CHALLENGES AND OPPORTUNITIES OF PRIVATE MANUFACTURING INVESTMENT FIRMS IN ETHIOPIA: THE CASE OF MEDIUM AND LARGE SCALE FIRMS IN KALITY SUB-CITY, ADDIS ABABA,

BY: ATENAF YEHUALA

A RESEARCH THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, COLLEGE OF BUSINESS AND ECONOMICS, IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF MASTER OF SCIENCE (MSC) IN ACCOUNTING AND FINANCE

ADDIS ABABA, ETHIOPIA

JANUARY, 2019

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ADVISOR: SEWALE ABATE (Ass. Prof.)

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LETTER OF CERTIFICATIONS

This is to certify that ATINAF YEHUALA has carried out his research project work under my supervision, on the topic of **Challenges and Opportunities of Private Manufacturing Investment firms:** THE CASE OF ADDIS ABABA KALITY SUB-CITY CITY**".** This work is original in its nature and it is suitable for Submission in partial fulfillment of the requirement for the award of Masters Degree in Accounting and Finance.

Approved by:

Internal Examiner: _____Signature_____ Date_____

External Examiner: _____ Signature_____ Date_____

Advisor: _____ Signature _____Date_____

DECLARATION

I, ATINAF YEHUALA**,** declare that the study entitled **Challenges and Opportunities of Private Manufacturing Investment firms:** the case of Addis Ababa kality sub-city city**"** is the result of my own effort in research undertaking. All information in this document has been obtained and presented in accordance with academic rules and ethical conduct. The study has not been submitted to any Degree or Diploma in any college or university. It is submitted in the partial fulfillment of the requirement of the award of Masters of Degree in Accounting and Finance. Lastly I have fully cited, acknowledged and referenced all material and results that are not original to this work.

NAME: ATENAF YEHUALA

SIGNATURE: _____

ADVISOR: SEWALE ABATE (ASS. Prof)

SIGNATURE: _____

ACKNOWLEDGMENTS

First of all, I praise the almighty God for his blessings and all the best things happening in my life. Next, I would like to express my extreme indebtedness and sincere appreciation to my Advisor Sewale Abate (Dr) for his tremendous help and support in the course of my stay in the program. His guidance right from the beginning of development of the proposal until the completion of the research work and producing this full-fledged research is profoundly appreciable. His incredible insights, suggestions, and comments actually helped me in successfully presenting of my research .He, therefore, deserves special thanks!

My gratitude then goes to my extremely beloved families, Zewditu Shimles, my brothers and sisters (Aysheshim Yhuala, and Addise Yehuala), and my mother Tewres Mulat for you all are always with me in happiness as well as sorrow. I am also very much indebted to Zenbe Nigussie and Arefayne Wodajo. I would like to thank also all my friends, especially Hagos Geremew and and Fikiru Tadesse for their moral support and encouragement all along. I am also grateful to managers and employees of manufacturing firms participated in the study for their cooperation in providing the necessary data.

Thank You All!

ACRONYMS AND ABBREVIATION

AACCSA	Addis Ababa Chamber of Commerce and Secretarial Association
CSA	Central Statistical Agency
GDP	Gross domestic Product
GTP	Growth Transformational Plan
MOFED	Ministry of Finance and Economic Development
SPSS	Statistical software Package for Social Science
UNCTAD	United Nations Conference on Trade and Development
AGOA	African growth and opportunity act
ACP-EU	African, Caribbean and Pacific –European Union
PSD	Private Sector Development
PRS	Poverty Reduction Strategy
FDI	Foreign Direct Investment

TABLES OF CONTENTS

List of Tables

List of Figures

ABSTRACT

This research paper aims to investigate the challenges and opportunities of private investment (manufacturing sector) in kality cub city Addis Ababa. Clear understanding of these challenges will enable policy makers and concerned bodies to develop suitable investment strategies, business models, and processes. To address the research objective 211sampled respondents were selected. A proportional stratified sampling method was used. 211 questioners were distributed; from which 154 sample respondents replied appropriately to the questionnaire. Data gathered were analyzed based on these 154 responses using SPSS 20 software package. Descriptive statistics research design was employed. All out puts were reported using frequency, percentage and mean results. The result indicates that infrastructural challenge, quality problem, lack of access to market, absence of skilled man power and low labor productivity, in-satisfactory credit access, in appropriate legal framework and Bank regulations to get capital for projects are the major challenges. Cheap labor force, excellent climate and, industrial park development are the opportunities for private manufacturing firms in Addis Ababa kality sub-city. Therefore, Reforming Public Education, Build a better educated and trained workforce, Training employees Within Industry, and industry Park Development Program is a useful instrument for effective land usage, eliminate the problems in logistics and custom service, expand investments.

Key words:_Private Manufacturing firms, infrastructural problem, quality problem, absence of skilled man power, industry park development, cheap labor force, Addis Ababa, Kality Sub-city.

CHAPTER ONE

INTRODUCTION

1.1 Introduction/Back Ground of the study

Private Investment of manufacturing is essential for Economic Development because effective private investment utilize the economy in terms of employment, income generation and for the extra investment. The activity is powerful for the sake of economic growth. Depending on the importance of investment, the government updates the articles in order to encourage investment. Whereas the encouragement and expansion of investment especially, in the manufacturing sector, has become necessary so as to strengthen the domestic production capacity and there by accelerate the economic development of the country and improve the living standards of its people (Proclamation No 769/2012).Many developing countries want and need private investment; they often fear that individuals or companies from other countries was become too economically and politically powerful within their country. If this happens, the nation's employment, wages and even social conditions might be greatly influenced by foreign investors. Private investment is an investment in production facilities by private firms.

Ethiopia is the tenth largest country in Africa with a land area of approximately 1.14 million square kilometers. Ethiopia's total population is apex.102.4 (World Bank, 2016). It is the second most populous country in sub-Saharan Africa, after Nigeria. Ethiopia has the largest working population in Africa with 41 per cent of the population aged between 15 and 40 (UNDESA, 2015 and Index mundi).

Ethiopia has been one of the top 20 fastest-growing economies in the world since 2004. Its average real GDP growth rate over the past decade has been double that of Sub-Sahara African countries. Despite being relatively resource poor, and is expected to remain significantly higher going forward. According to International Monitory fund the country is set to be the second-fastest growing economy globally in 2015, with a GDP growth rate of 8.67%. Underpinning this notable growth track record in recent years has been a focus on infrastructure and capacity development, as put forward in Ethiopia's Growth and Transformation Plan (GTP I), which was implemented from 2010 to 2015. The second such plan, GTP II, was run from 2015 to 2020 and

explicitly aims to increase the country's manufacturing and agricultural exports, focusing on strategies that promote a globally competitive private sector. This includes government looking to invest in key economically enabling supporting infrastructure, including power generation. GTP II aims to achieve an average GDP growth rate of 11% per year during the five year cycle and plays a key part in the government's aim of becoming a middle income economy by 2025 (Deloitte, 2015). Following this, the manufacturing sector makes an important contribution to the Ethiopian economy and employs about 173 thousand people in the year 2012/2013 furthermore the sector had about 2,610 manufacturing establishments in the same year mainly engaged in the following broad subsectors namely food and beverage products, textile and apparel products, leather and leather products, wood and pulp products, chemical and chemical products, rubber and plastic products, other non-metallic minerals products and metal and engineering products industries. The top two manufacturing subsector; food and beverage and metal and engineering industries accounted for 51% of the sector's GDP and the food and beverage sector alone accounted 38% of the employment in the sector in the year 2012/2013. The manufacturing sector contribution to the GDP in 2012/2013 was 4.8 %.(AACCSA, 2015).

