 19 of the bottom 30 countries ranked in the 2018 Doing Business report. Likewise, Ethiopian private sector is depicted to traditional organization structures, weak financial positions, weak human capital, limited international trade practices, lack of dynamic entrepreneurship, suboptimal size of enterprises, and negative societal perceptions namely "money chaser", which is associated with "Negade" in Amharic (AACCSA, 2008).

2.2 Geographical, Political and Historical Context of Ethiopia

2.2.1 Geography and Population

Ethiopia is a land locked country located in the Horn of Africa, bordered by Eritrea to the north and northeast, Djibouti and Somalia to the east, Sudan and South Sudan to the west, and Kenya to the south. The country is made up of nine federal states, organized along ethnic lines, and two self-governing city administrations. With a population of 102 million, Ethiopia is the second-most populous country in Africa. Of the country's more than 80 ethnic groups, the Oromo and Amhara are the largest, accounting for 35% and 27% of the population, respectively. Amharic is the official national language (Central Intelligence Agency , 2016).

Figure 2: Map of Ethiopia

Source: Country Review, 2018

2.2.2 Political Situation

Ethiopia defends her sovereignty all the time and free from colonial rule with the exception of a short-lived Italian occupation from 1936 – 41. In 1974, the Derg regime deposed Emperor Haile Selassie (who had ruled since 1930), and established a socialist state. Torn by bloody coups, uprisings, wide-scale drought, and massive refugee problems, the regime was finally collapsed in 1991 by a coalition of rebel forces, and the EPRDF, current ruling party came to power. Soon, constitution was adopted in 1994, and Ethiopia's first multiparty elections were held in 1995.

However, war and civil unrest continues despite relative serenity. A border war with Eritrea in the late 1990s ended with a peace treaty in 2000 with the signing of Algiers agreement. Civil unrest since 2015, rooted on regional and ethnic tensions, results the devastation of many private and public enterprises in the Amhara and Oromia region, led to the introduction of a 9-month state of emergency in 2016 (Norwegian Institute of International Affairs, 2018). During the state of emergency, the government power brought mass detentions, using military troops to quell protests, imposing politically motivated criminal charges and numerous restrictions on people's movement and communications including internet use. Such political unrest continues and ends up with the resignation of the prime minister in February, 2018. As a result, during 2017, Political Risk Index and Political Stability Index of Ethiopia is 4 and 4.5, respectively. Scores are assigned from 0-10 using the aforementioned criteria. A score of 0 marks the highest political risk, while a score of 10 marks the lowest political risk (Human right watch, 2018).

2.3 Macroeconomic Performance

2.3.1 Overview

Ethiopia is one of the fastest growing economies in the world, with an average real GDP growth rate 9.9% during 2012/13-2016/17, registered 10.9 percent growth in 2016/17 (NBE, 2017). Yet despite progress toward eliminating extreme poverty, Ethiopia remains one of the poorest countries in the world. The robust economic growth record has been accompanied by high inflation, foreign currency shortage, rain-fed agriculture, and export of few primary commodities. The country's foreign exchange earnings are led by the service sector primarily the state-run Ethiopian airlines, followed by primary commodities, i.e. coffee.

Table 2: Main Development Indicators for Ethiopia (2013 – 2017)

Indicator Name	2013	2014	2015	2016	2017
Real GDP (in Billions of Birr)	568	627	692	747	1,577.1
Annual Growth in Real GDP (in %)	9.9	10.3	10.4	8	10.9
Real GDP per capita (in Birr)	7,299	7,625	8,571	8,864	18,257.5
Inflation (CPI growth rate)	13.5	8.1	7.7	9.7	7.2
Population, total (millions of people)	84.8	87	89.1	91.2	93.4
Total investment (% of GDP)	34.08	37.98	39.42	38	39
Gross national savings (% of GDP)	28.06	30.68	32.35	32.67	32.06
General government gross debt (% of GDP)	42.8	46.8	54	54.9	56
Current account balance (% of GDP)	-5.9	-6.4	-10.1	-8.9	-8.1

Source: National Bank of Ethiopia annual Report (2016/17) and WEO Database

According to Legatum Propensity Index, Ethiopia ranked 134th out of 149 nations on overall performance indicators. The country scores the lowest on business environment pillar despite the best performance on governance and health in 2017. Compared to 2016, Ethiopia has the biggest positive change on health, whereas dropped 29 places on economic quality. Business environment has posted 21 rank declines over the last decade, and is the main area of concern for Ethiopia which ranked 134th in 2017. This is mainly due to lack of access to credit and electricity, where private sector is significantly underdeveloped (LPI, 2017). Overall, Ethiopia performs poor on all indicators than Rwanda and Kenya, which scores best in business environment.

Table 3: Country Performance Indicators (2017)

Indicators	Ethiopia		Kenya (2017)	Rwanda (2017)
	2016	2017		
Economic quality	91st	119th	107th	96th
Business Environment	132nd	135th	46th	26th
Governance	115th	108th	76th	47th
Education	128th	128th	104th	123rd
Health	128th	118th	117th	82nd
Safety and security	123rd	121st	132nd	106th
Personal freedom	126th	130th	103rd	79th
Social capital	120th	125th	14th	84th
Natural environment	122nd	129th	104th	115th
Overall score	132nd	134th	99th	87th

Source: Legatum Propensity Index (2017)

2.3.2 Sectoral Contributions to Ethiopian Economy

Recently, the Ethiopian government has adopted the 2nd five year Growth and Transformation Plan (GTP-II) to carry forward the important strategic directions in maintaining a fast growing economy in all sectors. According to National Bank of Ethiopia, during 2016/17 fiscal year, the key driver of the recent growth is the services sector, with an average growth rate of 10.3 %, followed by 6.7%

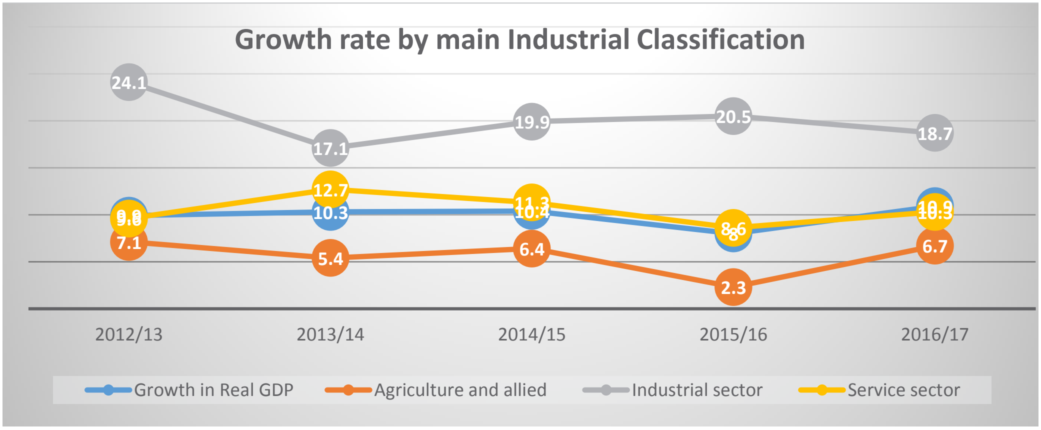
in agriculture and 18.7% in industrial sectors. During the 2016/17 fiscal year, the industry sector contributed 24.7% to total GDP growth, followed by agriculture and service sector contribution of 18.5% and 9.4%, respectively. Table 5 below shows the contribution of the various sector to GDP between 2012/13 and 2016/17.

Table 4: Contribution of major economic sectors to GDP (2012/13 - 2016/17)

Indicators	2012/13	2013/14	2014/15	2015/16	2016/17
Agriculture & allied activities(in Bill.of Birr)	238.8	251.8	267.8	274	292.4
Industrial sector(in Billions of Birr)	73.9	86.5	103.7	125	148.375
Service sector (in Billions of Birr)	259	292	325	353	389.359
Sectoral share to GDP Ratio					
Agriculture and allied Share (in %GDP)	42.0	40.2	38.7	36.7	36.3
Industrial sector Share (in %GDP)	13.0	13.8	15.0	16.7	25.6
Service sector Share (in %GDP)	45.6	46.6	47.0	47.3	39.3

Source: National Bank of Ethiopia, 2017

Figure 3: Growth rate by main Industrial Classification (2012/13 - 2016/17)



Source: (NBE, 2017) annual report

The structure of the Ethiopian economy is dominated significantly by subsistence agriculture in terms of GDP, export share and employment. With the Agricultural Development Led Industrialization (ADLI) policy, the Ethiopian government aims to develop the agricultural sector and ensure food security. The GTP-II recognizes agriculture as the main driver of the economy, singling out smallholder agriculture as the priority area for the envisaged transformation: achieving sustainable increases in agricultural productivity and production, accelerating agricultural commercialization and agro-industrial development, reducing degradation, improving productivity in natural resources, achieving universal food security and protecting vulnerable households from natural disasters. However, the sector is still dominated by rain-fed subsistence production, and is highly vulnerable to variations in climate. Recurrent droughts continue to make food security a critical issue for millions of smallholder farming households. Moreover, the technologies used are resource-demanding and outdated, with heavy dependence on livestock power for most farming activities.

Ethiopia has also adopted the Industry Development Strategy in 2003 that primarily focus on the promotion of agricultural-led industrialization, export led development, and expansion of labor intensive industries. The strategy has set the principles that clearly stated the pivotal contribution of the private sector, the leadership role of the government, and the integrated and coordinated participation of the public at large in nurturing the sector. Accordingly, the government has started construction of Industrial Parks to address the working premise requirement of domestic and foreign large enterprises.

The country currently has only three industrial parks in operation, neither of which located in the Amhara region, with a range of tax and infrastructure investment incentives (ABP, 2017). However, domestic small and medium enterprises require a plot of land to establish their own manufacturing premises thus, unless the government undertakes rapid reform in land management and administration systems of the regions and city administrations of the country, industrial park development alone cannot enable the nation to achieve the required goals (TAK-IRDI, 2016).

Figure 4: Industrial park distribution

Source: Ethiopian Investment Commission (2017)

As shown in table 5 below, industrial sector showed 18.7 percent annual growth and accounted for 9.4 % percent of GDP. Construction industry contributed more than half (70.9%) to industrial sector and expanded by 20.7% signifying the leading role the construction sector plays in terms of roads, railways, dams and residential houses expansion (NBE, 2017).

Table 5: Growth and Percentage Distribution of Major Industrial and Service Sub-sectors

Sector	2012/13	2013/14	2014/15	2015/16	2016/17
Growth rate of Industrial sector:					
Manufacturing sector	16.9	16.6	18.2	18.4	17.4
Construction sector	38.7	23.9	31.6	25.0	20.7
Electricity and Water	10.0	6.8	4.5	15.0	11.4
Share to industrial sector:					
Manufacturing sector	33.6	33.4	33.0	32.4	25.0
Construction sector	47.1	49.9	54.8	56.8	70.9
Electricity and Water	8.3	7.6	6.6	6.3	3.0

Source: NBE (2017) annual report

In Ethiopia, the services sector is dominated by very small and informal establishments such as restaurants, hotels, hair salons, repair services shops, internet cafes, grain mills, taxi operators, retailers, printing outlets, drug shops, pharmacies, bakeries, butcheries, and the like.

Table 6: Growth and Percentage Distribution of Major Industrial and Service Sub-sectors

Sector	2012/13	2013/14	2014/15	2015/16	2016/17
Service sector					
Whole Sale and Retail Trade	33.9	35.3	35.7	35.6	34.6
Hotels and Restaurants	8.6	9.7	11.3	12.0	5.4
Transport and Communications	10.1	10.1	10.2	10.7	12.5
Share in service sector					
Whole Sale and Retail Trade	33.9	35.3	35.7	35.6	34.6
Hotels and Restaurants	8.6	9.7	11.3	12.0	5.4
Transport and Communications	10.1	10.1	10.2	10.7	12.5

Source: National Bank of Ethiopia annual report (2017)

2.3.3 External Sector

The external sector covers the changes on the growth and composition of exports, imports and the resultant trade balance and current account position of the country. But, the legal system and procedures regarding export license, property ownership and tax liability may be another challenge for SMEs for their foreign market entry. When judged by its performance in the Doing Business (Trading across Borders and obtaining trade license) indicators, Ethiopia has not shown much progress in the past years. As the ease of doing business (2018) report indicated, Ethiopia ranked 131st and it takes a minimum of six working days to obtain trade license. The country also ranked 167th in trading across borders. According to the Global Competitiveness report, Ethiopia ranked 109th most competitive economy out of 137 nations in the world (GCR, 2018).

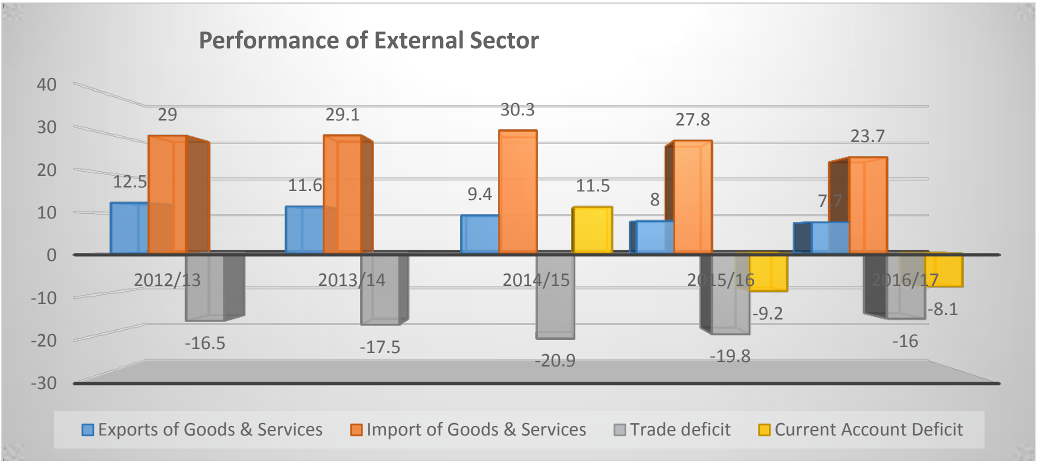
In addition, the Logistics Performance Index (2017) data shows that Ethiopia ranked 126th with an overall score of 2.38 out of 160 countries in year 2016. The logistics performance has shown some recent improvements as the government acknowledges the challenges and has begun taking steps towards improving the sector including the issuance of a new Customs Proclamation (that is in line with international standards); development of dry ports; provision of multimodal transport services and the development of a national logistics strategy. Key structural bottlenecks in Ethiopia are the high costs of trade, a restrictive and complicated policy and regulatory environment (a burdensome documentation and permitting system, policy and institutional challenges in road, freight forwarding, shipping, transit, and trade finance, and lack of modern legislation in many trade related areas) and poor infrastructures. Steps to reform policies and invest in infrastructure would deliver better outcomes by reducing trade costs and removing a key constraint to more diverse export-led growth.

Indeed, Ethiopian government adopted an export promotion strategy (EPS) in 1998 that was later (in 2003) developed into a full-fledged industrial development strategy (IDS). The government has made notable efforts to promote export in selected priority industries (particularly light manufacturing such as textile, leather, and other agro-industries) through setting targets and providing multifaceted support to meet these targets. The Ethiopian government provided various export promotion instruments including duty drawback scheme under "export trade duty incentive scheme proclamation no. 768/2012, export subsidies, tariff or duty exemptions for capital imports and tax holidays for exporting industries. Despite these efforts in the last two decades, the export market remained less diversified, and its contribution to structural transformation remained diminutive. The sluggish export growth and surge in imports has led to a shortage and, thus, rationing of foreign currency that is crucial for importing capital goods and other intermediate inputs that are required to sustain growth in manufacturing and other sectors (Ferede & Kebede, 2015).