The industrial policy plan of a country is its official strategic effort to encourage the development and growth of the manufacturing sector of the economy. The government takes measures aimed at domestic firms and promoting structural transformation. A country's infrastructure (transportation, telecommunication and energy industry) is a major part of the manufacturing sector that usually has a key role (Bingham, Richard D. (1998).

Since the liberation of the Ethiopian Economy in 1992, the government has provided various incentive packages to attract foreign investors. Numbers macroeconomic reforms have been implemented with the objective of achieving macroeconomic stabilization & growth. The macroeconomic reforms include privatization of state owned enterprises, liberalization of trade policy, reduction of import tariff rates, elimination of non-tariff barriers, devaluation of price & exchange rate controls (UNCTAD, 2002).Whereas the encouragement and expansion of investment especially, in the manufacturing sector, has become necessary so as to strengthen the domestic production capacity and there by accelerate the economic development of the country and improve the living standards of its people (Proclamation No. 769/2012).

Accordingly the Ethiopian government provided Investment Incentives and Investment Areas Reserved for domestic Investors as well as income tax exemption for new enterprises through (Tax exemption Regulation No 270/2012). In addition for investors who are exporting products/services have additional incentives if investors export at least 60% of their products/services, they can take up additional two years exempt from income tax.(Tax exemption Regulation No 270/2012).Furthermore Manufacturing is one of the key sectors of development and the government also encourages this sector through different reforms. One of them is investment and investment areas reserved for Domestic Investors (Regulation No. 84/2003).

Therefore, this study aims to assess and analyze the extent of the investment challenges and opportunities of the private manufacturing sector, in Addis Ababa Ethiopia with a particular emphasis in Kality sub city. So, assessment of the impact of private manufacturing investment is essential in order to achieve its objectives.

1.2 Statement of the problem

Manufacturing is a wealth-creating sector of an economy, and closely connected with engineering and industrial design and provides important material support for national infrastructure. It involves the mechanical or chemical transformation of materials or substances into new products. It makes products from raw materials by the use of manual labour or machines and is usually carried out systematically with a division of labour. In a more limited sense, manufacturing is the fabrication or assembly of components into finished products on a fairly large scale (CSA, 2012).

Promoting private investment in manufacturing sector has a significant benefit in enhancing innovation, accelerating economic growth and reducing poverty. It creates more job opportunities, generates more revenue and increase income of the poor; and it eventually ensures long-term socio-economic development (Fietas& Sinha, 2011). Manufacturing is critical and is probably the most important engine of long-term growth and development. As countries transform from primary agricultural-based economies to manufacturing based ones, more sustainable revenue for growth is obtained (Getenet, 2015). In Ethiopia Over the last years, there were efforts made by the government aimed at bringing about structural transformation of the economy through provision of special attention to the manufacturing industry. By then, the Ethiopian government announced that, for those who would need to establish manufacturing

enterprises, it would provide the very expensive urban land for free or at a very minimal price and extend long-term loans at a subsidized rate. The government also made another five year industrial transformation plan to bring about several folds of new jobs, increase foreign currency earning. To realize this, the government has budgeted, among others, over 103 billion Birr of loan through the Development Bank of Ethiopia (DBE) for the establishment of new and expansion manufacturing sectors including SMEs.

According to the data found from Ethiopian Investment Agency, there are 25,374 registered private Manufacturing projects in Ethiopia, of which only 4,004 projects are operational, and the rest 19,553 and 1,817 projects are in pre-implementation and implementation stage (EIA, 2017/18). The actual projects which are in operation are only 15.76%. Looking at kality sub city, a total of 448 investment projects, which were expected to generate new employment opportunity for about 148,559 people on permanent and temporary bases, had gotten license within the same years. However, only 43 are operational and the rest, 389 and 16 are in pre implementation and in implementation stages, respectively. Generally, the actual operational projects are only 9.6 percent of the total registered projects in the City (EIA, 2017/2018). This result implies that there is an acute need for addressing the challenges and opportunities of private investment (manufacturing sector). Failure to do so, competitiveness of the city with regard to private investment might be remained at its minimal. This in turn was impairing the efforts made by the Government to reduce poverty through assessing the challenges and opportunities of private investment (manufacturing sector). Furthermore, this was give shade some light on the attempts made at national level to realize the Growth and Transformation Plan (GTP II, 2020) and the government's endeavor to reach middle level income. Even if Manufacturing industry in Ethiopia started in 1920s with a simple processing technology that produces agriculture-based products; AGOA initiative is believed to stimulate the development of such interest in Africa among others, AGOA has been playing the major role of promoting Sub-Saharan Africa's integration into the multilateral trading system, and empowering the continent to have more active roles in global trade negotiations. It has also contributed to economic and commercial reforms with the view to make African countries more attractive partners for U.S companies. The African, Caribbean and Pacific - European Union (ACP-EU) and other agreements have also an opportunity for the textile and garment Industry. Being eligible to AGOA and ACPEU has created favorable condition for the economic development of

Ethiopia in general and the textile industry in particular (Aisha, 2016). Besides, Ethiopia has been singled-out as a land of growth and investment opportunities (EIA, 2008), but still the sector is infant even by African standards, dominantly focusing on semi-processing. Several mutually reinforcing factors have conspired to prevent the emergence of a stronger manufacturing base in the country (AACCSA, 2015). However, Ethiopia has the means to change those factors that are coming together at the same time, such as cheap labor force and well-educated, trainable and inexpensive labour and supplies of utilities. Similarly, the policy framework is conducive to manufacturing development as it proposes to drive manufacturing growth through vertical and horizontal links to the rich resource base of agricultural and mineral, both of which have solid growth prospects in their own right. Thus, this research was conducted with an aim to examine why private manufacturing industry in Ethiopia specifically in kality is still at its infancy level even if:

- The sector is given priorities by Ethiopian Government (GTP I and GTP II) and from its oldest age of establishment
- If the above listed opportunities (AGOA Incentives, conducive policy frame works, cheap labour forces) are available (Aisha,2016)

1.3 Research questions

In this study the researcher was address the following research questions

- What are the main challenges that the private manufacturing sector faces in kality sub city in Addis Ababa, Ethiopia?
- What are the main opportunities that the private manufacturing sector has in kality sub city in Addis Ababa, Ethiopia?

1.4 General Objectives

The general objective of the study is to investigate the challenges and opportunities of private investment (manufacturing sector) in kality cub city Addis Ababa.

1.5 Specific Objectives

The specific objectives of the study were:

- To identify the main challenges that the private manufacturing sector faces in kality sub city Addis Ababa with related to the following factors.
- To investigate the main opportunities that the private manufacturing sector has in kality sub city Addis Ababa?