The country's export performance during the period 2012/13– 2016/17 showed consistent growth in aggregate, though fluctuation was observed in certain export commodities. However, the total export value decline from Birr 12.5 million in 2012/13 to Birr 7.7million in 2016/17. The main share of Ethiopia's export comes from primary agricultural commodities, but earnings remain vulnerable to price shifts in the international market. Coffee is still the largest earner of foreign exchange from exports, followed by oilseeds, live trees, plants and cut flowers (Norwegian Institute of International Affairs, 2018). According to ministry of trade (2017), the top five export products with the highest dollar value include Coffee (US$745.2 million, 31.6% of total exports), oil seeds ($524.3 million, 22.2%), live trees, plants, cut flowers ($258.3 million, 10.9%), gems and precious metals ($179.5 million, 7.6%), and machinery including computers ($171.6 million, 7.3%).

Likewise, the country's import has been increased disproportionately more than exports for more than two decades. The country imports capital and consumption goods that are not supplied in sufficient quantity by domestic market. Although, the country's aggregate import over the last five years decline from 29.0 million in 2012/13 to Birr 28.0 million in 2016/17, the magnitude of trade deficit increased from Birr 16.5 million in 2012/13 to Birr 18.2 million in 2016/17.

Figure 5 : Performance of external sector (in million Birr), 2012/13– 2016/17



Source: NBE annual report (2016/17)

2.3.4 Fiscal and Monetary Policy Developments

2.3.4.1 Fiscal policy

The fiscal policy focused on raising domestic revenue and limiting government expenditure to soften its impact on inflation since 1990s. Accordingly, efforts have been made in reforming the tax policy and administration, redirecting the overall expenditure to development and poverty oriented social and infrastructure sectors such as education, health, road, agriculture and food security, and water. The main sources of expenditure financing are domestic tax revenues and external grants.

2.3.4.2 Monetary policy developments

The central focus of monetary policy has been to curb inflationary situations and exchange rate management. Inflation reflects erosion in the purchasing power of money – a loss of real value in the internal medium of exchange and unit of account in the economy. Since July, 2008 an all-time high inflation rate of 64 per cent was recorded in Ethiopia (Getaneh & Sailaja, 2017). As an attempt to reduce inflationary pressures and to boost exports, the National Bank of Ethiopia (NBE) has raised its benchmark interest rate by 200bps to 7 percent and has devalued the Ethiopian birr by 15 percent on October 10th, 2017. The NBE's policy rate on bank deposit is currently at a minimum of 7 percent, while banks are free to pay above the minimum and to set their own loan rates.

In addition, foreign exchange management has been central in government's monetary policy since the early 1990s, which the country followed a managed floating exchange rate regime, with periodic devaluations. The National Bank of Ethiopia has adjusted the nominal exchange rate in September 2010/11. A weaker real exchange rate could support a number of key policy objectives, including growth, exports, structural change and an improved external balance. In Ethiopia, a one percent devaluation of the real exchange rate is estimated to boost exports by ½ percent with larger effects in manufacturing (1 percent) than in agriculture (1/3 percent). But, its implementation requires an appropriate monetary and fiscal framework and represents trade-offs with respect to the local currency value of public capital imports and external debt (Haile, 2015) .

2.4 Investment Climate in Ethiopia

As investment is the main driving force to become a middle income country by 2025, the Investment Proclamation (No.769/2012) and Council of Ministers Regulation Concerning Investment Incentives and Investment Areas Reserved for Domestic Investors (No.270/2012) promulgated in 2012 constitute legal foundation for foreign and domestic investment. As for tax incentive scheme for investment promotion, Ethiopian government provides tax holidays and exemption of import duty for capital goods for some strategic sectors such as manufacturing, agriculture, agro-processing and power generation. The government also has the fiscal incentive scheme for export promotion such as tax exemption for import of raw materials for export purpose, Duty-Drawback Scheme, Voucher Scheme and Bonded Export Factory Scheme. However, some schemes have not been fully utilized due to their complicated structure and time consuming procedures for reconciliation.

In addition, Ethiopia promulgated "Proclamation on Industrial Parks" (Proclamation No.886/2015) in April 2015 with a view to attract strategic industries from both foreign and domestic investors. The development of industrial parks aims to improve the issues of infrastructure, logistics, customs clearance, and environmental protection as well as linkages between large enterprises and small and medium enterprises (SMEs). Industrial parks are designated as duty-free zones under the Industrial Park Proclamation 886/2015, and operators in the parks are exempt from income tax for up to 10 years. An investor in an Industrial Zone located in Addis Ababa or its immediate surroundings is entitled to an additional two years of income tax exemptions, and to four more years income tax exemption if the investment is made in an industrial park in other areas, provided 80 percent of production is for export or constitutes input to an exporter. Investments in industrial parks are also exempt from duties and other taxes on the import of capital goods, construction materials and raw materials for production of export commodities and vehicles. As of March 2017, only four industrial parks were operational (Hawassa, Bole Lemi-I, East Industrial Park and George Shoe Park), neither of which in the Amhara Region (Bureau of Economic and Business Affairs, 2017).

In Ethiopia, labor-intensive industry has relatively strong competitiveness by taking advantage of availability of cheap labor force. The country's potential areas of investment are labor intensive industry, domestic market-oriented industry and infrastructural developments (JICA, 2015). Regarding investment trend, 468 projects with an investment capital of Br 8.9 billion became operational in 2016/17, of which 467 were privately owned. These investment projects are estimated to have created job opportunities for about 30,487 permanent and temporary workers.

Table 7: Operational Projects with Capital and Job Creation (investment in Millions Birr)

Types of project	Item	2014/15	2015/16	2016/17
Total investment	Number of project	407	852	468
	Capital	4,135.0	6,708.6	8,896.9
	No. of workers (permanent and temporary)	21732	25434	30487
Private investment	Number of project	407	852	467
	Capital	4,135.0	6,708.6	3,899.6
	No. of workers (permanent and temporary)	21732	25434	30467

Source: NBE annual report 2016/17

Regarding the regional distribution of 468 projects in operation, about 376 projects with Birr 8.3 billion capital were located in Addis Ababa, followed by 42 projects with Birr 104.5 million capitals in Amhara region. Similarly, 21 projects with investment capital of Birr 65.9 million were in Tigray. There was no operational investment project in Afar, Somali, Benishangul Gumuz, Gambella, Harari and Diredawa during 2016/17 fiscal year.

Table 8: Number and Capital of Operational Project by Region (Capital in million Birr)

	Region	2014/15		2015/16		2016/17	
No		No of project	Investment capital	No of project	Investment capital	No of project	Investment capital
1	Tigray	49	207.3	45	111.5	21	65.9
2	Amhara	4	10	7	13.6	42	104.5
3	Oromia	304	1,398.4	26	345.9	19	335.6
4	SNNPR	1	13.8	2	5.2	10	183.5
5	Addis Ababa	31	2381.5	755	6147.6	376	8307.5
6	Other	18	124	17	84.8	0	
	Gran total	407	4135	852	6708.6	468	8896.9

The major issues for investment climate in Ethiopia are discussed (JICA, 2015) in subsequent sub-sections.

1. Establishing Companies and Getting Investment License

To start an investment project in Ethiopia, an investor is required to establish legal status by commercial registration and gets investment permit. The business license has to be renewed annually. The level of required minimum capital for an investment permit to the income level is relatively high compared with other neighboring countries. The criteria for screening the applicants for the investment permit and business license are also not clear. Renewal of business license may be a further cumbersome process after the operation of the business. Some companies had difficulty in obtaining or renewal of licenses for reasons which were not stated on the official legal documents. Periodic renewal with submission of documents including the certificate of tax clearance is a burden for investors.

Table 9: Starting Business Indicators

1	Procedures (number)	12
2	Time (days)	33
3	Cost (% of income per capita)	57.84
4	Paid-in Min. Capital (% of income per capita)	0
5	Ease of Starting rank	174

2. Foreign Exchange and Remittance

Foreign investors can freely make remittances such as profit, dividend, principle and interest for loans from overseas, and royalty and fees from technical transfer agreement. However, the Ethiopian foreign exchange regime has not liberalized capital account, and transactions such as repatriation of profit and borrowing foreign currency loans require pre-approval from the National Bank of Ethiopia (NBE). In addition, foreign currency allocation for opening Letters of Credit needs long time (mostly 1–3 months) depending on the foreign currency position of commercial banks. Furthermore, certain restrictions on foreign currency possession for exporters are imposed that impedes smooth operation of private business activities in Ethiopia.

3. Taxation and Accounting

Ethiopian tax and accounting system is under transitional period of reflecting global business practice. Although the laws and regulations for taxation exist, factors such as arbitrariness in application of rules and inexperienced tax officers (due to high turnover) cause uncertainty and long time for completion of the process. Issues such as deductible expense, Value Added Tax (VAT) refund, tax audit and international taxation tends to put burdens on the investors.

4. Trade Logistics

The most serious logistics problems in Ethiopia are long lead time and high cost for import of goods. Although Multimodal Transportation System (MTS) is used, the government has been trying to simplify customs clearance procedures and to reduce the dwell time of cargos in Djibouti. However, as state owned Ethiopian Shipping and Logistic Service Enterprise (ESLSE) is exclusively allowed for the shipping and forwarding services for MTS, some inefficiency is observed. Accordingly, the government has been preparing the National Logistics Strategy which is a comprehensive promotion policy for trade logistics sector supported by the United Nations Development Program (UNDP). In addition, some international donors like IFC have been implementing Investment Climate Program that aims to simplify trade-related administrative procedures by introduction of the Single Window System.

5. Customs Duty and Customs Clearance

The Customs Proclamation (Proclamation No.859/2014) promulgated in 2014 aims to modernize customs duty and tax collection. However, some parts of significant reform have not been implemented since necessary regulations have not been issued related to important issues like customs valuation and advance ruling. In addition, incentive system for export promotion regulates six schemes including tax exemption, which is expected to reduce burden for customs clearance procedure as well as customs duty. However, in practice, not many traders have taken advantage of the incentive scheme. As a result, IFC and other donors have been supporting Ethiopian government for institutional development aiming at the streamlining areas such as drafting regulations for the Customs Proclamation, introducing the Single Window, capacity building for risk management, and developing standard operation procedures in ERCA.

6. Infrastructural Development

Ethiopia is mounting a highly ambitious economic infrastructure development program, which has already resulted in significant expansion of installed electricity capacity and distribution, road length, water and sanitation supply, and telecommunication services throughout the country. Its infrastructure indicators now compare relatively well in some areas with low income country peers. Furthermore, Ethiopia is starting to develop its infrastructure connections to neighboring countries, including transportation and power links (Assefa, Bienen, & Ciuriak, 2012)). Nevertheless, according to the Global Competitiveness Index (2018) report, Ethiopia rank 115 with 2.7 assessments out of 137 countries during 2017/18 for infrastructure pillar.

Table 10: The Global Competitiveness Index in Infrastructure for Ethiopia (2017)

Indicator	Rank	Assessment point
Quality of roads	97	3.3
Quality of railroad infrastructure	61	2.9
Quality of port infrastructure	119	2.7
Quality of air transport infrastructure	77	4.2
Available airline seat kilometers millions per week	51	442.5
Quality of electricity supply	109	3.2
Mobile-cellular telephone subscriptions per 100 pop.	133	50.5
Fixed-telephone lines per 100 pop.	118	1.1
Quality of overall infrastructure	115	2.7

Source: The Global Competitiveness report, 2018

However, key sectors including telecommunications and power distribution are still state-owned. Even the banking and insurance sector is predominately owned by the government banks and insurance. Regarding energy, Ethiopia has enormous potential for hydropower and geothermal energy generation with an estimated hydro-power potential of 45,000 MW, a geothermal potential of 10,000 MW and 1.3 million MW potential from wind farm. Considering the increasing power demand and capacity shortfall in the system, the country has been venturing to diversify its production of renewable energy to wind and geothermal sources. In fact, the amount of electric power generated in 2016/17 was about 12.5 billion KWH, showing a 19.8 percent annual expansion. But, as the sector owned by the Ethiopian Electric Power Corporation (EEPCO) with monopoly, power supply has two critical issues: the quality of power supply and the participation of foreign private investors in the power sector. A number of investment projects to set up generation plants including on-going projects such as Grand Renaissance Dam project. The transmission and distribution is reserved only for government entities, and the quality of power supply needs improvement. On the other hand, the government has been preparing for private sector participation starting with geothermal generation.

Table 11: Getting electricity indicators in Ethiopia (2017/18)

Getting Electricity	Procedures (number)	4
Getting Electricity	Time (days)	95
Getting Electricity	Cost (% of income per capita)	1,027.9
Getting Electricity	Reliability of supply and transparency of tariff index (0–8)	0
Getting Electricity	Ease of getting electricity (DTF)	59.3
Getting Electricity	Ease of getting electricity RANK	125

Source: World Bank, 2018

The rapid and sustainable economic growth in the country requires availability of a national road and railway network. Cognizant of its fundamental role, the Government has identified the road sector as top priority for public investment and remarkable progress has been made in the expansion of the road network in the country (EIC, 2015). In 2016/17, total road network reached 120,171 Km, showing a 6.3 percent annual expansion. The Ethiopian government has also formulated a strategic plan to construct a total of 2,395 km of national railway network. Besides to road and railway network, air transport is an important part of Ethiopia's transport network. Ethiopian Airlines, Africa's World Class Airline, which has gained a very good reputation internationally in its 68 years of active services, provides both domestic and international air transport services. With an outstanding safety and profitability records, the airline links Ethiopia with 17 destinations internally and over 60 destinations worldwide, 40 cargo destinations spread across Africa, Europe, Asia and the Middle East.

Since telecommunication is another prime support services needed for rapid growth and modernization of various sectors of the economy as well as for attracting investment, creating market opportunities, enhancing competitiveness and boosting regional economic integration, the Ethiopian government has made huge investments to improve service quality, coverage and institutional capacity in the telecom sector. Indeed, Ethio Telecom, the sole telecom service provider in the country, provides national and international telecommunications services using Satellite, Micro-wave, Digital Radio and Multi Access System. As a result, the country's telecom and ICT situation is one the most underdeveloped in the world. ICT Development Index of the International Telecommunications Union ranks Ethiopia as 162nd out of 166 countries (34th out of 38 SSA countries). Likewise, the Network Readiness Index of the World Economic Forum ranks Ethiopia as 130th out of 143 countries (24th out of 32 SSA countries), and the web index of the World Wide Web Foundation ranks Ethiopia as 86th out of 86 countries (21st out of 21 SSA countries).

Regarding water supply, Ethiopia utilizes a small portion of huge run-off and ground water potential. During 2016/17, the proportion of people having access to potable water supply improved by 5 percentage point to 66 percent. Regional distribution in terms of percentage of people with access to potable water, Addis Ababa had (92%) followed by Amhara (75%), Afar region had 46 percent accessibility to potable water registered the lowest percentage.

Furthermore, finance is the core element of any investment process. Banks, insurance companies and microfinance institutions are the major financial institutions operating in Ethiopia. The number of banks stood at 18, insurance companies 17 and micro finance institutions 35 by end of June 2017 (NBE, 2017). The financial sector in Ethiopia has been weak in supporting the private sector. Stringent collateral requirements to get access to credit from banks both for big and small firms are major impediments. The banking system is very poor in using current technology and providing an efficient service for its customers. This is complicated by the weak regulatory capacity of the country's central bank which can potentially make the banking sector vulnerable to a financial crisis. A problem that used to exist in the Ethiopian financial sector was the narrow interest rate spread between lending and borrowing rates (AACCSA, 2008). According to report by world economic forum, Ethiopia rank 109 with 3.4 assessments out of 137 countries in financial market development.