1.6 Significance of the Study

The primary significance of this research lies in its contribution to knowledge through exploring the challenges and opportunities of private manufacturing based on evidence from Addis Ababa Ethiopia. In this regard, the study was identified important challenges and opportunities of private manufacturing investment as well as strategic orientation and explicates how the interplay or interrelationships between these aspects and manufacturing decisions, learning and improvement capabilities, manufacturing manager's leadership practices, and government support ultimately influence manufacturing performance. The study was also assumed to contribute a better understanding of private manufacturing content by exploring the challenges and opportunities. The findings in the study, thus, might help to fill the gap in the manufacturing strategy literature regarding the challenges of manufacturing performance. The outcome in the study, moreover, assumed to be of interest to other researchers and policymakers in Ethiopia, Africa, and/or developing economies at large. In particular, this study is essential to cover what is going on inside the local manufacturing firms as well as help them find ways for learning,

improvement, and competitiveness. The government can also use the document as a stepping ground and to find ways for intervention including taking new strategic initiatives for enhancing the existing institutional support provided to manufacturing firms as well as creating awareness about the role of institutional forces among various stakeholders. The study might also serve as a basis for further research, consultancy, and training in the area.

1.7 Scope of the Study/Study Environment

This study falls into the challenges and opportunities of private manufacturing field drawing heavily on manufacturing development, and institutional literatures as well as relevant theoretical perspectives in these areas. The study addresses aspects of manufacturing Challenges (Infrastructural challenges, Incentives by Government, Awareness and access to oversee duty free market ,Domestic and Foreign Market Challenges, Material Inputs Availability, Labor Productivity, Plant Capacity and Technology Utilization, Access to Finance and Operational Constraints,) and opportunities.

The study only considered private medium- and large-scale manufacturing firms operating in Kality sub-city. These firms often have been categorized, on the bases of nature of products, into distinct groups as per National Standard Industrial Classification (NSIC). Thus, this study could not address the challenge and opportunities of small scale private manufacturing firms that operate in Kality.

With regard to geographical location the study was limited to collect data with in Addis Ababa specifically in Kality Sub-city. Therefore, the study couldn't address private firms located outside Kality sub-city. This study also limited to collect data and complete its time from July 2018 up to December 2018.

1.8 Limitation and Constraints of the study

This study was encountered different limitations associated with its design and coverage. In this regard, the study did not include all manufacturing sectors. It only concerns private manufacturing enterprises. As a result, the findings and/or outcomes reported in this research might not fully represent or reflect the situation in the manufacturing sector in Ethiopia as a whole. The findings and conclusions, therefore, would not be taken as generalizations for manufacturing firms in developing economies as a whole.

The study also did not cover all of the investors and the workers who are under the private investment of manufacturing in the town, this is due to as large number of investors or as the number of population who is under investigation is large, the researcher is obligated to take sample in order to draw inferences. Taking samples by its nature have its own limitation. The other limitation was lack of previous studies the area hinder the researcher to perform review related literatures in order to fill the gap even if press conferences are available at minimal. The study has also time and resource limitations to cover all private manufacturing firms located around Ethiopia. The other constraint of this paper was un willingness of the respondents to hold their cell phone, improper location/address of the firm, luck of communication channels like E-mail during collection of data.

1.9 Organization of the Study

The paper was organized as follows; chapter one was an introduction of the study, which contain statement of the problem, objective of the study, significance of the study, scope of the study, research questions, limitation of the study and organization of the study. The second chapter is review of related literature, enabling to develop the document and logically sequenced rational of problem. Chapter three was include the type and design of the study; the participant of the study; the sources of data; the data collection tools/instruments employed; the procedures of data collection; and the methods of data analysis to be used. Chapter four was provide results and discussion, which summarize the results/findings of the study, and interpret and/or discuss the findings while the last chapter, chapter five provides the summary, conclusions and recommendations of the study.

1.10 Definition of Terms

- **Ethiopia's Growth and Transformation Plan:** seeks to transform the economy from a predominantly agrarian to a modern and industrialized economy. The current plan (GTP 2010/11–2014/15) provides the medium-term strategic framework that guides the country's efforts towards accelerating GDP growth and employment creation. The GTP seeks to transform Ethiopia to an industrialized economy and increase the per capita income of its citizens to middle-income levels by 2025.

- **Productivity and Skills for Development:** Productivity gains are a key factor in determining long-term economic growth and improvement in living standards. Empirical evidence, globally, reveals that about half of long-term growth is driven by increases in productivity rather than just factor accumulation.

- **Skills and Productivity**: A key determining factor of productivity is the ability of an economy to supply the skills needed for companies to grow and to thrive

- **Constraints for Manufacturing Growth:** Private investment, both domestic and foreign, is crucial for developing the manufacturing sector. **A better investment climate that fosters the growth of existing firms, while encouraging the creation of new firms is key to attracting and increasing private sector investments.** The business environment affects the performance of all firms, irrespective of their size, however certain aspects such as regulatory burden and information asymmetry may be of particular consequence

- **Access to Finance:** Financial intermediation is a driving force for economic development—an expansion in credit to the private sector enables firms to invest in productive capacity, thereby laying the foundation for a sustainable growth path.

- **Operational Constraints:** Countries whose policies are more conducive to foreign investors stand a better chance of attracting FDI**.**

- **Incentives by Government:** Empirical evidence shows that where countries have managed to build lasting competitive advantages, this was in almost any case achieved on the basis of concerted public-private efforts. Governments have always had an important role in creating incentives to invest in new technical and entrepreneurial skills, facilitating collective action, developing and ensuring all kinds of quality standards, motivating investors to surmount technological lags, or avoiding too strong trade shocks that might have wiped out entire industries. And even today they continue doing so in all major industrialized countries (Cimoli et al., 2006; Fagerberg&Godinho 2005).

- **Awareness and Utilizations of Free Trade Agreements**: Improved state-business relations can be assumed to contribute to a better understanding of private sector needs by the government and thus to a more efficient allocation of resources in the economy. A

government that is informed through regular meetings with the private sector about investment climate problems was usually have stronger ownership for reforms. Being in constant dialogue with private investors is also necessary to enable public officials to assess where markets can be expected to work and where they are likely to fail and to offer or withdraw public support accordingly.

- **Domestic and Foreign Market Challenges:** A low number of businesses export a relatively low number of products, mostly of scant technological content, to global and regional markets. Integration into global value chains is an exception.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Recognizing its importance; this study focused on the private manufacturing investment and attempts to make-up the analytical framework for the industrialization of the country. Specifically, some theories and concepts related to the sector have to be described briefly as theoretical review, on economic condition of Ethiopia today, due attention to the importance of private manufacturing is even more profound than what could be observed from the experience of many countries through empirical investigation. Theoretical Literature Review had written various literatures on private manufacturing investment by many researchers. Some of them were identified as follows:

2.1 Theoretical Literature on the private Manufacturing Investment

Private investment is an investment which is invested by individuals or group of individuals and it plays its own role in the economic growth within a state. Here, there are different factors applied for the purpose of economic growth which is act by the government but the performance of the government is very limited and it cannot achieve the growth independently. According to this point the government gives the opportunity for the private sector as well. So, Private investment can get the opportunity in order to play its own role in the economic growth. In addition to the government economic activities, the contribution of the private sector is high and this helps the economy by creating employment opportunities, income generation, market stability and in general on poverty reduction. Sustained economic growth and in terms of employment opportunities and income generation is necessary for poverty reduction and require enhanced private sector investment resulting in economic growth, reduction in poverty and improved quality of life for the majority of the population. Private initiative, unleashed in competitive markets is key to promoting growth and poverty reduction in parallel with public sector efforts. Tax revenues generated by private markets and employments are critical to support public expenditure programs. Private Sector Development (PSD) is about enabling the enhanced utilization of labor and other resources of the country through the growth of private businesses by providing predictable and enabling environment both in domestic and overseas

markets. PSD is about the maintaining a good balance between the complementary functions of the state and the private sector about judicious refocusing of the role of the state not about indiscriminate privatization but about sound government policies that provide room for private initiative and that set a regulatory framework which channels private initiative in ways that benefit society as a whole. One of the major contributing factors to the economic crises of Ethiopia during the 1980s was the restrictive policy imposed on the activities of the private sector. At the beginning of the transition period i.e. 1991/92, it was obviously clear that without changes in the policy regime of the 1980s efforts to realize socio-economic recovery and sustained development would be futile. As a result, the New Economic Policy took the creation of an enabling environment for both domestic and foreign private investment as one of its objectives. The series of reforms since 1992/93 have shifted the policy regime of the 1980s and did go a long way to create enabling environment for private sector investment. Thus, the Poverty Reduction Strategy (PRS) now proposes to build on these reforms and broaden them into a comprehensive strategy for private sector development that is meant to foster a qualitative jump in the role of private activity in generating growth and supporting poverty reduction (MOFED annual Report, 2012).

The role of the private sector for sustained, pro-poor economic development has been clearly set out in the Government's legal, institutional development policy, strategy and programs. Because of the fact that the private sector is at its infancy stage struggling to get out of real and perceived handicaps, strong institutions of dialogue and consultation was be productive. Moreover, public sector institutions giving support and services to the private sector are still in their learning and development stage. This makes the establishment of public-private consultation forums an essential component of the government's PSD program. The efforts already underway was be nurtured for more advanced co-operation and partnership between the private sector and the Government (MOFED, 2012).

There is great importance of private manufacturing sector for the purpose of economic development within a state. When viewed as one aggregate industrial sector, South Carolina's manufacturing sector represents the largest industry cluster in the state's economy. This report is a brief overview of some of the many highlight of the industry and the importance of the sector to South Carolina's economy. South Carolina's manufacturing sector, like manufacturers across

the country, has experienced significant declines in employment over the last decade. This trend continues today and the current economic crisis has only made this decline worse. Since 1998, there have been over 151,000 manufacturing jobs lost in South Carolina. However, the sector still represents a major employer in the state with over 15% of total employment in the sector. In addition, the sector pays wages well above those of the state average. The average manufacturing wage is 27% above the state average.

The importance of manufacturing varies across the state. In some counties, the sector represents more than 20% of the total employment and helps elevate the counties‟ per capita income levels well above the state average. In some counties, the sector is hardly represented and not surprisingly, these counties typically exhibit relatively low per capita income levels. In addition to the jobs that manufacturing creates and their corresponding high wages, the industry pays a major portion of the local government property tax bill. Statewide, the manufacturing sector pays almost 13% of all property taxes. In some counties the manufacturing sector pays more than 50% of all property taxes. If these industries left these counties, the tax bill on the rest of the county residents could almost double. And finally, this report documents the tremendous economic impact that manufacturing has on the state's economy. The direct and indirect impacts from manufacturing total over $141 billion per year. This includes the direct impacts of over $95 billion and indirect impacts of another $46 billion. It is estimated that before the current recession hit the state, the manufacturing sector supported over 585,000 (The Economic Impact of Manufacturing in South Carolina 2009).

Industrialization leads the country higher technology and then to higher productivity and using of resources efficiently. Advanced manufacturing is generally characterized by relatively high levels of skills and technology requirements and encompasses sectors such as automotive, electronics and others. These sectors are often driven by private manufacturing investors who own the proprietary knowledge involved and who subcontract original equipment manufacturing. (National Industrial Policy Frame Work, South Africa 2012) Advanced manufacturing is generally characterized by relatively high levels of skills and technology requirements and encompasses sectors such as automotive, aerospace, electronics, and nuclear energy. These sectors are often driven by foreign direct investors who own the proprietary knowledge involved

and who subcontract original equipment manufacturing (National Industrial Policy Frame Work, South Africa 2012).

A considerable amount of work has been done on the determinants of investment in general and particularly private investment. In the context of countries in the developing world the relationship between private and public investment (in terms of "crowding in" and "crowding out") has been a major focus of analysis. Beyond the relationship between private and public investment, the concern for private investment has been in terms of its impact on growth. Among the authors who have contributed to investment analysis in Africa are Oshikoya (1994), Mlambo and Oshikoya (1999), Devarajan*et al.* (1999), Mataya and Veeman (1996), Khan and Reinhart (1990), and Gunning and Mengistae (1999). Writing on the macroeconomic determinants of domestic private investment in Africa, Oshikoya (1994) found a positive relationship between public investment and private investment. The study spanned 1970 to 1988 and covered seven African countries, namely, Cameroon, Mauritius, Morocco, Tunisia, Kenya Malawi and Tanzania. Though public investment ratios had fallen in some of the countries, particularly in Mauritius and Morocco, a strong positive impact of public investment on private investment was observed. The results suggested that: "the productivity of these types of investment may be as important as their magnitude in influencing private investment" (Osikoya, 1994).

The World Bank (2006) drawing from empirical studies on the role of small firms in economic growth noted that, while SMEs together create more jobs than large firms, they also tend to experience higher layoff rates. Large firms on the other hand account for a greater share of net employment. The share of net job creation by large firms in the early 1990s was 76% in Zimbabwe, 74% in Kenya and 56% in Ghana. In terms of opportunities for low-skilled workers, the World Bank observed that a larger role was played by SMEs. The importance of SMEs in the creation of jobs was also emphasized by Albaladejo (2002). He observed that through the expansion of existing firms and the creation of new start-ups, SMEs in Africa account for most of the private sector jobs available.

Other advantages associated with SMEs include: a contribution towards a more equitable distribution of income; serving as stimulus for local and regional development as they tend to agglomerate to make an effective and rational use of resource endowments; and the promotion of

a culture of entrepreneurship and other business-related skills by virtue of low entry barriers (Albaladejo, 2002). The issue of whether investment incentives influence the location of industries in the SME sector was examined by Ayeles (2006). Using a country case study on Ethiopia from 1992 to 1998, the author found that import and income tax exemptions were "weak policy instruments of indigenous SMEs and regional development in Ethiopia" because "most SMEs founders set up enterprises where they live, work, and in industries where they have obtained training or experience" (Ayeles, 2006, p. 12). What seemed to be the driving force for the start-up of enterprises in Ethiopia were better infrastructure, market and a broader enabling environment.