Table 6: Financial sector development

Indicator	Rank	Score
Availability of financial services	103	3.7
Affordability of financial services	79	3.7
Financing through local equity market	78	3.4
Ease of access to loans	95	3.5
Venture capital availability	50	3.2
Soundness of banks	118	3.6
Regulation of securities exchanges	92	3.9
Legal rights index (0-10, best)	95	3
8th Pillar: Financial market development	109	3.4

Source: World Economic Forum, 2018

2.5 Doing Business in Ethiopia

Doing Business measures aspects of business regulation and their implications for firm establishment and operations. It provides quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency for these indicators (WB, 2018). According to World Bank report, Ethiopia has implemented the lowest number of business regulation reforms since the launch of doing business with a ranking of 161st among the 191 economies. The country fares poorly on theme-specific business regulatory measures as measured by the Doing Business report. Four areas prove particularly challenging: starting a business (174th), dealing with construction permits (169th), getting credit (173rd), trading across borders (167th), and protecting minority investors (176th). Ethiopia does relatively better on enforcing contracts (68th), resolving insolvency (122nd), getting electricity (125th), and paying taxes (133rd).

Table 13: Rankings on Doing Business and Distance to Frontier (DTF) - Ethiopia

No	Indicators	Rank	DB 2018 (DTF)
1	Starting a business	174	68.43
2	Dealing with construction permits	169	50.55
3	Getting electricity	125	59.29
4	Registering property	139	51.32
5	Getting credit	173	15.00
6	Protecting minority investors	176	28.33
7	Paying taxes	133	62.14
8	Trading across borders	167	45.34
9	Enforcing contracts	68	59.99
10	Resolving insolvency	122	37.31
11	Labor market regulation	-	-
	Ethiopia country average	161	47.77

Sources: Doing Business (2018)

2.6 Political, Legal and Security Environment

2.6.1 Recent Security Situation

Ethiopia has been relatively politically stable for investors. Nevertheless, violent protests destabilized major towns throughout the Oromia and Amhara region in recent years. The recent political crises in the country resulted in economic crisis for the country as the clashes between security forces and local militias in the regions continues, and the violence and protests continued throughout August and September, 2016 in both Amhara and Oromia regions, including looting and burning of businesses and government offices. Since October 2016, Ethiopia was under state of emergency (SOE) that severely curtails basic human liberties in which individuals could be detained for an indefinite period without any reason (Bureau of Economic and Business Affairs, 2017). Ethiopia lifted the State of Emergency on June 5, 2018 following the new Prime Minister Dr. Abiy Ahmed came to power, who is viewed as a change agent and reformist by most residents and by the international community.

Nevertheless, there is still serious concern on the country's security as there are reports of severe civil unrest, protests and violence in various parts of the country including the Somali Regional State and Benishangul Gumuz regional states. Due to the disruption, British Embassy staff has postponed non-essential visits to such unrest areas until the situation is clearer. On June 23, 2018, a large rally in Addis Ababa in support of Ethiopian Prime Minister was disrupted by a bomb attack, resulting in around 150 injured.

2.6.2 Privatization Program

The Ethiopian government continues to privatize some government owned enterprises, which were nationalized during the Derg regime. The government prefers to engage in joint ventures with private companies in some instances rather than selling an entire entity. About 370 enterprises have been privatized since 1995, and the ministry currently controls twenty two public enterprises (Bureau of Economic and Business Affairs, 2017). The government took numerous measures as part of the fulfillment of the IMF and World Bank prescriptions. In 1992, the government agreed with IMF, World Bank and other donors to adopt a structural adjustment program. In September 1992, a policy framework paper for 1992/93 - 1994/95 was prepared and agreed upon with the World Bank and the IMF. Currently, Ethiopia is under huge privatization plan following the government's plan announcement in June 2018 to sell stakes in some of the country's most prized assets, including Ethio Telecom and the Ethiopian airlines, after decades of state control.

2.6.3 Land policy

In Ethiopia, land belongs to the people, but administered and retained by the government with the right to expropriate land for the common good such as expropriation for commercial farms, industrial zones and infrastructural development. Private land ownership does not exist, but land use rights have been registered in most populated areas. While the government claims to expropriate only sparsely settled or traditional grazing land to investors or infrastructural developments, many have been resettled that resulted resentment, protests, and conflicts. Land is fully owned by the state, but it can be leased for a maximum of 99 years. In fact, small scale rural landowners have an indefinite period of use rights, but cannot lease out holdings for a longer period of time except the Amhara region (Bureau of Economic and Business Affairs, 2017).

2.6.4 Legal System and Judicial Independence

Civil and criminal law of Ethiopia are codified, and the country has written commercial and contractual law. According to the contractual law, the contract agreement shall be taken as a law between contracting parties. Indeed, there are allegations of executive branch interference in judiciary if a case has political implications, but there is no evidence of interference on purely commercial disputes. Companies operating in Ethiopia affirm that the courts lack adequate experience and staffing, particularly with respect to commercial disputes. While contractual and property rights are recognized, judges often lacks understanding of laws with respect to commercial and bankruptcy matters and cases can face extended scheduling delays. Contract enforcement remains weak, though courts will at times reject spurious litigation aimed at contesting legitimate tenders. Accordingly, Ethiopia is in the process of reforming the commercial code in line with international practices. The draft addresses concerns raised by the business community including the creation of commercial court under the regular court system to improve judge expertise in business practices and increase the speed of resolving commercial disputes (Bureau of Economic and Business Affairs, 2017). Furthermore, the National Bank of Ethiopia (NBE) issued a directive in 2011 for all banks and insurance companies to adhere to International Financial Reporting Standards (IFRS). Foreign investors have complained about the abrupt cancellation of some government tenders, a perception of favoritism toward vendors who provide concessional financing, and a general lack of transparency in the procurement system. A 2017 regulation requires the Auditor General's office to directly identify irregularities in the procurement process. The regulation provides for criminal charges against officials involved in procurement irregularities. As a member to the UNCTAD's international network of transparent investment procedures, Ethiopia provides detail information for both foreign and domestic (national) investors about administrative procedures applicable to investment and income generating operations including the number of steps, name and contact details of the entities and persons in charge of procedures, required documents and conditions, costs, processing time and legal bases justifying the procedures (Bureau of Economic and Business Affairs, 2017).

2.6.5 Adoption of International Financial Reporting Standards

According to Proclamation No.847/2014 Article 5(1), Ethiopia has adopted International financial Reporting Standards (both full-IFRS and IFRS for SME) for the purpose of preparing financial statements in December, 2014. Article 5 of chapter three of the proclamation which is entitled as "Applicable Financial Reporting standards" Stipulates that "the financial reporting standards to be used when preparing financial statements shall be: a) International Financial Reporting Standards; or (b) International Financial reporting Standards for Small and Medium Enterprises; issued by International Accounting Standards board or its successor; and c) International Public Sector Accounting Standards Applicable to Charities and Societies issued by International Public sector Accounting Standards Board or its successor as adopted, adapted or amended by the Board."

2.7 The Role of Private Sector in GDP and Employment Creation

Private sector plays an essential role to reduce poverty and attain rapid and sustainable development by enhancing productivity, reducing unemployment and creating competition among workers. Private sector also enhances the efficiency of service delivery through creating public-private partnership. However, in Ethiopia, the private sector growth and contribution to the national economy is very limited. Particularly, during the first growth and transformation plan implementation period, private sector development has been neglected as the government was fully mobilizing its effort towards growth enhancing infrastructure development like construction of hydro-power dams, roads, railway and expansion of telecom service. In a market-oriented economy, private sector plays a vital role to poverty reduction by enhancing productivity, reducing unemployment, and creating competition among workers so that drives up wages. Private enterprises can also help to keep prices of essential goods and services down and increasing the real effective incomes of poor people by producing essential goods and services in large-scale production (TAK-IRDI, 2016). The involvement of the private sector in youth employment strategies is also critical as the private sector has the resources, expertise and capacity to generate wealth and the capacity needed to create employment opportunities.

For a developing country like Ethiopia, whose economy is still predominantly agrarian, the private sector plays a vital role in the overall economic growth of the country. As indicated by Alemayehu (2008), the role of private businesses in Ethiopia is becoming an instruments of employment and income generation, human development and poverty alleviation, export promotion, import substitution and entrepreneurship and hence the driving forces behind the growth of the country economy. Therefore, policies and initiatives to develop private businesses and to increase their competitiveness are a priority for Ethiopia. The government in its recent important policy-cum-plan documents unequivocally clearly stated about the importance it attaches to the development of the private sector. But, the private sector development in Ethiopia is still at low level owing to its internal weakness and other constraints. Several studies stated that the problems of private sector development in Ethiopia include inefficient government bureaucracy, foreign currency regulations, lack of access to finance, corruption, and lack of basic infrastructure, particularly electricity.

The private sector share in total investment in Ethiopia during 2008/09 was 46.1%, of which the investment share of household sector was a mere 5.6%. The rate of investment of private corporations in 2008/09 was 9.1%, as against the investment rate of 8.5% for general government.

Table 7: share of Private Sector in GDP, Employment & Investment (%)

Year	GDP at current prices	GDP at constant prices	Employment	Investment
2004/05	80.7	81.5	96.2	43.8
2005/06	81.4	81.4	96.4	39.0
2006/07	81.8	81.3	95	33.8
2007/08	83.9	80.9	96.1	37.0
2008/09	84.8	80.1	95.8	46.1

Source: Kolli, 2010

2.8 Small, Medium and Large Scale Enterprise in Ethiopia

An enterprise is an undertaking engaged in production and/or distribution of goods and services for commercial benefits, beyond subsistence (household) consumption at the household level. It might be owned and operated by a single household, or by several households jointly on a partnership basis or by any institutional body (MUDC, 2013). There is no clear cut demarcation between micro, small, medium and large scale enterprise in Ethiopia, and there is persistent confusion among different governmental organizations.

2.8.1 Micro and Small Enterprises

Micro businesses are typically operated by the owner and immediate family (usually unpaid labor), and the income from the micro business may be the sole source of income for the family. Small enterprises are formal businesses that are legally registered and regulated by law. Small businesses tend to have an identity separate from that of the owner. In developing countries, small businesses are generally regarded as driving force of economic development, employment creation for poverty reduction (Derbie, 2014).

By recognizing the benefit resulting from the MSE sector, Ethiopian government has given due attention to micro and small enterprise issue in its national development agenda. To create an enabling environment for MSEs, the government issued the National Micro and Small Enterprises Strategy in 1997 and established the Federal Micro and Small Enterprises Development Agency in 1998. The country's industrial policy in 2003 and the poverty reduction strategy in 2006 have singled out MSEs as major instruments to create a productive and vibrant private sector and reduce poverty among rural and urban dwellers. The GTP I has indicated the MSEs development as one of the recognized growth pillars. Based on these efforts the government has tried to promote the development of the sector through workable laws and regulations, facilitation of startup and working capitals, managerial and technical assistance, working premises and infrastructure, market-enterprises linkages. As many studies revealed in the sector, many micro and small scale business enterprises have played crucial roles in employment and entrepreneurship creation, poverty alleviation, and country economic development (MoFED, 2010). Many such enterprises have created job opportunity for significant number unemployed urban residents throughout the country (Derbie, 2014). During 2016/17 alone, a total of 157,768 new micro and small scale enterprises (MSEs) employing about 1.2 million people were established. These enterprises received more than Birr 7.1 billion in loans to own their operations.

Table 8: Level of Enterprises by Employee and Asset Size

Level of Enterprise	Sector	Employees	Total asset in Et. Br.
Micro enterprise	Industry	<5	<100, 000 or USD 4,630
	Service	<5	<50,000 or (USD 2,310).
Small Enterprise	Industry	6 – 30	100, 001 < birr 1.5 million ($4,630 - $69,500)
	Service	6 – 30	50,001< birr 500,000 ($2,310 – $23,150)
Medium Scale	Industry	21 – 50	
	Service	21 – 50	
Large Scale	Industry	above 51	
	Service	above 51	

Source: MoUDH (2016)

Table 9: Numbers, Amount of Credit and Jobs Created through MSEs (2016/17)

Indicators	Figure
No. of MSE's	157,768
Amount of credit (Millions of Birr)	7,075.77
No of Total employment	1,172,678
No. of MSE's Amhara region	38,692(24.5%)
Amount of credit Amhara	2,750.3(38.9%)
No of Total Employment Amhara region	187,514(16.0%)

Source: EIC (2017)

In Ethiopia, the MSE sector is exposed to a number of constraints related to policy, and structural and institutional problems. Although different polices and proclamation pledges full support to the MSE sector in terms of policy and basic necessities, the MSEs are critically challenged by certain impeding factors to sustain with in the business sector. The research conducted by Mekonen, shows that MSE sector in Ethiopia face many internal and external challenges such as lack of finance, lack of working premise, lack of access to land, Poor infrastructure facilities, continuous power interruption, inadequate water supply, and poor transportation facility, regulatory issues such as preconditions to have registration and licensing and unreasonable government officials' involvement also affects the success of MSE's. According to Mulugeta (2011) ,the critical problems of MSEs has recognized and classified in to market-related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; MSE-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing, and lack of cooperation within and among the MSEs and finally society-related problems such as its distorted attitude about the operators themselves and their products (Mulugeta, 2011).

According to world economic forum report (2018) SMEs in Ethiopia face unique credit constraints, whereby small enterprises are more credit constrained than either micro or medium/large enterprises (World Bank, 2014c). Moreover, collateral requirements are excessively high and this often discourages SMEs from even applying for loans. The latter is being aggravated by SMEs having low levels of asset accumulation to collateralize and the added requirement for domestic borrowers to provide personal unlimited guarantees. This represents a key challenge because typically young firms are a great source of job creation but this trend is not seen in Ethiopia, where more established firms dominate the net job creation, suggesting that there is a lack of competitiveness and innovation in the private sector.

2.8.2 Medium and Large Scale

In Ethiopia, according to Ethiopian Federal Micro and Small Enterprises agency (2011), medium scale enterprises are defined as enterprises found in manufacturing and service sectors of the Ethiopian economy with a total asset more than 1.5 million birr and a total asset of more than Birr 500,000, respectively.

2.9 The Concepts of Entrepreneurship

Entrepreneurship as a concept has a very long history within the academic and business world. The first attempt to define this concept was made during the 18th century by a French banker, Richard Cantillon and the meaning has evolved ever since. He argued that an entrepreneur is a person "willing to buy at a certain price and to sell at an uncertain price" (Cantillon, 1931). Another French author, Jean Baptiste, wrote around the beginning of the 19th century that an entrepreneur is the one to transfer economic resources from a sector with lower productivity into another one with higher productivity and better outcome. In the 20th century, economist Joseph Schumpeter focused on how the entrepreneur's drive for innovation and improvement creates upheaval and change. Schumpeter viewed entrepreneurship as a force of "creative destruction." Established ways of doing business are destroyed by the creation of new and better ways to do them. Business expert Peter Drucker took this idea further, describing the entrepreneur as someone who actually searches for change, responds to it, and exploits change as an opportunity.

2.10 Women Owned Enterprises in Ethiopia

It was not common to see women-owned businesses worldwide especially in developing countries like Ethiopia. Women entrepreneurship is a recent phenomenon. In Ethiopia the labor force is growing much more rapidly than the population as a whole because of the young dominated demographic profile. There are many more under 15 years old entering the work force each year than there are old people living the labor force (Nitro, 2009). Given lack of capacity in the public sector and lack of large scale private enterprises to absorb new entrants into the labor force, the role to be played by Micro and Small Scale Enterprises is critical for a country like Ethiopia. According to the Ethiopian Central Statistical Authority (2004), almost 50% of all new jobs created in Ethiopia are attributable to small businesses and enterprises, and roughly 49% of new businesses that were operational between 1991 and 2003 were owned by women (Eshetu & Zeleke, 2008).

More than half of all women entrepreneurs in Ethiopia often face gender related challenges in establishing new businesses as well as operating or expanding existing businesses (Admassie & Amha, 2008). According to Solomon (2010), the limited data and information available on women entrepreneurs have contributed to low knowledge and awareness. Research on women entrepreneurs and challenges confronting them are scanty despite large number of women who are engaged in small and micro businesses and challenges that confront them. Women entrepreneurs in Ethiopia suffer from gender discrimination in society due to socio-cultural barriers, multiple responsibilities, underdeveloped enterprise culture, inadequate support system for businesses and underdeveloped markets and infrastructure (Desta, 2010)

In many societies, women do not enjoy the same opportunities as men and the case is not unique to Ethiopian woman entrepreneurs. Women are disadvantaged due to culture, religion and tradition. In many transitional economies, progress has been achieved in opening doors to education and health protection for women but political and economic opportunities for female entrepreneurs have remained limited. Concerted efforts are needed to enable female entrepreneurs to make better economic choices and to transform their businesses into competitive enterprises, generating income and employment through improved production (OECD, 1997). Access to credit is a top constraint reported by women-owned firms, which are even less likely than their male counterparts to own fixed assets such as houses or buildings, which can serve as loan collateral. As a result, many growth-oriented women entrepreneurs in Ethiopia are unable to graduate from group borrowing to larger, individual loans that can fuel business growth.

2.11 Government's Private Sector Development Policy

Ethiopia has formulated various development strategies that include the Sustainable Development and Poverty Reduction Program (SDPRP) for the period 2002/3 to 2004/5, the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) for the period 2005/6 to 2009/10, and first and second Growth and Transformation Plan.

2.11.1 Plan for Accelerated and Sustained Development to End Poverty (PASDEP)

The Ethiopian government has launched a third generation of reform to bring an accelerated and sustained development to end poverty over the period 2005/06 to 2009/10. The initiative known as the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), prepared by the Ministry of Finance and Economic Development (MoFED), was a national program advocating the principle of a pro-poor economic growth. Strategies and action plans to end poverty were developed and implemented in all economic and social sectors by all sector organizations and line departments at both the federal and regional levels.

PASDEP builds on eight pillars, namely:

- Building all-inclusive implementation capacity;
- A massive push to accelerate growth;
- creating the balance between economic development and population growth;
- Unleashing the potentials of Ethiopia's women;
- Strengthening the infrastructure backbone of the country;
- Strengthening human resource development;
- Managing risk and volatility; and,
- Creating employment opportunities.

2.11.2 The First Growth and Transformation Plan (GTP I)

By 2010/11, the Ethiopian government floated a five- year development plan entitled - Growth and Transformation Plan (GTP). It set the ambitious goal of Ethiopia becoming a middle- income country by 2025. The pillar strategies toward the attainment of the objectives of the GTP include “maintaining agriculture as a major source of economic growth” and “creating favorable conditions for the industry to play key role in the economy”. The first Growth and Transformation Plan (GTP) was articulated through four overarching objectives: (i) maintaining at least an average real GDP growth rate of 11% per annum and attaining the Millennium Development Goals (MDGs) by 2014/15; (ii) expanding access and ensuring the qualities of education and health services and achieve MDGs in the social sectors; (iii) establishing conditions for sustainable nation building through the creation of stable democratic and developmental state; (iv) ensuring the sustainability of growth through maintaining macroeconomic stability. These four overarching objectives were in turn cascaded in to seven pillar strategies that cut-across all socioeconomic sectors.

2.11.3 The Second Growth and Transformation Plan ((2015/16-2019/20)

The major objective of GTP II is to serve as a spring board towards realizing the national vision of becoming a low middle-income country by 2025, through sustaining the rapid, broad based and inclusive economic growth, which accelerates economic transformation and the journey towards the country’s Renascence. It is a continuation of GTP I and the main departure from GTP I lies in it though it gives emphasis to a wide range of developmental issues. Key objectives of the plan include:

- Registering an average economic growth of 11 percent over the plan period,
- Deepening structural change by increasing engineering and fabrication capacity, productivity, quality, and competitiveness,
- Ensuring the organized participation, ownership, and inclusiveness of the people in the development process, and
- Deepening the hegemony of developmental political economy through democratic developmental state. The plan has identified four core elements of structural transformation
- An average economic growth of 11 per cent at base case scenario and 12.2 per cent at high growth scenario;
- Maintaining a single digit rate of inflation;
- Ensuring stable and competitive foreign exchange rate; and high rates of accumulation

Overall, there are no major differences between the two phases of GTP in overall objectives and goals. The difference is yet to be seen in the details of implementation of GTP II. That requires institutional transformation a point the government stresses as one of the key priority areas.

2.12 Determinants of Private Business Performance

In a free market economy the importance of private business as a major job supplier, innovator and source of growth is widely recognized (Lussier & Pfeifer, 2001). Given the importance of private business for an economy, the survival, success and performance of these firms is an issue of continuous concern. Research that can lead to the identification of those factors associated with private business performance is therefore of great interest to policy makers, owner-managers and their advisors.

The factors that influence performance of private business firms can be classified into two main areas: those that emanate from the firm's internal environment (labeled micro-level factors) and those associated with the external environment (i.e. the macro-level factors). The micro-level determinants include the psychology and demographics of the owner-manager, the resources of the firm, and the strategies adopted (Kalleberg & Leicht, 1991), while the macro level determinants cover markets, economic, financial, technological, legal and political conditions as well as the socio- cultural context in which the firm operates (Kalleberg & Leicht, 1991; Keats & Bracker, 1988) Researchers have examined small business performance using various theories associated with these micro and macro level factors. The population ecology theory is the main macro-level theory whilst at the micro-level; performance has been examined using the resource-based and strategic adaptation theories as well as in relation to the demographics and psychology of the owner-manager.

2.13 Opportunities of Private Sector Development

The private sector has an opportunity to intensively participate in different sectors mainly in agriculture, industry, service and trade sectors. Massive incentive and support packages such as duty free import of capital goods, income tax exemption and development of industrial parks are designed to stimulate the role of private sector in attaining sustainable and rapid economic growth in the country.
According to MoT (2017), the following are some of the opportunities to invest in Ethiopia;

(i) Natural Resource Base: Ethiopia is a country of excellent environment for various agricultural activities due to its abundant arable land, fertile soils, and favorable climate.

(ii) Growing Economy: Positive growth moment will still remain, and the ability to keep growth positive is a remarkable achievement for the Government.

(iii) Excellent climate and fertile soils: Ethiopia is the 27th largest country in the world by land size and given its diverse topography and geographical location, it is suitable for the production of some of the world's most coveted food crops - cereals, pulses, oil seeds, a wide range of fruits and vegetables, coffee, tobacco, sugar cane, tea and spices, among others.

(iv) Strong investment guarantee and protections: The protection of private property is guaranteed in Ethiopia with the constitution and investment code of the country. Ethiopia is a member to main international institutions such as the Multi-Lateral Investment Guarantee Agency (MIGA), the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID) and the World Intellectual Property Organization (WIPO).

(v) Abundant and affordable labor force and regional hub with access to wide market: Ethiopian businesses have a strong internal market with a total population of about 100 million, which is the second largest in Sub-Saharan Africa next to Nigeria. With a total population of about 100 million, Ethiopian businesses have a large and steadily growing labor force and domestic market base that offers good prospects for investment in consumption goods and service industries including food, beverages, plastic goods, tobacco, soap and detergents, chemicals, glass and ceramics, drugs and pharmaceuticals, and electronic products. Regarding external markets, Ethiopia is geographically located in the Horn of Africa which is strategically important market access with Africa, the Middle East and Asia. Ethiopia enjoys preferential tariff rates on exports to the Common Market for Eastern and Southern Africa (COMESA) and the African, Caribbean and Pacific Group (ACP) member countries. Besides, Ethiopia has a Duty Free and Quota Free (DFQF) privileges extended by USA under Africa Growth and Opportunity Act (AGOA), EU under Everything But Arms (EBA), and China under a 'Zero tariff' schemes. Indeed, as Alves et al. (2009) and Borrmann et al. (2005) stated, Africa's primary concern is not market access, rather supply-side constraints that are critical determinants of external sector performance including fragile democracy and political instability, over-valued and volatile real exchange rates, paucity of capital depth, lack of productive and technological capacities, poor bureaucratic capacity, corruption, feeble market intelligence, poor infrastructural development, and immature investment or business environment.

(vi) Improved Economic Infrastructure: The country's hydropower potential is estimated at 45,000MW, Ethiopia's potential for generating electricity from geothermal is 5,000 MW. Ethiopia is endowed with enormous potentials of other renewable energy sources like solar and wind energy. Ethio Telecom is currently engaged in a major transformation work of Next Generation Network (NGN) projects to create a world class telecom service provider. Ethiopia has a huge run-off and ground water potential. With numerous projects underway, national access to portable water is fully enhanced. In order to ensure efficient, cost effective and reliable import and export movement of cargo to and from the seaports of the neighboring countries, the government has established the Ethiopian Shipping and Logistics Enterprise. The Enterprise is currently operating two dry ports, which are located at Modjo and Semera, 73 kms and 588 kms, from Addis Ababa, respectively.

(vii) Tax Incentives: The private investors have extensive incentives including 100 percent customs duty exemption on all imports of capital goods, construction materials, and raw materials needed for export production. Locally produced goods and services are fully exempted from export tax. In addition, new investment in manufacturing sector, agro-industrial and information and communication technology (ICT) development is qualified for income tax holiday ranging from two to seven years depending on export volume, area of investment and location. The firms that suffered losses during the holiday period can carry forward for half the exemption period once the tax exemption period has expired.

(viii) Capital Incentive: Investors preferably in export oriented agriculture, agro-processing and manufacturing industries can obtain loans amounting 70 per cent of their required investment capital for the development bank of Ethiopia with a very reasonable interest rate. The business registration and the export trade license issuance is highly simplified.

(ix) Industrial Park development: many industrial parks are under construction in different parts of the country. Industry Park Development Program is a useful instrument for effective land usage, eliminate the problems in logistics and custom service, expand investments and transform them quickly into production, create linkage among middle and large scale industries as well as for the transfer of technology, production and leadership methodologies, grow job opportunities, use national resource appropriately and strengthen green

2.14 Constraints of Private Sector Business Development

Despite the massive incentive and support packages for the private sector, there are many challenges that hinder the contribution of the private sector in the country's development process. A set of impediments for the private sector development are presented below.

2.14.1. Finance

Financing is the lifeblood of growing a business whether in the startup phase or in a later stage. Many businesses fail due to lack of proper financing channels. It is not a matter of unavailability of funding, but the lack of planning for funding to support opportunities for growth. Access to finance remained a dominant constraint to private business firms. The Ethiopian financial sector is one of the least developed in Sub-Saharan Africa. The sector is characterized by relatively shallow outreach and strong government control. According to World Bank (2014c), firms in Ethiopia are more likely to be fully credit constrained than global comparators, including SSA countries. Instead of relying on credit, investment decisions of manufacturing and services firms in Ethiopia are heavily dependent on cash flows and their own savings. Aryeetey et al (1994) reported that 38% of the SMEs surveyed mentioned credit as a constraint, in the case of Malawi, it accounted for 17.5% of the total sample (Aryeetey, Baah-Nuakoh, Duggleby, & Hettige, 1994).

2.14.2. Labor Market

This seems a less important constraint to private business considering the widespread unemployment or underemployment in developing countries where Ethiopia belongs. However, where skilled workers are required, an insufficient supply of skilled workers can limit the specialization opportunities, raise costs, and reduce flexibility in managing operations. Aryeetey et al (1994) found that 7% of their respondents indicated that they had problems finding skilled labor, and 2% had similar problems with unskilled labor.]

2.14.3. Equipment & Technology

Private business firms have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness. Besides, other constraints on capital, and labor, as well as uncertainty surrounding new technologies, restrict incentives to innovation. From the firms sampled, 18% of them in Aryeetey et al (1994) mentioned old equipment as one of the four most significant constraints to expansion (18.2% in Parker et al, 1995).

2.14.4. Domestic Demand

Recent economic policies have led to a decline in the role of the state in productive activity but a renewed private investment has created new opportunities for private business firms. For example, the sample data of 5% Ghanaian proprietors indicated they had marketing constraints, (Aryeetey et al, 1994). Demand constraints limited the growth of private business firms mainly SMEs (Parker et al, 1995).

2.14.5. International Markets

Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However, this problem was mostly identified in medium-sized enterprises in Ghana (12.5% in Aryeetey et al, 1994:13), less than 1% of the total sample complained there were too many imported substitutes coming into the country. Daniels & Ngwira (1993) also reported a similar figure for Malawi (0.9%). However, Riedel et al (1988) reported that Tailors in Techiman (Ghana) who used to make several pairs of trousers in a month went without any orders with the coming into effect of trade liberalization. Limited international marketing experience, poor quality control and product standardization and little access to international partners, impede expansion into international markets. It is reported that only 1.7% of firms in Ghana export their output (Aryeetey et al, 1994).

2.14.6. Regulatory Constraints

Although wide ranging structural reforms have improved, prospects for enterprise development remain to be addressed at the firm-level. High start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims and excessive delays in court proceedings adversely affect SME operations. In Malawi, prohibitive laws like the Business Licensing Act, the Electricity Act, the Control of Goods Act, and the Export Incentives Act, have severely constrained SME development. From the sample data, 5.3% of proprietors in Malawi mentioned this as a constraint (Daniels & Ngwira, 1993). In the case of Ghana, the cumbersome procedure for registering and commencing business are key issues often cited. However, Aryeetey et al (1994) found that this accounted for less than 1% of their sample. Meanwhile, the absence of antitrust legislation favours larger firms, while the lack of protection for property rights limits SME access to foreign technologies.

2.14.7. Managerial Constraints

According to Keats & Bracker (1988), ninety percent of business failures are associated with "management inadequacy", which consist of either management inexperience or incompetence. Even though private business firms tend to attract motivated managers, they can hardly compete with larger firms. Statistics from Dun & Bradstreet (2004), 88.7% of all business failures are due to management mistakes. Some of the leading management mistakes that lead to business failures are: going into business for the wrong reasons; the entrepreneur gets worn-out and/or underestimated time requirements; family pressure on time and funds; pride; lack of market awareness; the entrepreneur falls in love with the product/

business; lack of financial responsibility and awareness; lack of a clear focus etc. Furthermore, absence of information and/or time to take advantage of existing services results in weak demand for them.

2.14.8. Lack of Entrepreneurial and Business Management Skills

Despite the numerous institutions providing training and advisory services, there is still a skills gap among the private sector as a whole. According to Daniels & Ngwira (1993), about 88% of Malawian SMEs desired training in various skills but as at 1992, less than 6% have actually received it. In Ghana, a lot has actually been achieved in this regard, though there is still room for improvement.

2.14.9. Institutional Constraints

The lack of cohesiveness and the wide range of SME interests limit their capacity to defend their collective interests and effective participation in civil society. Associations providing a voice for the interests of SMEs in the policy-making process have had a limited role compared to those of larger firms. Many of the entrepreneurs associations have yet to complete the transition of their goals from protectionism to competitiveness (World Bank, 1993). Additionally, the potential economies of collaborative arrangements in production and sales among SMEs have not been adequately explored. There are very few forward linkages. However, backward linkages were common with 71% of enterprises procuring unprocessed, semi-processed or finished products. The dependence of the SME sector in Ghana on large-scale enterprises as purchasers of output, either for sale, as final goods or to be used as intermediate inputs, is very limited. Only 13% of firms produce any item for or component for larger firms. Interdependence among SMEs is very minimal. As Osei et al. (1993) reported, only 17.6% of firms with growing output and 8.4% of those whose output stagnated have other SSEs as customers.

Corruption is also identified as one of the major challenges to private sector to do business in Ethiopia. The Ethiopian government also identified corruption and rent seeking as the main impediments to overall socio-economic development (TAK-IRDI, 2016).