Private investment effects on macroeconomic variables are based on data not beyond the first half of the 1990s. This current study, which spans 1990 through 2004, goes beyond the existing ones by capturing recent investment trends and quantitative impact on some macro variables. Moreover, it appears, to the best of our knowledge, that the evidence on SMEs in Africa is relatively sparse and until recently there had been limited firm-level data on the SME sector in Africa to allow for in-depth analysis on growth performance of SMEs. With the availability of World Bank's enterprise survey data for a number of private sector firms in Africa, and with the appropriate standardization of these datasets, this study provides recent insights on SMEs in Africa.*(Private Investment for Structural Transformation and Growth in Africa:2011).* If the transformation of the manufacturing structure has a strong association with a country's economic development, the speed of exploiting the advantage in existing industries and laying the foundation for emerging industries through investment becomes key for fast economic growth. This shows the estimated development patterns of industries in value added per capita (food and beverages, wearing apparel, basic metals, and electrical machinery and apparatus) and the actual development paths of the Republic of Korea, Malaysia and Sri Lanka. The three countries have advantages in different industries that reflect their stage of development. Sri Lanka's is in relatively labor-intensive industries, such as food and beverages and wearing apparel, and thus rapid growth in these industries is foreseen. Malaysia has already lost its advantage in these industries, but can still expect continuing growth for some time in basic metals as well as long-term growth in electrical machinery and apparatus. The Republic of Korea has already lost, or is about to lose, its advantage in basic metals, but should keep its advantage in electrical machinery

and apparatus for the foreseeable future. Despite similar development trajectories, the speeds at which these three countries have exploited their advantages – and thus increased their income and, possibly, shifted their advantage from one industry to another. All four industries developed much faster in the Republic of Korea than in Malaysia even during a similar stage of economic development: in wearing apparel around 20 times faster, and in basic metals and in electrical machinery and apparatus about 10 times faster. Sri Lanka's industries lagged behind Malaysia's, apart from wearing apparel. Productivity increases are crucial in accelerating development.

Productivity growth is especially important in explaining the speed of transformation of high-tech industries; productivity and other factors, such as wages, may be associated with the growth of low-tech industries. The Republic of Korea has experienced a fast manufacturing transformation in pursuit of raising living standards, and was much – perhaps two or three times faster than the advanced countries that preceded it. Stagnant countries, conversely, may stay with the same structure and income for decades. Hence, private manufacturing investment play its own role not only on the production process but also for higher educational institutions has its own impact in order to certified skilled and educated human resource. And this helps the country to develop in all rounded economic activities. Because manufacturing is the way for industrialization and this needs high level of skilled human resource (Private Investment for Structural Transformation and Growth in Africa 2011).

2.1.1 The Manufacturing Sector in Ethiopia

Until the 1991 political and economic transition in the country, Ethiopia had been under socialist militaristic rule for nearly two decades and before that under imperial regime for many decades. Different economic and industrial policies had been adopted in the country during these periods, which were characterized, among other things, by staggering economic problems and/or poverty. Since 1991, however, diverse policies and strategies have been issued and implemented and a market-oriented economic policy has been officially adopted in the country. In spite of this, the 2011 report of the Ethiopian Economics Association (EEA) indicates that the industrial sector, among others, has been playing a passive role over the two decades after the transition with the economic strategy adopted being agriculture-led industrialization (EEA, 2007, 2011). The EEA's (2011) report, however, acknowledges that the contribution of the industrial sector to the nation's economic development has been increasing year after year. At present, the government seems to

have given increased attention to the industrial sector, especially to manufacturing, as it is expected to take the lead in the economy as of the year 2014/15 (EEA, 2011).It is only since the year 2002 that the industrial development strategy of Ethiopia has been in place (EEA, 2011), and the main focus of this strategy is to encourage industries having direct linkage to agriculture, which, in turn, provide support to agricultural growth through demand effect (EEA, 2011). The nation's industrial development strategy specifically "promotes the implementation and/or expansion of selected industrial groups, regarded as strategic for their labor intensiveness and export potential, including Textiles, Wearing Apparel, Leather Tanning, and Footwear" by providing various incentives and support (EEA, 2011). Due to these incentives (or supports) and socio-economic developments in the context, private investments in existing manufacturing industries as well as new establishments in fact has significantly increased especially since the year 2002 (EEA, 2011).

Although investment in prioritized as well as other industries has substantially increased, thereby increasing the potential of the overall industrial production capacity (EEA, 2011), the EEA's report yet indicates that the existing manufacturing industries more or less "operate at less than full capacity" for years (2011: 83-84). It is learned that "production for all industries did not exceed two-thirds of full capacity" in four different years in the period 1997/98 – 2007/08 (EEA, 2011). The 2011 report of Central Statistical Agency (CSA) of Ethiopia on 'Large and Medium Scale Manufacturing and Electricity Industries Survey' also confirms this fact. The main reasons cited for such significant underutilization of capacity in the aforementioned period include 'shortage of raw materials, shortages of intermediate inputs, and lack of market, which in effect implying lack of competitiveness' (EEA, 2011: 85). Although production has increased since the year 2002 in almost all industries, the growth in production in the prioritized industries such as Textiles, Leather tanning, Footwear and Wearing apparel is again relatively less (EEA, 2011). The report rather indicates that "high performing industries with significant production shares are in fact those non-prioritized, but market driven ones, including Sugar, Basic Iron and Steel, Malt Liquor, and Cement" (EEA 2011: 86). These industries are capital intensive as compared to the industrial sectors prioritized in the nation's industrial development strategy.

2.1.2 Evolution: Industrial policy & development

In Ethiopia, modern manufacturing factories emerged in 1920s (As of 1927 about 25 were set up mostly by foreigners) the sector started to get momentum in the 1950s (after brief disruption in the WWII period).The 1950s also marked by start of a comprehensive plan to promote the country's industrial & economic development. Ethiopia has seen three regimes over the last eight decades Imperial regime (up to 1974) Dergue regime (1974-91) EPRDF-led regime (since 1991) Successive regimes adopted different policies for the development of industry.

2.1.2.1 The imperial regime (up to 1974)

Between1958-73, three successive development plans were implemented. The implementation of the initiatives attracted foreign investors and boost the manufacturing sector (World Bank, 1985). But, by the end of the Imperial regime the overall industrial base was weak, the manufacturing sector characterized by dual structure and the modern sector constituted few hundreds of factories employing no more than 60,000 people And dominated by import substituting light industries and foreign ownership.

2.1.2.2 The EPRDF-led government (since 1991)

The first decade (1991-99) marked by various reforms reversing the command economy, implemented three phases of IMF/WB sponsored reform programs and in 1998 government adopted Export Promotion Strategy. A full-fledged Industrial Development Strategy (IDS) was formulated in 2002/03 Concretized into action by various sub-sector strategies and by the successive development plans such as; Sustainable Development and Poverty Reduction Program (SDPRP) 2002/03-2004/05, the Plan of Action for Sustainable Development and Eradication of Poverty (PASDEP) 2005/06-2009/10 and the Growth and Transformation Plan (GTP) 2010/11-15/16. Industrial policy should seek to promote structural change from agriculture to labor-intensive or resource-based manufacturing at an early stage of industrialization; through upgrading and diversification in manufacturing at a later stage; and through technological innovation at an advanced stage. Industrial policy is a widely used term but difficult to define. According to Warwick suggests any type of intervention or government policy that attempts to improve the business environment or to alter the structure of economic

activity towards sectors, technologies or tasks that are expected to offer better prospects for economic growth or societal welfare than would occur in the absence of such intervention, i.e. in the market equilibrium (Warwick 2013). The main objective of industrial policy is to "anticipate structural change, facilitating it by removing obstacles and correcting for market failures" (Syrquin, 2007).

Hausmann and Rodrik(2003) identify three main types of market failure that are particularly relevant for new activities to emerge (thus changing the industrial structure), where identification and correction provide a rationale for industrial policy: coordination externalities, as specific new industries or activities require simultaneous, large investments to become profitable; information externalities, as discovery of new activities requires an investment whose returns cannot be fully appropriated by the investor; and labor training externalities, as firms regard labor mobility as a disincentive to invest in on-the-job training, thus reducing technological spillovers. At the initial stage of industrialization agriculture is still the largest sector for employment, though it tends to be the least productive (Herrendorf, Rogerson and Valentinyi 2013). This lower productivity than in the more advanced sectors leaves a great potential untapped, suggesting that manufacturing can still play a major role as an engine of growth through the reallocation of resources.