3 Private Sector Development in Amhara Region

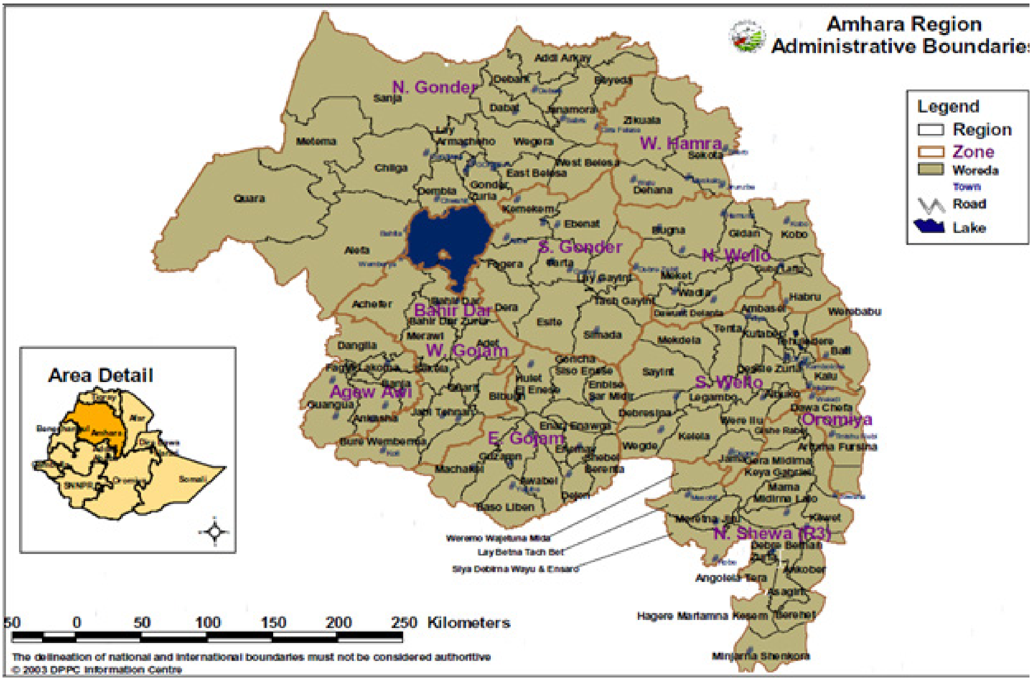
3.1 Demographic Data of the Region

Amhara National Regional State is one of the 9 national regional states of Ethiopia, and it is one of largest National Regional State in Ethiopia in terms of population size and areal coverage. The State of Amhara consists of 10 administrative zones, one special zone, 105 woredas, and 78 urban centres. It is located in the north western and north central part of Ethiopia, and shares common borders with the state of Tigray in the north, Afar in the east, Oromiya in the south, Benishangul/ Gumuz in the south west, and the Republic of Sudan in the west (Ethiopian government portal, 2018).

Home to the largest population of more than 29 million people (United Nations Population Division, 2018), the Amhara region has untapped investment opportunity in Ethiopia. The Amhara region has huge investment opportunities for both domestic as well as foreign investors as the region is endowed to broad market base with huge labour force and market size and abundant natural resources such as vast arable land, precious metals, abundant water resources, and various plant and animal stocks with favorable weather conditions.

The region is topographically divided into two main parts, namely the highlands and lowlands. The highlands are above 1500 meters above sea level and comprise the largest part of the northern and eastern parts of the region. Ras Dejen (4620 m), the highest peak in the country, Guna (4236 m), Choke (4184m) and Abune – Yousef (4190m) are among the mountain peaks that are located in the highland parts of the region. The lowland part covers mainly the western and eastern parts with an altitude between 500-1500 meters above sea level. Areas beyond 2,300 meters above sea level fall within the "Dega" climatic Zone, and areas between the 1,500-2,300 meter above sea level contour fall within the "Woina Dega" climatic zone; and areas below 1,500 contour fall within the "Kolla" or hot climatic zones. The Dega, Woina Dega and Kolla parts of the region constitute 25%, 44% and 31% of the total area of the region, respectively. The annual mean temperature for most parts of the region lies between 15°C-21°C. The region receives the highest percentage (80%) of the total rainfall in the country. The highest rainfall occurs during the summer season, which starts in mid-June and ends in early September.

Figure 6: Administrative Map of Amhara Region



Source: DPPC Information Centre, 2003

Further, the region is divided mainly by three river basins, namely the Abbay, Tekezze and Awash drainage basins. The Blue Nile (Abbay) river is the largest of all covering approximately 172,254 Km2. Its total length to its junction with the White Nile in Khartoum is 1,450 Km, of which 800 km is within Ethiopia. The drainage-basin of the Tekeze river is about 88,800 km2. In addition, Anghereb, Millie, Kessem and Jema are among the major national rivers, which are found in this region. Tana, the largest lake in Ethiopia is located at centre of the region. It covers an area of 36000 km2. Besides, other crater lakes like Zengeni, Gudena Yetilba, Ardibo (75km2) and Logia (35 km2) are small lakes that are found in the region. The rivers and lakes of the region have immense potential for hydroelectric power generation, irrigation and fishery development (Ethiopian government portal, 2018).

3.2 An Economic Overview of the Amhara Region

About 85% of the people are engaged in agriculture. The State is one of the major Teff (staple food) producing areas in the country. Barely, wheat, oil seeds, sorghum, maize, wheat, oats, beans and peas are major crops produced in large quantities. Cash crops such as cotton, sesame, sunflower, and sugarcane grow in the vast and virgin tract of the region's lowlands. The water resources from Lake Tana and all the rivers found in the region provide immense potential for irrigation development. About 450,000 hectares of arable land is irrigable and suitable, especially for horticultural development.

Amhara region has adopted the 2nd five year Growth and Transformation Plan (GTP-II) to carry forward the important strategic directions in maintaining a fast growing economy in all sectors of the region. The overarching objective of GTP-II is to sustain the accelerated growth and establish a spring board for economic structural transformation and thereby realizing the national vision of becoming a lower middle-income country by 2025. During 2010-2014, the economy registered with average of 10% growth rate. The Sectorial share during these years was 7.2 % in agriculture, 15.7% in industry and 12.61% growth rate in service sectors. According to Amhara region plan commission (2015), during 2014/15 fiscal year, the key driver of the growth is the industry, with an average growth rate of 23.4 %, followed by 13.7% in service sector and 7.7% in agriculture sectors. During 2014/15 fiscal year, the industry sector contributed 18.8 % to total GDP growth, agriculture and service sector contribution of 51.2% and 30.1%, respectively. The table below shows the key macroeconomic indicators of the region during 2014/15.

Table 10: Summary of Macro economic sectors performance (2014/15)

Macroeconomic Indicators	Measurement	Performance
Inflation	%	10.3
Regional Investment to share of GDP	%	27
People with below poverty line	%	22.9
Sectoral Growth rate (in %)		
Agriculture growth	%	7.7
Industry growth	%	23.4
Service sector growth	%	13.7
Sectoral share to GDP (in %)		
Agriculture and allied Share (in %GDP)	%	51.2
Industry Share (in %GDP)	%	18.8
Service sector Share (in %GDP)	%	30.1
MLSE share to GDP	%	6.4
MLSE job creation	number	14,490

Source: NBE annual report (2014/15)

3.3 Investment in Amhara region

The following table shows investment permits after math of the millennium (ARNS investment commission, 2009). As shown from the table below, licensed investment project did not show a progress during 2002-2004. According to the report, reason for flow of investment reduction was rent seeking behavior and land transfer is not allowed due to land envision, until land lease proclamation issued. Accordingly, for the last decade, 12,717 investment projects are operational in eight different sectors.

Table 11 : Licensed Investment Projects by Sector

No	Sector	2002	2003	2004	2005	2006	2007	2008	2009	Total
1	Agriculture	271	265	181	223	476	1387	341	299	4878
2	Industry	105	75	68	217	266	48	632	517	2143
3	Construction	130	168	255	496	53	16	108	830	2393
4	Hotel & tour	151	221	66	89	66	13	777	161	2149
5	Trade	33	29	6	8	307	48	-	-	509
6	Transport	0	2	0	2	4	0	27	17	53
7	Mine energy	2	0	0	0	2	0	13	1	39
8	Social service	45	35	12	30	15	7	27	35	367
	Total	737	795	588	1065	1189	1519	1925	1860	12717

Source: ARNS investment commission annual bulletin (2009)

3.4 Industrial Structure and Ownership Patterns

As shown in table 12, out of 68,549 businesses in 7 major towns of Amhara region 67,704 enterprises are small and micro, the remaining 845 are large and medium. It can also be inferred that the vast majority of business in all areas is sole proprietorships in terms of ownership and small and micro business in terms of scale.

Table 12: Industrial Structure and Ownership Patterns

	City	B/Dar	D/ Birhan	Dessie	Gondar	D/ markos	D/ Tabor	Woldya	Total
Legal Status	Cooperatives	1839	334	1073	744	908	706	399	6003
	PLC	312	26	49	303	90	12	20	812
	Share company	24	4	4	0	5	3	1	41
	Sole business	14292	5884	10472	9533	5683	4309	11520	61693
	Total	16467	6248	11598	10580	6686	503	11940	68549
Size	Large & Medium	365	36	85	135	62	26	136	845
	Small & Micro	16102	6212	11513	10445	6624	5004	11804	67704
	Total	16467	6248	11598	10580	6686	5030	11940	68549

Source: Trade and Industry Bureau Database (2018)

3.5 Micro and Small Enterprises in the Region

Amhara National regional state, based on the proclamation No 42/1999, has formulated a strategy for MSEs development in the region knowing the enormous importance that this sector can bring for the society of the region in such as, create employment opportunity, bring rapid economic growth, produce wide range of goods & services which are accessible and cheaper for huge number of persons of the region. Accordingly, this proclamation provide for the establishment of Micro and Small Enterprises Development Agency (MSEDA). MSEs play a crucial role in the region's economic improvement, because they utilize relatively less capital and cheap and local raw materials, are a home of entrepreneurship, and can create substantial job opportunities (Waleligne & Wendimu, 2002).

However, MSEs are still facing sever constraints in their activities and development. The SMEs are unable to address the problems they faced on their own, even in and effectively functioning market economies. The problems or constraints relate to the legal and regulatory environments, access to market, finance, business information, business premises, the acquisition of skills and managerial expertise, access to appropriate technology, access to infrastructure, and in some cases discriminatory regulator practices. On the other hand, negative attitude of the public to the importance of the sector due to cultural influence is another constraint to the development of MSEs (Waleligne & Wendimu, 2002).

Table 13: Problems of SMEs by Sector Type

No	Textile Sub Sector	Service Sub Sector
1	lack of market,	lack of market
2	lack of finance,	lack of finance
3	lack of sufficient training,	government rules and regulations
4	lack of information and advice,	lack of information and advice
5	lack of premises,	shortage of supply of raw material
6	cultural influence,	lack of sufficient training
7	shortage of supply of raw material	lack of premises
8	lack of infrastructure	lack of infrastructure
No	Whole Sale Trade	Retail Trade
1	government rules and regulations	lack of market
2	while lack of finance	lack of finance
3	lack of information and advice	lack of information and advice
4	Lack of market	problems related to government
5	lack of sufficient training	rules and regulations
6	cultural influence	lack of sufficient training
7	Shortage of supply of raw materials	lack of premises
8	lack of premises	lack of infrastructure
9	lack of infrastructure	shortage of supply of raw material

Source: (Waleligne & Wendimu, 2002)

3.6 Investment Climate Challenges in the region

World Bank (2009) studies about 'Investment Climate Priorities in the region' show major to severe business obstacles in Amhara region. Accordingly, access to land was the first ranked obstacles followed by tax rate, completion from informal sector, macro-economic condition and access to finance.

Rank	Factors
1st	Access to land
2nd	Tax rate
3rd	Completion from informal sector
4th	Macro-economic condition
5th	Access to finance

Source: (world bank, 2009)

4 Data Presentation and Analysis

The methodology adopted for data collection and analysis was described in the previous chapter. This chapter presents the statistical data results and analysis. The quantitative data analysis was carried out by using the Statistical Package for the Social Sciences (SPSS) version 20. The chapter is organized in to four main subsections. The first section deals with reliability test results to confirm the consistency of the data instrument used for this study. The second section presents the background information of both the respondents and characteristics of the sectors in the sample, followed by the discussion of the main opportunities and challenges of the private sector development in the Amhara region under section three and four, respectively.

4.1 Response Rate

Out of the 395 questionnaires which had been presented for administration to the respondents, 78 out of the 100 were filled and returned for data analysis. According to Linder and Wingerbach (2002), questionnaire return of above 50 per cent is considered for a study. The authors further state that surveys that have a high response rate provide a measure of assurance that the findings can be projected to a population from which the sample is drawn.

4.2 Reliability

The reliability of an instrument refers to the consistency with which it measures a construct. Generally, Cronbach's alpha is used to test the internal consistency of an instrument, i.e. the reliability of the questionnaire. Cronbach's alpha comprises a number of items that make up a scale designed to measure a single construct, and determines the degree to which all items are measuring the same construct. The reliability coefficient close to 1.00 indicates very good, but the score close to 0.00 shows poor internal consistency (Cronk, 2008). Table 14 below shows the Cronbach's Alpha for each of the variables for this study, and Cronbach's alpha is 0.863, which indicates a high level of internal consistency for our scale with this specific sample.

Table 14: Reliability of Survey Instrument

Cronbach's Alpha	Number of Items			
0.863	11			
Variables	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Opportunities	37.5180	41.555	-0.180	0.894
Challenges	36.3284	34.494	0.554	0.852
Legal barriers	36.3254	33.364	0.681	0.843
Financial barriers	36.1617	33.205	0.630	0.846
Tax barriers	35.9088	32.401	0.660	0.843
Infrastructure	36.0698	32.660	0.680	0.842
Market barriers	36.0877	32.317	0.773	0.836
Land	35.8122	32.083	0.715	0.839
Political and social	36.2736	32.558	0.605	0.848
Technological	36.0642	32.910	0.594	0.848
Management	36.6393	34.495	0.437	0.861

Source: Own computations (SPSS output)

4.3 Demographic Characteristics of the Respondents

Respondents were requested to provide general background information about their profile including gender, age, educational status, and work experience. To analyze the respondents' profile data, frequency distributions calculated for all cases in this study. As summarized and presented in table 15 below, about 80% of the respondents are males and have an age of less than 45 years, and about 60% are diploma and certificate holders.

The existing studies advocate that owners or managers should be younger; arguing that younger owners or managers have the motivation, energy and commitment to work and are more inclined to take risks. Firms that run by younger owners or managers tend to have higher growth potential than those run by older individuals (Kolvereid & Isaksen, 2006). Under a national policy on women in

1993, the Ethiopian government expressed its intention to eliminate gender and cultural biases that excluded women from equal participation in the economic and social development efforts of the country. Thus, it is of paramount importance to examine the gender composition of private sector business. But, out of the 308 respondents, 247 (80.2%) are male and the rest 61 (19.8%) are female.

According to Lee (2003), there is a significant relationship between the educational qualifications of the owners or managers and the level of growth attained (Lee & Wong, 2003). The results of the survey clearly indicate that 35.5%, 28.6% and 30.6% of respondents had qualification Bachelor, diploma, and certificate and less, respectively. Moreover, all respondents claimed to have previous work experience, of which more than half (61.4 %) had between 1 and 5 years of experience. Only 3% of the respondents had an experience of more than 20 years.

Table 15: Summary Statistics of Demographic Characteristics of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Age Gender	18-30 years	130	42.2	42.5	42.5
	31-45 years	118	38.3	38.6	81.0
	>45 years	58	18.8	19.0	100.0
	Total	306	99.4	100.0	
	Male	247	80.2	81.5	81.5
	Female	56	18.2	18.5	100.0
	Total	303	98.4	100.0	
Educational status	Certificate/Below	93	30.2	30.6	30.6
	Diploma	87	28.2	28.6	59.2
	Degree	106	34.4	34.9	94.1
	Master and above	18	5.8	5.9	100.0
	Total	304	98.7	100.0	
Work Experience	1-5	178	57.8	57.8	57.8
	6-10	63	20.5	20.5	78.2
	11-15	24	7.8	7.8	86.0
	16-20	14	4.5	4.5	90.6
	21+	29	9.4	9.4	100.0
	Total	308	100.0	100.0	

Source: SPSS Outputs (own computation)

4.4 Demographic Characteristics of the Business Sectors

The survey also captured information about the respondents' businesses. The variables for which data was obtained are: legal status, size and age of the business, ownership of working premise, and source of startup capital. The demographic characteristics of the businesses were analyzed by calculating the frequency distributions for all cases in this research study and were summarized in Table 16 below.