To promote structural change by moving from agriculture to manufacturing, low-income countries need to align agricultural and industrial policies. They need agricultural development strategies with a strong emphasis on increasing agricultural productivity, which was translate into cheaper agricultural products and release a typically unskilled and cheap labour force. And to absorb the released labor and to benefit from cheaper agricultural inputs, industrial policy should seek to create or support labor-intensive and resource-based manufacturing with low entry barriers, which are likely to favor industrial SMEs important for broadening the industrial base. Support for SME development should thus be an integral part of industrial policy at this early stage. Beneficiaries should be aware that government support is time limited (through "sunset clauses") and based on performance incentives (Industrial Development Report 2013).

Ethiopia's government recognizes the need to support private sector development as the engine of economic growth and productivity enhancement and it is clearly committed to advancing

industrialization and other high-value activities. The government describes itself as a revolutionary democracy and developmental government. It can in fact be characterized as "developmental" in the sense that its attitude and activities are strongly driven by the desire to lay the foundations for long-term economic development. Probably few developing countries show such a determined and credible commitment to industrial development, technical and vocational education and training (TVET) as well as science and development. Substantial investments have been made in new universities, expansion and reform of the TVET system, specialized institutions for sector-specific technology development, and a new Ministry for Science and Technology; Pro-poor spending.

There is a strong policy focus on improving education and health as well as rural infrastructure, microfinance, and to maintain land policies that protect the livelihoods of the poor; Papers written by the Prime Minister, EPRDF documents and the Industrial Development Strategy all refer to the lessons that Taiwan and Korea (and in some cases Japan) hold for Ethiopia's development. These include: early focus on productivity growth in agriculture in order to accumulate capital, increase supply for agro-industries, and generate demand for manufactured goods; restriction on ownership of land; a nationalized banking system that has enabled governments to channel credit from rent-seeking to value-creating activities; incentives for export-orientation; „carrot and stick" policies for enterprises, e.g. Setting productivity and export targets; a focus on export-led industrialization; and control of industries as a "cash cow" to generate the financial means the ruling party needs to retain political hegemony. These elements in fact are a powerful factor in shaping Ethiopia's industrial policy. Agricultural demand-led industrialization is regarded as the starting point for industrial development and the financial sector is set to remain under government control the Board of Directors of the Commercial Bank is appointed by the government, and the bank lends on the basis of "strategic" political criteria; export orientation is strongly encouraged; specific performance targets for major firms are set; and government control of economic sectors – e.g. telecommunications – is maintained as a source of revenue for the government. In 2003/04 the government received 13.5% of its total revenue from SOEs and government-owned property.

The Industrial Development Plan mentions a few general principles – e.g. to recognize the role of the private sector as an engine of growth; the importance of state leadership to challenge and

support developmental firms; and the need to build on both foreign and domestic investors. Furthermore, it specifies priority areas for *selective* interventions that favor certain sectors over others. What follows presents and critically analyses the main criteria for selective support. When it comes to modern industrial policy, governments formulate industrial policies in a participatory process that enables them to elicit information from private stakeholders in order to address specific market failures. This requires both close interaction with these stakeholders ("embeddedness") and independence in decision-making ("autonomy"), in order to avoid serving the interests of particular lobbyists (Evans 1995). Moreover, modern industrial policy is designed as an open-ended process of experimentation or "self-discovery" (Haussmann Rodrik, 2006).

2.2 Empirical Literature Reviews Related to Challenges and Opportunities for Private Manufacturing Sector

2.2.1 Plant Capacity and Technology Utilization

Even if innovation is understood as introduction of a known product, production technology or process that is only new to the local environment, the rate of innovation is low. As Oyelaran-Oyeyinka (2007) points out, although innovation happens in every country, the nature of innovation and innovation processes varies according to a given economy's stage of development. All countries of SSA are at a development stage where existing innovative activities are focused on minor improvements in products or processes and largely confined to learning by using existing foreign technologies. Very few firms pursue systematic research and development activities (Gamba, 2005). Innovation processes in SSA are thus largely related to diffusion and only rarely to inventions

2.2.2 Domestic and Foreign Market policies and challenges

In the Importance of industrial policy in addressing distortions that constrain structural change, the first distortion relates to the presence of market failures; the second to coordination failures; and the third to technological accumulation and the acquisition of knowledge.

The traditional view in economics was that markets are efficient and state interventions should not influence the allocation of resources across sectors. However, there is a growing consensus

that markets do not necessarily lead to efficient or desirable outcomes and the state has a role to play in this regard.

One of the well-known market failures that industrial policy can address is information and cost discovery externalities (UNCTAD and UNIDO, 2011). According to Hausmann and Rodrik (2003), information externalities deter firms from exploring new economic activities, especially in developing countries where property rights are not enforced. This arises because the first firm to invest in cost discovery bears all the costs, while rival firms learn from the outcome of the first entrant. Due to this free riding problem, investment is minimal as no firm is wasing to make any effort in the discovery of new products. Industrial policy can thus be used to promote entrepreneurial entry, survival and compensation for innovation through patent rights and copyright laws (Lin and Chang, 2009).

Another type of market failure relates to environmental externalities. These arise because firms, motivated by profits, do not incorporate pollution and environmental degradation costs in their investment decisions. Industrial policy can be relied upon to correct this, by supporting the development of green technologies, as well as production processes that are environmentally friendly, resource efficient and low carbon intensive (Hallegatte et al., 2013). The second need for market policy arises due to the presence of coordination failures (Pack and Saggi, 2006). Coordination failures occur because the feasibility and profitability of most economic activities is contingent on the existence of complementary investments. This implies that a firm is wasing to invest in a particular sector if there are other firms that support its production process. In the absence of such an environment, entrepreneurial and domestic production may be adversely affected. Therefore, the state has a responsibility to promote and coordinate collective investment decisions from independent actors and firms (Altenburg, 2011). In an analysis of manufacturing firms in Ethiopia, Gebreeyesus and Mohnen (2013) provide evidence that supports the importance of firm coordination and networks in promoting technological innovation. The authors show that local business relations constitute the key channel through which firms acquire knowledge on market opportunities, new products, competitors and production techniques.

2.2.3 Institutional and Industrial policies and challenges

Besides the need to correct market and coordination failures, industrial policy can address deficits in technological accumulation and learning among firms. In developing countries, domestic firms rely on existing technologies to boost their technological capabilities. Empirical evidence tends to confirm that the income convergence of East Asian countries towards that of developed countries was accelerated by industrial policies that promoted constant learning and knowledge accumulation among firms (Rodrik, 2009). This is in line with firm-level evidence that shows that patent rights have a positive and significant impact on the ability of firms to allocate their investment resources to research geared at developing new production techniques (Allred and Park, 2007). In a case study of the flower sector in Ecuador, Hernandez et al. (2007) highlight how industrial policy fostered coordination between production on the one hand and the transportation of flowers to foreign markets on the other. The authors highlight the role of the association of flower exporters in convincing the government to increase the number of cargo flights by its national airline in order to promote the production and export of flowers.