The private businesses under this study are engaged in four main Sectoral types, namely trade, service, manufacturing and others. As shown in table 15 below, the majority (50%) of the respondents are engaged in trade such as local wholesale and retail, followed by 36% service providing businesses such as hotels and restaurants, cafeterias, schools, health centers, pharmacies, barber shops, and decor. The other 12.4% of the respondents were engaged in manufacturing, including metal and woodwork, handicrafts, agro-processing and painting.

Regarding scale of the business, about 60.4% of the sample businesses are large and medium size, of which 9% are large and 51.5% are medium scale. The rest 39.6% are small and micro enterprises. When the size measured in number of employees, about 64.6% of sample businesses employed less than five people, and only about 12% have more than 20 employees in their businesses. The majority of the sample businesses (68%) are constituted as Sole proprietorship, while only a small number are constituted as General partnerships, Private Limited Companies and Share Companies with percentages of 20%, 9% and 3%, respectively.

Further, about 69.6% of businesses have been in operation for less than 10 years, while only 30.4% businesses have been in operation for more than 10 years. For their business startup, the source of finance was personal savings, family or relatives, and micro finances for about 46%, 28% and 10% sample businesses, respectively. Bank is the source of finance for only about 5.4% businesses.

Table 16: Summary Statistics of Businesses Characteristics

		Frequency	Percent	Valid Percent	Cumm. Percent
Sector type	Manufacturing	37	12.0	12.4	12.4
	Trade	150	48.7	50.3	62.8
	Service	107	34.7	35.9	98.7
	Other	4	1.3	1.3	100.0
	Total	298	96.8	100.0	

		Frequency	Percent	Valid Percent	Cumm. Percent
Business Scale	Large	27	8.8	8.9	8.9
	Medium	156	50.6	51.5	60.4
	Small and Micro	120	39.0	39.6	100.0
	Total	303	98.4	100.0	
Legal Ownership	Sole proprietorship	207	67.2	68.3	68.3
	General partnership	60	19.5	19.8	88.1
	private Limited Company	27	8.8	8.9	97.0
	Share company	9	2.9	3.0	100.0
	Total	303	98.4	100.0	
Age of the business	1-10 years	206	66.9	69.6	69.6
	11-20 years	72	23.4	24.3	93.9
	21-30 years	9	2.9	3.0	97.0
	>31 years	9	2.9	3.0	100.0
	Total	296	96.1	100.0	
Number of Employee	Less than 5 employees	177	57.5	64.6	64.6
	6-10 employees	43	14.0	15.7	80.3
	11-15 employees	14	4.5	5.1	85.4
	16-20 employees	8	2.6	2.9	88.3
	>20 employees	32	10.4	11.7	100.0
	Total	274	89.0	100.0	
Working Premise	Owned	79	25.6	26.1	26.1
	Lease	22	7.1	7.3	33.3
	Rented	197	64.0	65.0	98.3
	other	3	1.0	1.0	99.3
	Total	303	98.4	100.0	
Source of Finance	Personal saving	137	44.5	45.8	45.8
	Family/Relatives	85	27.6	28.4	74.2
	Microfinance	30	9.7	10.0	84.3
	Bank	16	5.2	5.4	89.6
	Equity/share	13	4.2	4.3	94.0
	personal saving and bank	6	1.9	2.0	97.0
	Family and credit union	5	1.6	1.7	98.7
	Personal saving & Family	4	1.3	1.3	100.0
	Total	299	97.1	100.0	

Source: SPSS Outputs (own computation)

4.5 Opportunities of Private Sector Development

Private sectors require conducive legal and policy, stable macroeconomic condition and broad market base with massive government incentive packages. To this end, the Ethiopian government has made various economic and political reforms which are expected to stimulate private sector growth over the last decade. The government adopted the five year Growth and Transformation Plans (GTP-I and GTP-II) with the promotion of public investment in basic infrastructures and institutions that are crucial to attract private investment. The country aims to achieve a sustainable economic development driven by modern and productive agricultural and competitive industrial sectors through the implementation of the GTPs and various policy documents complementing the GTPs.

However, as shown in the table 17 below, the SPSS results indicated that the region is characterized by its weak regulatory and policy frameworks, rotten tax system, poor government incentives and infrastructural development, political and social unrest, weak investment guarantees, and instable macroeconomic condition with high inflation. The region's private sector also lacks skilled labor force and insufficient markets for products despite the huge population. Indeed, the region has good climate, fertile soil and abundant natural resources which are an opportunity for private investor growth in the region.

Table 17: Summary Descriptive statistics of opportunities for private sector

Indicators	Min.	Max.	Mean	SD
Good climate, fertile soil and abundant resources	1	5	3.59	1.349
Broad domestic market for products	1	5	2.83	1.208
Availability of raw materials	1	5	2.41	1.286
Cheap and skilled labor force	1	5	2.36	1.265
Political and social stability	1	5	2.29	1.248
Strong regulatory and policy frameworks	1	5	2.23	1.142
Macroeconomic stability and growing economy	1	5	2.22	1.154
Quality business infrastructural development	1	5	2.13	1.113
Conducive tax environment	1	5	2.11	1.281
Strong investment guarantees	1	5	2.03	1.125
Massive government incentives for private sector	1	5	1.95	1.191

Source: SPSS Outputs (own computation)

Moreover, the FGD result showed that the existence of legal frame work for investment, abundant natural resource, huge educated and cheap labor force, plans for establishment of industrial zones, government's attention to private sector development through different policies and programs are good opportunities for private sector development in Amhara region.

4.6 Challenges of the Private Sector Development

Despite various reforms and massive incentives at the country level, the private sectors have many challenges in the Amhara region. The survey covered about 308 private businesses that comprise manufacturing, trade and services business in Amhara region across major cities, including Bahir Dar. As part of this survey, respondents – top managers, supervisors, sales, finance and personnel heads of the surveyed firms – were asked set of questions about each of the following potential obstacles to their firm's operations: "To what extent the following factors are the major hindrance for the operation of your business?" The answers were given on a five-point scale: (1= very less severe, 2= less severe, 3=moderate, 4 = severe, 5 = very severe).

The survey results, as presented in Table 18 below, the first five major barriers for private sector growth in the region are macroeconomic instability (i.e. inflation), corruption, lack of land access, weak tax administration system and poor infrastructural development with a mean score of 4.23, 4.16, 4.14, 4.01 and 3.89, respectively. At the other end of the spectrum are environmental factors, which were on average viewed as minor obstacles (mean of 2.08) followed by the firms' own management skills that received relatively moderate average scores (mean of 3.26).

Table 18: Summary descriptive statistics for barriers of private sector

No	Barriers	Mean	Std. Deviation
1	Macroeconomic instability	4.23	1.150
2	Corruption	4.16	1.321
3	Lack of Land access	4.14	.87207
4	Taxation problems	4.01	.86631
5	Poor Infrastructural development	3.89	.88284
6	Lack of government support	3.87	1.229
7	Lack of broad market for products	3.86	.83553
8	Technological barriers	3.85	.96801
9	Lack of financial (credit) access	3.77	.88200
10	Political and social instability	3.65	1.01287
11	Weak legal and policy frameworks	3.59	.81092
12	Management barriers	3.26	.97393
13	Environmental Hazards	2.08	1.386

Source: SPSS Output (Own computations)

The FGD results also suggested that the main challenges of private sector development in the region are: poor infrastructural development, unfair taxation assessment and estimation, lack of government support and accountability, currency shortage, contraband trade, lack of awareness on policies, lack of capacity to serve the business community, political and social instability, lack of policy and implementation complementarities, and poor attitude for local or homemade products.

4.6.1 Macroeconomic Instability

As shown in table 18 above, the major impediment for private sector development in the Amhara region is macroeconomic instability, which is reflected by higher inflation and currency devaluation. Indeed, according to NBE annual report (NBE, 2017), the highest headline inflation (10.9%) was recorded in Amhara followed by Somali region (10.5%), but the lowest (2.9%) in Addis Ababa, depicting an 8.0 percentage point margin.

4.6.2 Legal and policy Barriers

Specifically, the legal and policy framework creates unfavorable environment for private businesses in the region with more than average mean score of 3.59. As shown on table 19 below, the main problems related to legal and policy barriers are lack of government support and dialogue, unreasonable intervention and discriminatory practices in favor of party-owned enterprises, macroeconomic and policy uncertainties, high non-tariff measures, complicated and time consuming procedures, lack of transparency, poor property registration, and lack of qualified employees to fulfill the needs of investors.

Table 19: Summary of Descriptive statistics for legal and policy barriers

Indicators	N	Mean	SD
Lack of support and dialogue with the government	306	3.97	1.255
Unreasonable government officials' intervention and fear of discriminatory practices in favor of party-owned enterprise	306	3.84	1.311
High non-tariff measure, which tended to disproportionately protect politically connected firms	304	3.82	1.291
Policy uncertainty and macroeconomic vulnerabilities	306	3.79	1.240
Complicated and lengthy procedures for starting and closing a business	306	3.78	1.258
Absence of authorized offices and qualified employees to fulfill the needs of investors in the various governorates	302	3.76	1.245
High cost of entry into and exit from businesses	305	3.68	1.211
Lack of transparency in interactions and government offices tendency to collect fees whether rightfully or not	303	3.66	1.333
Absence of alternative dispute settlement processes that would help the contracting environment and resolve differences in a timely & fair manner	302	3.63	1.248
Lack of accessible information on government rules and regulations	306	3.60	1.248
Lack of legal clarity by regulatory sectors	305	3.58	1.272
Delays in business and property registration	304	3.58	1.320
Weak registries for land and other forms of property	301	3.58	1.277
Delays or uncertainty in contract enforcement (lack of fair & impartial courts)	307	3.54	1.329
Difficulties to renew registration or change the commercial activity in the event of disassociation or entry of partners	307	3.53	1.289
Complex and burdensome business regulations	307	3.49	1.230
time and monetary costs to register a business	305	3.31	1.319
Absence of the protection of property rights	303	3.30	1.364
Cumbersome industrial licensing	306	3.30	1.391
High costs of business regulations and licensing fees	304	3.15	1.390
Grand mean and standard deviation		3.59	0.811

Source: SPSS output (Own computations)

4.6.3 Financial barriers

Along with conducive legal and policy environment, private sectors also need adequate financing or access to credit to boost their investment and operating performance. Indeed, the main sources of finance or credit for private sectors in developing countries, Ethiopia in particular, are microfinance institutions and banks, due to the absence of secondary financial markets. However, as presented in table 20 below, getting access to credit remains the major challenge for private sector growth in the Amhara region with high mean score of 4.71. This is mainly due to complex and corrupted credit requirements, unfavorably high loan interest rates, biased loan treatment in favor of State-Owned enterprises, strict collateral requirements, risk adversity of loan providing institutions, poor creditors' rights, and lack of linkages between private sectors and credit providing institutions.

Table 20: Summary of descriptive statistics for financial barriers

Indicators	N	Mean	Std. Dev
Complex and corrupted credit requirements	303	4.00	1.249
Biased treatment in favor of State-Owned Enterprises	301	3.92	1.245
Unfavorable (high) interest rates on loans	303	3.91	1.327
Insufficient loan size	302	3.83	1.287
Strict collateral requirements relating to types and level	302	3.81	1.345
Lack of linkages with credit providing institutions	305	3.80	1.233
Poor financial infrastructure such as weak creditor rights	303	3.78	1.195
Risk adversity of loan provider	301	3.75	1.305
Loan inadequacy of credit institution	301	3.72	1.290
Low level of financial system development	303	3.67	1.244
Loan term is too short	302	3.55	1.303
Complex credit application and disbursement process	303	3.49	1.381
Grand mean and standard deviation		3.77	.88

Source: SPSS output (Own computations)

4.6.4 Tax related barriers

The other major barrier for the private sector development in the region is related to tax system and administrations with an average mean score of 4.01. Respondents agreed that having an efficient tax system is important for the success of their business. As shown in table 21 below, the major barriers related to tax includes the tax authorities' haste imposition of penalties, higher tax rates and haphazard profit estimation, corrupted system, poor professional assistance in clarifying tax rules and regulations for entrepreneurs, unclear tax structure, and high cost of compliance to the tax rules and regulations.

Table 21: Summary of Descriptive statistics for Tax related barriers

Indicators	N	Mean	St. Dev
Haste imposition of penalties and additional taxes upon enterprises when disputes arise from estimations	305	4.27	1.142
Higher tax rates on businesses	308	4.15	1.135
Haphazard (arbitrary) estimation of profits	307	4.13	1.181
Tax does not take into consideration perishable goods	308	4.12	1.255
Excessive red tape and corruption in tax administrations	307	4.11	1.168
Lack of professional assistance for entrepreneurs	302	4.03	1.123
Higher cost of compliance to the tax rules and regulations	308	4.03	1.165
Complex and unclear tax structure	308	3.93	1.184
Not considering sales invoices and thus not commuting the same	304	3.91	1.145
Weak tax administration and the inspection system	303	3.76	1.254
Non-computerization of tax procedures	306	3.62	1.343
Grand mean and standard deviation		4.01	0.86631

Source: SPSS output (Own computations)

4.6.5 Infrastructural Constraints

The table 22 below shows the respondents' view concerning infrastructure on their business success, and the mean score for infrastructure is 3.89. The problem of infrastructure in the region, as per the view of respondents under study, is severe as the average response approaches to 4.00 out of 5 point scale. Infrastructure might be the physical and organizational structure that is essential and needed for the smooth operation of an enterprise. Infrastructure promotes and facilitates the production and distribution of goods and services to the appropriate markets. Infrastructure can be economic infrastructure and social infrastructure. Economic infrastructure includes structures such as roads, railways, port facilities, power facilities and telecommunications networks, while social infrastructure includes facilities such as educational institutions, hospitals, justice facilities and community facilities. And it is the services and facilities necessary for an economy to function. A study by Kessides (1993) opined that infrastructure contributes to economic growth, acting through both demand and supply in an aggregate sense.

The character and availability of infrastructure influence the high productivity of private capital, public investment, and also complements private investment.

However, the Amhara region lags behind other regions and is considered as a remote and lagging region with the lesser increase in road density and severe shortage of electricity and water despite the large infrastructural developments in Ethiopia over the last decade (Kanth & Geiger, 2017). Various Medias and analysts also frequently expose the current transport challenges in Amhara region. This proposition is normally supported in the descriptive result of the study as most respondents rank infrastructure problem as a severe concern.

Table 22: Summary of Descriptive statistics for Infrastructural constraints

Indicators	N	Mean	SD
Unreliable power supply with frequent interruptions	307	4.29	1.154
Improper tariffs on municipal infrastructures	306	4.01	1.162
Poor internet access for system based services	303	4.01	1.265
Lack of appropriate dry waste and sewerage system	305	3.93	1.240
Insufficient and interrupted water supply	305	3.89	1.219
Unreliable modern telecommunications services	305	3.59	1.378
Lack of sufficient and quick transportation service	306	3.49	1.311
Grand mean and standard deviation		3.89	0.8828

Source: SPSS output (Own computations)

4.6.6 Market related factors

Globalization has dramatically changed the business landscape facing firms. The impact of industrial activity on the environment has also heightened, adding to the complexity of doing business in today's world. The basic competitive challenge to firms in the emerging global environment is how to participate in global markets in a way that leads to sustained profitability. The turbulent environment poses new challenges to managers that require different organizational responses depending on the degree of involvement in global business particularly, new forms of packaging, demand for recycling, efficient use of resources, greater responsibility for protecting the environment, as well as to educate consumers and to develop more user friendly products are all compounding the tasks and demands placed on the firms.