Empirical evidence from Teixeira et al. (2014) shows that sub-Saharan Africa fails to ignite industrialization due to the support for production processes that are beyond its human and financial capacities. The authors argue that most countries failed because they promoted capital-intensive sectors rather than capitalizing on their comparative advantage in labour and natural resources. Hornsby (2012) critically examines Kenya's industrialization history in manufacturing private vehicles in the mid-1980s.

Chang (2013) examines four common industrial policy challenges argued to be the most binding in the African context. These include structural impediments such as climate, geography, culture and history; the abundance of natural resources; political economy issues; and bureaucratic capabilities. The institutional constraints arise due to interaction of firms with government to comply government regulations (World Bank, 2003).

This has effects on the activities of firms like the infrastructure and financial constraints. The influence of institutions on economic development is highly acknowledged. Rodrik et al. (2002) finding shows that the direct effect of good institutions on income is positive and large. There indirect effects of institutions are also numerous. It can increase investment, manages conflicts and ethnic diversity and hence an incentive for higher productivity and efficiency (Baumol

1990). Alaba (2006), Lyakurwa (2007), Biggs (2007) are among the studies on that showed the effect of poor institutions on the manufacturing sector in SSA. They found that delays associated with license and work permits, larger number of documentations and signature requirements are some of the features of institutions in SSA.

Ownership structure can be government, private, foreign or joint ventures. While the effects of foreign ownership on growth of firms are controversial, government owned firm growth is generally poor (Beck et al., 2005).

Most the studies conducted in Ethiopian are consistent with other literatures. Kefyalew and Tsegabirhan (2010) show dissatisfaction of exporting firms with the quality of infrastructure, finance and institutional services. However, their study revealed modest improvements over time with the exception of power supply. The econometric result revealed a positive effect of R&D and foreign/joint venture ownership. Admasu (2005) examined the distribution of productivity with in an industry to determine whether patterns of firm entry, exit and survival are driven by efficiency differences. The study found that markets of Sub-Saharan Africa, as represented by Ethiopia, are efficient in selecting efficient firms and the tolerance of inefficient firms' declines with exposure to international market competition.

However, despite their validity, Chang (2013) argues that these arguments are largely theoretical and lack any empirical support. Chang argues that what African countries need is a deeper understanding of how to get industrial policy right by implementing sound and timely government interventions.

2.2.4 Infrastructure

Infrastructure is one of the major factors for industrial development. Power, transport and communication are its key elements. It matters a lot for competitiveness of firms. Acquiring information, input procurement and getting market require more resources of the firm in countries of poor infrastructures (WB, 2003). It increases the cost of operation and reduces the degree of competitiveness and at a worst case it can be an entry barrier (Mahmood, 2006; WB, 2003). Getu hailu(2014) studied on Impact of Private Manufacturing Investment on Local Economy a Case Study at Mekelle zone the author found that constraints include high land lease rate, bureaucratic hurdles to secure land and absence of infrastructure service.

Hulten, Bennathan and Srinivasan (2006) found a strong link between physical infrastructure and manufacturing productivity in India. Adenikinju, (2005) showed that the poor state of electricity supply imposed significant costs on the business sector in Nigeria. The study further showed that the small sale operators are heavily affected due poor financial position to deal with power interruptions.

2.2.5 Finance

Cost – benefit analysis whether to invest or not works only in enterprises that have no credit constraint (WB, 2003). This depends on the development state of financial sectors. Mahmood (2006) stated health financial sector improves access to finance and by then allows expanding production as per the expected potential. Firms in developing countries suffer largely from shortage of finance. Harhoff and Korting (1998), Saibal (2007) argued that lack of external sources of finance is a major constraint for investment. Saibal (2007) listed three major problems associated with the external sources; information asymmetry between lenders and borrowers, managerial agency problem, and high transaction costs. Gale and Hellwg (1986) also emphasized the problems of adverse selection and moral hazardas a cause for credit rationings. Binks and Ennew (1996) highlight the importance of collateral as a means of mitigating the information asymmetry to credit access at bank. In the case of Sub-Saharan Africa, Biggs (2007) argued collateral values and interest rates are very high and loan approval processes are inefficient. Mbekieani (2007) emphasized the inadequacy of trade finance as another constraint for exporter's capability. His study further emphasized high transaction costs, lack of expertise in financial markets and lack of information communication technologies is a feature of the financial markets in SSA.

2.2.6 Access to Raw Materials and Technology Utilization

High dependency on imported raw materials and intermediate goods has remained the distinguishing feature of the Ethiopian manufacturing sector. The main reasons for high dependency on imported raw materials were unavailability of raw materials in the local market and lack of sufficient local supply. Inadequate and poor quality imported raw materials and technologies, along with low level of technical skills, top the lists of the problems facing the sector. Series of surveys conducted by the Central Statistical Agency (CSA) on the manufacturing sector consistently reported that more than 50pc of firms claim that their first

major reason for their low capacity utilization is inadequate and poor quality raw materials. This calls for a concerted effort both by government and other stakeholders to seek ways and means of enhancing domestic production of manufacturing raw materials thus reducing the outflow of the scarce foreign currency. The positive effect of human capital is confirmed in many studies. Almus (2002) found a significant effect of university degree or above on fast growing German firms. Poor education status of managers is a special human resource problem especially in technology adoption and selection (Maunda, 2005). Maunda (2005) further added that less educated managers face difficulty of considering consumer needs/preferences especially oversea markets. Admit and Getnet (2002) showed that the main source of output growth in the medium and large scale industries is capital followed by labor.

2.2.7 Investment Incentives

Despite due focus given to the large, medium, and small scale manufacturing industries in government development plan, the performance registered so far is unsatisfactory suggesting that the dire need for examining the sector's growth constraining factors that hamper it from playing a leading role. Towards this end, the government has provided attractive incentives packages for investment in the manufacturing sector. Investment Proclamation number 768/2012 has listed duty draw-back, voucher, bonded export factory, manufacturing warehouse and bonded input supply schemes as important tools to promote manufacturing and export. The Ethiopian tax law allows for a duty free importation of raw materials and machinery, equipment for manufacturers. However, a significant size of investment has not been flowing into the sector as expected mainly due to the existence of other highly and rapidly rewarding businesses against longer payback periods of investment in industry.

Temporary incentives may be provided if they are necessary to trigger private sector responses that may generate positive externalities; but they should be phased out when there is evidence that the private sector does not respond as expected, or when market development takes off and generates sufficient response. In order to take these decisions, close monitoring and evaluation of policy performance is needed, and stakeholders should be invited to provide their feedback. Hence good industrial policies build on an evidence-based, participatory and transparent institutional learning process. Moreover, policymakers should make use of private service providers whenever possible, providing incentives if necessary, and encourage competition

among service providers, rather than implementing each and every service through government channels (Industrial Policy in Ethiopia Tilmann Altenburg Bonn 2010).

2.3 Opportunities for Private Manufacturing Sector

Private manufacturing sector needs its own environment. It depends on the suitable environment such as; peace and stability, macroeconomic stability, Institutional and Legal environment, and Taxation that can be considered as good opportunities for the private manufacturing investment.