The table 23 below shows respondents' view on market related factors, and the mean score is more than half in a five point scale. From the items raised market related factors; macro-economic instability, i.e. high inflation and currency devaluation is the most severe constraint (mean=4.31) followed by high cost of customs and fees imposed on raw materials needed for local industries (mean=4.19) while ownership concentration (uncompetitive working situation) (mean=3.29) and lack of market demand (low market size) (mean=3.24) are relatively less problematic issues. From the survey, the descriptive results showed that private business sector in the Amhara region is under intense problem as most researchers consider macro-economic instability as very painful for business success. Macro business environment where a firm finds it can influence the performance of that firm and determine its destination (Kelly, 2008), and the rate of influence depends on what share of the firm's depending on the overall economy (Admasu, 2012).

Table 23: Summary of Descriptive statistics for Market related constraint

Indicators	N	Mean	SD
Macro-economic instability(inflation and currency devaluation)	304	4.31	1.094
High cost of customs and fees imposed on raw materials	303	4.19	1.164
Unequal chance of being participate in international trade	304	4.15	1.148
Unfair competition due to the presence of the informal sector, random importing, and smuggling	304	4.11	1.185
Access of internet for marketing	299	4.07	1.220
Unable to compete with cheap imported products	303	3.84	1.323
Inadequate locally available raw materials	304	3.84	1.220
Lack market linkage for its products	300	3.77	1.203
Long distance to input and output markets	302	3.64	1.246
Lack of market demand (low market size)	302	3.34	1.230
Ownership concentration (uncompetitive working situation)	303	3.29	1.257
Grand mean and standard deviation		3.86	0.835

Source: SPSS output (Own computations)

4.6.7 Challenges related to Land access

Land is a precious resource, and availability of land is also identified as one of the major constraints for development and expansion especially for firms operating and intending to operate in Addis Ababa, where there is huge gap between supply of land and demand (Tariku, 2015), and the problem is common in all parts of the nation. Access to working premises is a challenge to micro and small enterprises operating in the country, and a national strategy was designed to construct appropriate working shades in different parts of the nation. As a result, considerable number of manufacturing and service rendering premises have been built and offered to MSEs working in both the manufacturing and service sectors (FeMSDA, 2015).

As shown in the table 24 below, land (working premise) access factor consists of six items. All these factors: high rent for business premises, inappropriate location of the enterprise, overestimated land-lease fees, unclear land-lease system and biased land allocations, long and tedious allocation process and procedures allocations and unavailability of areas suitable for industrial investment are critical issues for enterprises operating in Amhara region in all sectors. The mean scores clearly show respondents agreement on the variables. That is mean scores of the aforementioned land related factors are 4.34, 4.29, 4.22, 4.12, 4.02 and 3.86, respectively.

Table 24: Summary of Descriptive statistics for Land access constraints

Indicators	N	Mean	SD
High rent for business premises	298	4.34	1.069
Inappropriate location of the enterprise	298	4.29	1.062
Overestimated land lease fees	297	4.22	1.110
Unclear land-lease system and biased land allocations	296	4.12	1.234
Long and tedious allocation process and procedures	296	4.02	1.343
Unavailability of areas suitable for industrial investment	295	3.86	1.330

Source: SPSS output (Own computations)

4.6.8 Technological Factors

Technological forces refer to the rate of scientific change and fastest growth of technology that have potential wide-ranging effects on businesses and at the society (Gamble, 2014). In developing countries, especially Small Scale Entrepreneurs find it difficult to gaining access to new technologies which limits innovation and organizational competitiveness (Mesfin, 2015). Technological factors have rendered some SMEs not competitive and not able to meet the needs of customers. Decisions to improve change or implement new technological processes must be made in order to meet customer wants and needs. Information technology has been identified as a major player in innovation and competitiveness of SMEs.

Among the items raised under technological factors, lack of finance was considered as a headache for the success of business with mean scores of 4.09 from a five point scale. Obviously, globalization has come with advancement of technology in businesses operations both in variety and quality. And firms are being threatened since they are unable to acquire these varied technologies due to financial constraint which is also a pain of business enterprises working in Amhara region. The second item raised under technological factors was lack of skills to handle new technology. Respondents express their view as their enterprise lack adequate skill (mean=3.80 very close they agree on this item) to operate the technologies they own in any case. Lack of appropriate equipment and unable to select proper technology are also another challenge for respondents under the study with mean of 3.76 and 3.75, respectively. According to Levitt (1983), a powerful force drives the world toward a converging commonality, and that force is technology. Since the mid-1990s, there has been a growing concern about the impact of technological change on the operation of SMEs. Many small businesses appear to be unfamiliar with new technologies particularly those in the less developed countries.

Table 25: Summary of Descriptive statistics for Technological factors

Indicators	N	Mean	SD
Lack of finance to acquire new technology	295	4.10	1.143
Lack of skills to handle new technology	295	3.81	1.212
Lack of appropriate machinery and equipment	294	3.79	1.265
Unable to select proper technology	293	3.75	1.240

Source: SPSS output (Own computations)

4.6.9 Political Factors

This section sought to examine the respondents' level of agreement on the barriers of political factors on the growth of private sector. From the findings in table 26 below, surveyed businesses ranked the severity of top four major political factors for private sector growth in the region. The most severe problems for the private investors are the suspension of substantial projects or investments (mean= 3.89), wastage of working hours due to instability (mean= 3.83), unable to enter into new contracts due to frustration (mean= 3.73), and closing business premises temporarily due to frustration (mean= 3.55).

Table 26: Summary of Descriptive statistics for Political factors

Indicators	N	Mean	Std. Dev
The suspension of substantial projects or investments	293	3.89	1.223
Wastage of working hours due to instability	297	3.83	1.260
Unable to enter into new contracts due to frustration	296	3.73	1.268
Closing business premises temporarily due to frustration	299	3.55	1.402
Unable to fulfill the business contract commitments	295	3.33	1.306

Source: SPSS output (Own computations)

4.6.10 Management

As shown in table 27 below, the management related challenges for the growth of private businesses in the region include are lack of low cost and accessible training facilities, lack of clear business vision and mission, poor organization and ineffective communication, lack clear division of duties and responsibilities, lack of well trained and experienced employees with a mean score of 3.56, 3.35, 3.33, 3.19, 3.11 and 3.01, respectively. The most severe problem to the private investors is the lack of low cost and accessible training facilities with mean of 3.56.

Table 27: Summary of Descriptive statistics for Management related factors

Indicators	N	Mean	Std. Deviation
Lack of low cost and accessible training facilities	294	3.56	1.259
Lack of clear business vision and mission	298	3.35	1.305
Poor organization and ineffective communication	298	3.33	1.382
Lack clear division of duties and responsibilities	298	3.19	1.402
Lack of well trained and experienced employees	297	3.11	1.360
Poor selection of business associates or partners	299	3.01	1.331

Source: SPSS output (Own computations)

4.7 Private Sector Challenge across Major Cities

All factors including the macroeconomic instability, corruption, inadequate land access, lack of government support, tax problems, thin market, infrastructural constraint, technological barrier, financial constraint, political and social instability, legal and policy barrier, and management related factors affect the performance of private sector in the Amhara region. But, this does not necessarily mean that all factors have equally impeded the private sector growth across major cities. The following table clearly compares the overall impact of all key factors as discussed in detail above. The top two factors which have severe impact on private sector performance for Bahir Dar, Gondar, Woldiya and Debre Tabor cities are corruption and macro-economic instability. Land access and corruption are the first two major barriers for Dessie while macroeconomic instability and land access are the top two sever challenges for Debre Markos City. But, an environmental hazard is the least ranked challenge for private sector development for all major cities in the Amhara region.

Table 28: Summary of Descriptive Statistics Challenge across Major Cities

City	Factors	Mean	SD	City	Factors	Mean	SD
Bahir Dar	Macroeconomic instability	4.30	1.09	Gondar	Corruption	4.04	1.43
	Corruption	4.23	1.25		Macroeconomic instability	3.92	1.44
	Land access constraint	4.22	0.87		Land access constraint	3.92	1.05
	Lack of government support	4.14	1.12		Tax related constraint	3.89	1.04
	Tax related constraint	4.09	0.75		Political & social constraint	3.86	1.11
	Market related constraint	3.94	0.76		Market related constraint	3.70	0.94
	Infrastructural constraint	3.92	0.81		Financial constraint	3.66	0.98
	Technological constraint	3.92	0.87		Legal policy constraint	3.66	0.93
	Financial constraint	3.91	0.83		Technological constraint	3.66	1.14
	Political & social constraint	3.74	0.93		Infrastructural constraint	3.60	1.04
	Legal policy constraint	3.65	0.76		Management constraint	3.49	0.97
	Management constraint	3.26	0.93		Lack of government support	3.49	1.33
	Environmental Hazards	2.16	1.43		Environmental Hazards	2.43	1.57
Dessie	Land access constraint	4.35	0.85	Woldiya	Corruption	4.13	1.28
	Corruption	4.31	1.17		Macroeconomic instability	4.09	1.15
	Macroeconomic instability	4.23	0.73		Land access constraint	4.07	0.73
	Market related constraint	4.05	0.79		Market related constraint	3.97	0.81
	Tax related constraint	4.02	0.82		Technological constraint	3.93	0.87
	Infrastructural constraint	3.97	0.92		Infrastructural constraint	3.84	0.90
	Technological constraint	3.93	1.07		Tax related constraint	3.80	1.01
	Lack of government support	3.87	1.33		Political & social constraint	3.78	0.87
	Legal policy constraint	3.65	0.73		Legal policy constraint	3.59	0.90
	Financial constraint	3.64	0.66		Financial constraint	3.51	0.99
	Political & social constraint	3.47	1.24		Lack of government support	3.50	1.34
	Management constraint	3.20	1.03		Management constraint	3.39	1.10
	Environmental Hazards	1.83	1.07		Environmental Hazards	2.32	1.54

City	Factors	Mean	SD	City	Factors	Mean	SD
Debre Markos	Macroeconomic instability	4.46	1.09	Debre Tabor	Corruption	4.48	1.12
	Land access constraint	4.11	0.78		Macroeconomic instability	4.14	1.35
	Tax related constraint	4.05	0.85		Land access constraint	4.12	0.81
	Infrastructural constraint	3.99	0.85		Technological constraint	4.07	0.93
	Corruption	3.93	1.52		Infrastructural constraint	4.05	0.85
	Lack of government support	3.86	1.14		Tax related constraint	3.99	0.94
	Financial constraint	3.80	0.89		Lack of government support	3.86	1.24
	Market related constraint	3.71	0.88		Market related constraint	3.83	0.92
	Technological constraint	3.71	1.03		Financial constraint	3.72	0.95
	Legal policy constraint	3.43	0.75		Political & social constraint	3.62	1.06
	Political & social constraint	3.34	0.98		Legal policy constraint	3.55	0.93
	Management constraint	3.00	0.86		Management constraint	3.35	1.16
	Environmental Hazards	1.79	1.24		Environmental Hazards	1.58	0.96

Source: SPSS output (Own computations)

4.8 Private Sector Challenge by Economic Sectors

Private sector growth barriers in Amhara region are also assumed to be differ across major economic sectors. The table 29 below clearly compares the overall effect of all key factors discussed in detail in the aforementioned sections. The top two factors which have severely impede the manufacturing and trading business sector are corruption and macro-economic instability, while macroeconomic instability and land access are the top two sever challenges for service sector. On the other side of the spectrum, environmental hazard is the last ranked challenge for private sector development.

Table 29: Summary of Descriptive statistics challenge by economic sectors

Manufacturing (n=37)			Trade (n=150)			Service (n=107)		
	Mean	SD		Mean	SD		Mean	SD
Macroeconomic instability	4.03	1.34	Corruption	4.37	1.15	Macroeconomic instability	4.43	0.93
Corruption	4.00	1.33	Macroeconomic instability	4.21	1.18	Land access	4.28	0.75
Tax barriers	3.97	1.02	Land access	4.14	0.90	Tax barriers	4.13	0.72
Market constraint	3.94	0.92	Tax barriers	3.97	0.87	Infrastructural	4.08	0.77
Technological	3.86	1.08	Poor gov't support	3.88	1.24	Corruption	3.99	1.42
Land access	3.84	1.08	Technological	3.84	0.96	Market constraint	3.98	0.77
Infrastructural	3.81	0.94	Financial constraint	3.81	0.87	Poor gov't support	3.93	1.19
Poor gov't support	3.78	1.36	Market constraint	3.81	0.84	Technological	3.90	0.94
Financial constraint	3.68	0.95	Infrastructural	3.80	0.89	Financial	3.79	0.83
Political & social	3.63	0.94	Political & social	3.60	1.05	Legal and policy	3.73	0.72
Legal and policy	3.36	0.96	Legal and policy	3.57	0.79	Political & social	3.70	1.01
Management	3.32	1.16	Management	3.26	0.89	Management	3.26	1.01
Environmental hazard	2.03	1.32	Environmental hazard	2.17	1.43	Environmental	1.94	1.36

Source: SPSS output (Own computations)

The above survey results are supported by the FGD results as presented in the following table. The FGD results showed that the leading barriers to the manufacturing, trade and service sectors are infrastructure, poor market linkage, and unfair market competition, respectively.

Table 30: FGD results of Barriers by Economic Sectors

No	Manufacturing	Trade	Service
1	Poor infrastructure	Poor market linkage	Unfair market competition
2	Poor legal and policy framework	Unfair market competition	Tax related barriers
3	Inadequate supply and poor quality of raw material	Poor legal & policy framework	Poor legal & policy framework
4	Financial constraint	Contraband trade	Lack of government support
5	Currency shortage & contraband	Tax related barriers	Lack of trained labor

Source: FGD results (2018)

4.9 Private Sector Challenge by Scale of Enterprise

The following table clearly compares the key factors across scale of enterprises. The top five factors which are the main challenges for the growth of large and medium enterprises are macroeconomic instability (mean=4.19), corruption (mean=4.14), poor land access (mean=4.07), tax problem (mean=4.01), and thin market (mean=3.89). On the other hand, macroeconomic instability, land access constraint, corruption, tax related constraint and lack of government support are the top five obstacles for the growth of small scale enterprise in Amhara region.

Table 31: Summary of Descriptive statistics by scale of enterprise

Large and medium (n=183 sample)				**Small and Micro (n=120 sample)**			
Factors	Mean	SD	Rank	Factors	Mean	SD	Rank
Macroeconomic instability	4.19	1.08	1st	Macroeconomic instability	4.29	1.27	1st
Corruption	4.14	1.26	2nd	Land access constraint	4.26	0.80	2nd
Land access constraint	4.07	0.92	3rd	Corruption	4.17	1.42	3rd
Tax related constraint	4.01	0.78	4th	Tax related constraint	4.00	0.99	4th
Market related constraint	3.89	0.79	5th	Lack of gov't support	3.99	1.25	5th
Infrastructural constraint	3.89	0.85	6th	Technological constraint	3.89	1.06	6th
Technological constraint	3.83	0.92	7th	Infrastructural constraint	3.88	0.94	7th
Lack of gov't support	3.81	1.21	8th	Market related constraint	3.82	0.91	8th
Financial constraint	3.77	0.85	9th	Financial constraint	3.76	0.94	9th
Legal & policy constraint	3.61	0.77	10th	Political instability	3.75	1.09	10th
Political instability	3.59	0.97	11th	Legal & policy constraint	3.57	0.89	11th
Management constraint	3.30	0.96	12th	Management constraint	3.22	1.00	12th
Environmental Hazards	2.11	1.37	13th	Environmental Hazards	1.98	1.40	13th

Source: SPSS output (Own computation)

Moreover, the top five barriers to private sector growth by scale of enterprises in Amhara region based on FGD results are presented in the following table. The top three barriers for private sector growth in the region are poor infrastructure, lack of credit access, and lack of skilled labor (training) for the large and medium as well as small and micro businesses.

No	Large and Medium	Small and Micro
1	Poor infrastructure	Poor infrastructure
2	Financial constraint	Financial access and collateral
3	Lack of trained labor	Lack of training
4	Tax related barriers	Lack of business awareness
5	Poor business linkage	Poor attitude for home made products

Source: FGD results (2018)

4.10 Doing Business in Amhara Region

Doing Business measures aspects of business regulation and their implications for firm establishment and operations. It provides indicators on regulation for getting electricity, dealing with construction permit, paying tax, accessing credit, enforcing contract, starting business, registering property etc. The survey results revealed that getting electricity, dealing with construction permit, paying tax, accessing credit, enforcing contract, and starting business are sever problems of doing business in Amhara region. At country level, Ethiopia performs poorly on specific business regulatory measures particularly on starting a business, dealing with construction permits, getting credit, and trading across borders (DB, 2018). The finding shown in the table 32 below is more or less similar with the country report.

Table 32: Doing business ranking in Amhara region

Doing business measures	N	Mean	Std. Deviation
Getting electricity	307	4.29	1.15
Dealing with construction permit	298	4.11	1.01
Paying tax	308	4.10	0.93
Getting credit	305	3.76	0.90
Enforcing contract	307	3.59	1.09
Starting business	307	3.49	0.98
Registering property	307	3.44	0.93

Source: SPSS output (Own computation)

4.11 Correlation among Factors

Pearson's Correlation matrix were used for data to see whether there is significant relationship between financial (FNF), management (MNF), marketing (MKF), Legal (LGF), technological (TEF), infrastructural (INF), taxation (TXF), Land (LAN) and political (POL).The Pearson product movement correlation (PPMC) analysis revealed that there was a positive correlation between all factors at the 0.01 level (2-tailed).The correlation between legal , financial, tax, legal infrastructure Marketing and land between themselves is greater than 0.5.

Table 33: Pearson's Product Moment Correlation Coefficient

		LGF	FNF	LAN	INF	MKF	LAN	Pol	TEF	MNF
LGF	Pearson Corr.	1								
	Sig. (2-tailed)									
FNF	Pearson Corr.	.533**	1							
	Sig. (2-tailed)	.000								
TXF	Pearson Corr.	.680**	.615**	1						
	Sig. (2-tailed)	.000	.000							
INF	Pearson Corr.	.544**	.507**	.584**	1					
	Sig. (2-tailed)	.000	.000	.000						
MKF	Pearson Corr.	.585**	.636**	.631**	.644**	1				
	Sig. (2-tailed)	.000	.000	.000	.000					
LAN	Pearson Corr.	.542**	.538**	.600**	.597**	.637**	1			
	Sig. (2-tailed)	.000	.000	.000	.000	.000				
POL	Pearson Corr.	.353**	.382**	.385**	.450**	.526**	.468**	1		
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000			
TEF	Pearson Corr.	.356**	.341**	.370**	.468**	.464**	.497**	.553**	1	
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000		
MNF	Pearson Corr.	.374**	.244**	.336**	.290**	.293**	.314**	.403**	.443**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	
**. Correlation is significant at the 0.01 level (2-tailed).										
b. Listwise N=291										

Source: SPSS output (Own computation)

4.12 Ranking the Highly Rated Constraints and Comparison of Factors

Although, all politico, legal, infrastructure, technology, marketing, financial and management factors affect the performance of private sector, this does not necessarily mean that all factors have equal impact. In table 34 below, the relative rankings of the 14 most highly rated constraints are presented. It can now be seen that macroeconomic instability, corruption, lack of land access, taxation, and poor infrastructural factors have the biggest challenges in Amhara region. On the other hand foreign currencies, corruption, access to financing, inefficient government bureaucracy, macroeconomic instability (inflation), are biggest challenges in Ethiopia.

Table 34 : Ranking the highly rated constraints and comparison of Factors

Rank	Private Sector Challenges Amhara region	Challenges, Ethiopia (2017/18)
1st	Macroeconomic instability	Foreign currency
2nd	Corruption	Corruption
3rd	Lack of Land access	Access to financing
4th	Taxation problems	Inefficient government bureaucracy
5th	Poor Infrastructural development	Macroeconomic instability (Inflation)
6th	Lack of government support	Poor Infrastructural development
7th	Lack of broad market for products	Poor work ethic in national labor force
8th	Technological barriers	Inadequately educated workforce
9th	Lack of financial (credit) access	Tax rates
10th	Political and social instability	Policy instability
11th	Weak legal and policy frameworks	Tax regulations
12th	Management barriers	Restrictive labor regulations
	Source: Own survey, 2018	*Source: WEO, Opinion Survey, 2017*

5 Conclusions and Recommendations

The previous chapter presented the results and analysis of the study. This chapter provides the conclusions and recommendations in line with the findings of the study. The chapter is structured in two sections. The first section deals with conclusions whereas the second section presents some recommendations suggested as a solution to problems identified in the study.

5.1 Conclusions

Private sector development is crucial for sustainable economic development and poverty alleviation mainly for developing economies through job creation and income generation for the poor as the public resources are not sufficient to address the development challenges. But, the growth and effectiveness of the private businesses strongly depend on robust complementarities and development strategies favorable to private sectors. Private investors demand a good investment climate, which is characterized by stable macroeconomic, legal and political condition in order to build confidence in the future, mutual trust, understanding, dialogue and collaboration amongst stakeholders, rule of law, and protection of citizen's rights. All legal, regulatory, and administrative frameworks should govern all spheres of private initiatives in a predictable, consistent and impartial manner.

Accordingly, Ethiopia recognized the crucial role of the private sector in the process of sustainable economic and social development, and took different development initiatives to boost the private investment since early 1990s. This is articulated in, PASDEP, GTP I, GTP II and other development policy documents. Since the formulation of the first growth and transformation plan, greater focus on understanding the potential contribution of the private sector as well as formalizing how this contribution could best be realized was encapsulated. Specifically, along with the aforementioned government policies and initiatives, the private sector in the Amhara region has huge growth potential with broad market base and labor force (huge population size), vast raw materials, and massive natural resources including fertile soil and abundant water resources.

Indeed, this study was carried out with an overall objective of articulating Regional Business Agenda in the region. The study aims at identifying and prioritizing the main policy, legal and administrative hurdles for private sector development in Amhara region. However, regardless of the government effort in promoting and acceleration private sector, private investment both in Ethiopia and the Amhara region is far below potential. The investment contribution of the formal private sector to the GDP at country level is at 8.8 per cent, which is much lower that the Sub-Saharan average. In this regard, the findings of the study reveal that situations where a range of factors influence the performance of entrepreneurs in the study sites. For instance, political uprising and revolution in recent years especially in two most populated regions, i.e. Amhara and Oromia, have an impact on the performance of business community.

The major challenges for the private sector development in the Amhara region, in order of priority based on the survey results, are macroeconomic instability, corruption, lack of land access, tax administration problems, poor infrastructural development, lack of government support, lack of broad market for products, technological barriers, inadequate credit access, political and social instability, weak legal and policy frameworks, and management barriers.

Macroeconomic Instability: The major impediment for private sector development in the Amhara region is macroeconomic instability, which is reflected by higher inflation and currency devaluation. During 2017, the highest headline inflation was recorded in Amhara region.

Challenges related to Land access: The region is characterized by inadequate land access with overpriced and unclear land-lease system, high rent for working premises, long and tedious land allocation process and procedures, and unavailability of areas suitable for industrial investment.

Taxation: The study findings indicate that the tax system and administrations is major barrier for the private sector development in the region. Feeble tax administration with higher tax rates and haphazard profit estimation, poor professional assistance in clarifying tax rules and regulations for entrepreneurs, unclear tax structure and high cost of compliance to the tax rules and regulations are the major impediments for private sector development in the region.

Legal and policy factors: Legal and policy framework creates unfavorable environment for private businesses in the region. The main problems related to legal and policy barriers are lack of government support and unclear and bureaucratic legal and regulatory framework to public and privately owned enterprises.

Infrastructural Constraints: Despite the large infrastructural developments in Ethiopia over the last decade, the Amhara region lags behind other regions with underdeveloped business infrastructures mainly inadequate and interrupted power and water supply.

Market related factors: Thin market for private sectors' products and services due to uncompetitive working environment that favors state-owned enterprises is another impediment for private sector growth in the region.

Financial barriers: The region is also exposed to low credit access mainly due to complex and corrupted credit requirements, unfavorably high loan interest, biased loan treatment in favor of State-Owned enterprises, strict collateral requirements, risk adversity of loan providing institutions, poor creditors' rights, and lack of linkages between private sectors and credit providing institutions

Technological Factors: Among the items raised under technological factors lack of finance was considered as a headache for the success of business Lack of skills to handle new technology. Lack of appropriate equipment and unable to select proper technology

Political and Social Factors: The most severe political factors the private investors are the suspension of substantial projects or investments, wastage of working hours due to instability, unable to enter into new contracts due to frustration, closing business premises temporarily due to frustration.

5.2 Recommendations and Policy Implications

Based on the major findings presented in the previous section, this study offers the following recommendations and policy implications in their priority of concern to mitigate the main legal, regulatory and administrative barriers for private sector growth in the Amhara region.

Priority 1: Stabilize the Macroeconomic Condition

The government should stabilize the economy and the consumer market through proper price and output stability measures. Policies to reduce volatility and encourage welfare-enhancing growth should be established. Indeed, the national bank's objective of price stability through raising policy rates to deal with surging food price inflation could hurt the industry activity. The government should manage currency crunch, handle inflation, establish foreign exchange facilities, create transparent system for government revenue and expenditures, and prevent predatory actors from controlling the country's resources.

Priority 2: Fight against Corruption

All business practices and activities should be free from corruption. The government bodies should establish appropriate procedures to deter and detect corruption, and take effective measures to ensure public and private sector integrity and accountability at all levels. Corruption must be tackled in an open, inclusive and equitable manner by designing transparency programs with proper training and consultation for both private sectors and staffs of public sectors. Negative consequences of corruption should be explicitly addressed in PPP framework, full disclosure of information, increasing probability of detection and penalty, and allow private sectors to benefit from contract rather than perverting it. Political intervention and corruption are considered as cancer for business as well the nation building so that the government proclamations, regulations and directives must be uniformly implemented to create free competition in the business environment that could encourage business growth and innovation.

Priority 3: Access to Land or Working Premises

The Ethiopian government should revise its land policies in the region and ratify a regulation to ensure adequate and convenient working premises with low rent cost for private businesses. Government must device a mechanism to avail a land for business expansion. Indeed, the Ethiopian government has an initiative to formulate an integrated national land use policy as an integral part of the Third Growth and Transformation Plan (2020–2024) to facilitate proper land allocation and reduce conflict on land use in the country.

Priority 4: Create Conducive Tax Environment for Private Sectors

Government should reduce the business tax burden through minimizing the complexity of forms and time taken to file tax returns. To minimize the tax burdens, the government and ARCCSA should design long-term pact to work together on the formalization of the tax economy through awareness campaigns with training and consultation to private businesses in need. All tax legislations and revisions must be consulted in real terms with stakeholders (business community and representatives of the community), and all the stakeholders' comments should be published as well. Persuasive communication and collaboration should be built between the tax authorities and tax payers to have effective tax assessment and enforcement with awareness creation and information sharing. Besides, the tax payers, especially category 'C', should be encouraged to maintain books of account (transaction records) through continuous awareness creation programs. The tax authority should also improve transparency and accountability of the tax administration, and strengthen the professional quality and ethical standards of its staff members (i.e. tax inspectors) through appropriate training and education to mitigate corruption, inaccurate inspection of tax files and reports, and improper estimation of firms' profits.

Priority 5: Improve Infrastructural Development

The growing public investment in infrastructure at country level should address the Amhara region, which is neglected especially in power plantation and road construction. The Amhara region suffers from poor infrastructural development with insufficient and inadequate road, electricity and water supply which are major barriers to the growth of private businesses. Power plants or stations should be built to mitigate the scarcity of electricity supply which is a headache for both private businesses and government offices in the region. Many firms in the region still experience loss due to inadequate electricity supply and frequent power interruption, and many rely on generators. Besides, road construction is far behind the region's demand to connect intra-regional and inter-regional markets for private sectors in the region.

Priority 6: Improve Government Support

The country has a policy of structural transformation from agriculture-based export to value-added or an industrial sector for sustainable economic growth and strengthening global competitiveness. As such structural shift requires the friendly participation of the government and private investors, the government should open up the economy to broaden the business opportunities to private entrepreneurs and then promote innovation. The government should ensure adequate discussion and consultation with the business community and their representatives prior to the initiation and implementation of various policies that would touch the private sectors.

Priority 7: Create Broad and Competitive Markets

The government should have an effective competition law for curbing anticompetitive practices by both the government offices and business enterprises, and to create conducive business environment to private firms. Anticompetitive practices including corruption on bids by politically connected firms and vested interest groups can significantly impede the economic benefits of competitive markets. Thus, the government at federal and regional level should promote competition based policy to foster competitive market for local firms that would enhance private sector productivity and growth. The government should promote better understanding and local support for competition law policy to foster competition in domestic markets and create comparable working environments or opportunities for both private and public owned enterprises. Anti-competitive business practices and artificial barriers for private sectors' entry and competition should be removed. The ARCCSA should work with the region's government, NGOs, consumer associations and other private business organizations to be a local voice for minimizing anticompetitive business practices and creating transparent systems. Moreover, private sector owners and managers must assess the potential markets for their goods or services, and adopt proper marketing strategy. They should continuously examine the existing and potential competition, and device a strategy and tactics of sustaining market share including improvement of customer relationship and handling.

Priority 8: Upgrade Technological Capability of the Firms

Developing technological capability requires adequate and continuous investment on information, labor educations and technological know-how. The ARCCSA, government bodies, academic institutions and the business community should work together to improve technology usage and staff skills through constant training and experience sharing with foreign businesses.

Priority 9: Expand Credit Access

The financial arrangement requires strengthening the formal financial sectors (i.e. commercial banks and microfinance) that should favor broad private investment. Indeed, the potential credit supplying institutions to the private sectors currently face various policy and regulatory barriers with continuous directives. For instance, the Bill purchase directive by NBE in 2011 forced the private commercial banks to purchase government bills to the tune of 27 percent of their loans and advances at a lower rate (5 percent). The directive has constrained the banks' liquidity and credit supply to private businesses. Hence, the government should open up the domestic credit market for private sectors, and look for alternative means of financing for public development projects. The government should alleviate problems in credit access to private sectors by coordinately working with both domestic and foreign credit supplying institutions. The formal financial system should be promoted to be more friendly with private businesses particularly SMEs. The collateral requirement of lending institutions must be reconsidered to facilitate the growth of the private sector. Moreover, the ARCCSA should work with academic institution and other stakeholders in providing training and consultation for private businesses on financial management. The private businesses should set up effective working capital management in their premises so as to minimize burden of cash shortage.

Priority 10: Minimize Legal and Policy Barriers

Administration and regulation procedures should be consistent across the whole sector (public, private, and informal operation) to encourage fair competition and create conducive business environment. The government initiatives on private sector should primarily aim at reducing public-sector policy barriers to entry, minimizing regulatory costs and unnecessary delays that hamper the private sectors' productivity and growth.

Priority 11: Improve Business Management Capability

The businesses should be organized with clear duties and responsibilities to eliminate confusion and collision among employees that could affects individual and group performance. The ARCCSA should work with higher educational institutions, and help the private sectors by facilitating training on leadership, customer and employee handling, and business management skills especially for large scale enterprises. In addition, both the government bodies and private sector associations should work with higher educational institutions in the region to revise their curriculums so that business graduates could gain bundle of practical experiences during their university stay along with theoretical understandings.

In summary, the ARCCSA should improve its record keeping and file management. The association should also strengthen its linkage with the higher educational institutions in the region, the regional government, NGOs and other stakeholders to help the private businesses through training and consultation on issues such as filling and reporting for tax purposes, fighting corruption, sources of finance or credit availability, and rules and regulations for business licensing and operation.

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