2.3.1 Institutional and Legal Environment

An Investment code was issued in 1992, which created space for private investment with a number of incentives. Investment Offices were also established at federal and regional levels to coordinate and facilitate private sector investment. A one-stop arrangement was also put in place to reduce the cost of doing business and expedite private investment implementation. Furthermore, the investment code was revised several times to improve the investment environment. The last revision was made in May 2002. Improvements introduced by the new Code that would help enhance the investment climate are the reduction of the minimum threshold for FDI to US$ 100,000 for wholly foreign-owned ventures, to US$ 60,000 for joint ventures, to US$ 25,000 for joint investment in the areas of engineering, architectural, accounting and audit services, project studies or consultancy, and no minimum investment requirement for those exporting at least 75% of output.

2.3.2 Access to Land

Expedient access to land is an important input to enhance investment. However, it is recognized that impediments exist for the smooth progress of investors‟ desire for the implementation of projects. Such constraints include high land lease rate, bureaucratic hurdles to secure land and absence of infrastructure services. In consideration of these constraints, the Government is taking steps to considerably reduce the minimum lease rate and increase the supply of land to minimize escalation of prices during auction, streamline the bureaucracy involved in the identification and delivery of land, and prepare/develop infrastructure on plots to be offered for lease. Moreover, the Government plans to improve governance in all major towns and put in place a transparent and investor friendly system to minimize the bureaucratic impediments in the delivery of land.

The government and the private sector was continue to be engaged in consultations to reach an understanding on how to further improve the land lease system. Issues for future consultation was relate to lease policy collateralization of land held under lease and assisting investors in large-scale commercial farms to have access to agricultural land with basic infrastructure.

2.3.3 Peace and Stability

Peace and stability is a key factor for investment attraction and sustained economic development. Investors need free and fair conditions to be able to pursue productive activity. They also need to have conditions where contracts and property rights are respected and corruption is kept at its lowest possible level. The Federal Democratic Republic of Ethiopia (FDRE) constitutes a federal system of government where both economic and political responsibilities have been considerably decentralized giving more autonomy to regional and *Woreda* administrations with the objective of deepening the democratization process and bringing about improved governance. In order to deepen the decentralization process, implementing powers and responsibilities for resources allocation are being designed for *Woreda* and *Kebele* level administrations. The civil service reform program, which includes the judicial system, is being implemented. Overall, the democratization process has helped to create peace and stability in Ethiopia.

2.3.4 Macroeconomic Stability

Low inflation, low interest rates and a realistic exchange rate, continuing trade reforms and relatively decreasing role for the state through privatization and deregulation helped to redress the imbalances of the 1980s and created conducive environment for sustained macroeconomic stability. This is a strong feature of the Ethiopian economy since the beginning of the economic reform in 1992/93. Trade, exchange rate and other structural reforms resulted in about 6.3% average annual growth in real exports. However, despite this trend, Ethiopia's participation in the global economy is still minimal. Per capita exports were less than US$ 15.00 in 1999 compared to the Sub-Saharan Africa average of US$ 163.00. The reforms of the 1990"s have not led to a diversification of exports away from agriculture nor have they spurred the export of agricultural produces and manufactured goods significantly.

2.3.5 Taxation

There had been revisions in the tax regime many times in the past reducing income tax from 89% to 40%. But overall, the measures taken were piece-meal and essentially left the system of tax assessment and collection full of loopholes for evasion and non-payment of taxes. A comprehensive tax reform is currently underway with the objective of removing past weaknesses. The tax reform program has measures to broaden the base and build the capacity of tax administrators. It is envisaged that the reform process would reduce the rates but enlarge the base improving tax collection. The tax rate is set to fall from 40% to 35% for individuals and single proprietor businesses, from 35% to 30% for companies. Furthermore, value-added Tax (VAT) will be introduced from January 2003 replacing sales tax. All exports of goods and basic services will be exempted from VAT. The present rate of capital gains tax was also be reduced to enable a free and transparent fixed asset market. The administrative measures that are to be introduced include the introduction of Tax Identification Number (TIN) beginning fiscal year 2002/2003. This was enable the Government and other operators (banks and other financial institutions) to work from an objective database. Audited books of accounts on which tax has been paid and property and income records was be easier to produce. The implementation of the TIN and the tax reform program was start at Federal level and standard application in all the regions is under discussion.

The Government and the private sector representatives was try and alleviate capacity problems related to the effective implementation of the tax reform program. Manuals prepared to train taxpayers and tax collectors was be in place initially in Addis Ababa and subsequently in the regions. One of the issues for further consultation with the private sector was be capacity building for the majority of taxpayers to maintain proper books of accounts. The Government was assist in the provision of the necessary resources through private sector and donor assistance to educate and enable private sector operators in general and Small and Medium Enterprises (SMEs) in particular to build the required capacity to maintain proper accounting records (MOFE, 2002).

2.3.6 Manufacturing policy of Ethiopia

As EEA (2011: 92) states, 'competitiveness has become a critical factor for business survival', and hence 'entrepreneurs in the country have also shown a tendency to shift from labor to capital intensive production techniques in order to become competitive in the local and foreign markets'. In this regard, industries are moving increasingly towards capital intensive mode of production in the country; and currently government is heavily investing in the Textiles industry to upgrade their technology capacity (EEA, 2011: 92-93). As capital (technology) is a critical factor for enhancing productivity and competitiveness, the inevitable trend for [the] prioritized industries is to shift from labor- to capital- intensive production, as industries are required to meet competition challenges both at home and abroad (EEA, 2011: 93). And with markets given the central role of economic management, and also given that the government is aspiring to be a member of the World Trade Organization (WTO), this shift would be inevitable, EEA argues.

With respect to export capacity, EEA (2011) indicates that export capacity has been increasing since the year 2002 due to internal and external favorable policies and incentives. In spite of this, the export of manufactured merchandise by the Ethiopian manufacturing industries is still insignificant as compared to neighboring countries (EEA, 2011). For instance, for the five years period (2005-2009), "the average merchandise export as a proportion of GDP in Ethiopia (6.4 percent) is two to five times less than that … [of] Kenya (15.6 percent), Uganda (13.7 percent), Tanzania (12.6 percent), and Mauritius (28.5 percent)" (UNCTAD, 2010 as cited in EEA, 2011: 98). The government started the implementation of a new five year development plan, known as 'Growth and Transformation Plan (GTP)', in the year 2010/11 (Ethiopia. Ministry of Finance and Economic Development [MOFED], 2010), which foresees the development of the industrial sector as a key driver of economic growth (EEA, 2011). In this regard, it is expected that the contribution of the industrial sector to the nation's GDP would rise from 11.7 percent (which is the average) for the period 2004/05 - 2009/10 to 28 percent under the GTP, that is, for the period 2010/11 - 2014/15 (Ethiopia MOFED, 2010; EEA, 2011).

The GTP requires, among other things, that the existing manufacturing firms improve and/or upgrade their manufacturing operations, capabilities, practices, and technologies so as to become competitive both in the local and foreign markets (Ethiopia MOFED, 2010). It also encourages the establishment (or expansion) of various new industries in the country, the main objective

being for industry (manufacturing) play key role in the economy (Ethiopia MOFED, 2010). In order to realize this objective, however, it is also imperative that existing (including newly established) manufacturing firms develop, strategize, and economize their operations in a way to achieve manufacturing-based competitive advantage. Developing relatively strong capabilities as compared to the competition in terms of the dimensions of manufacturing performance, in this regard, can be seen as an important prerequisite for competitiveness and survival in the contemporary business environment.

2.4 Research Gap

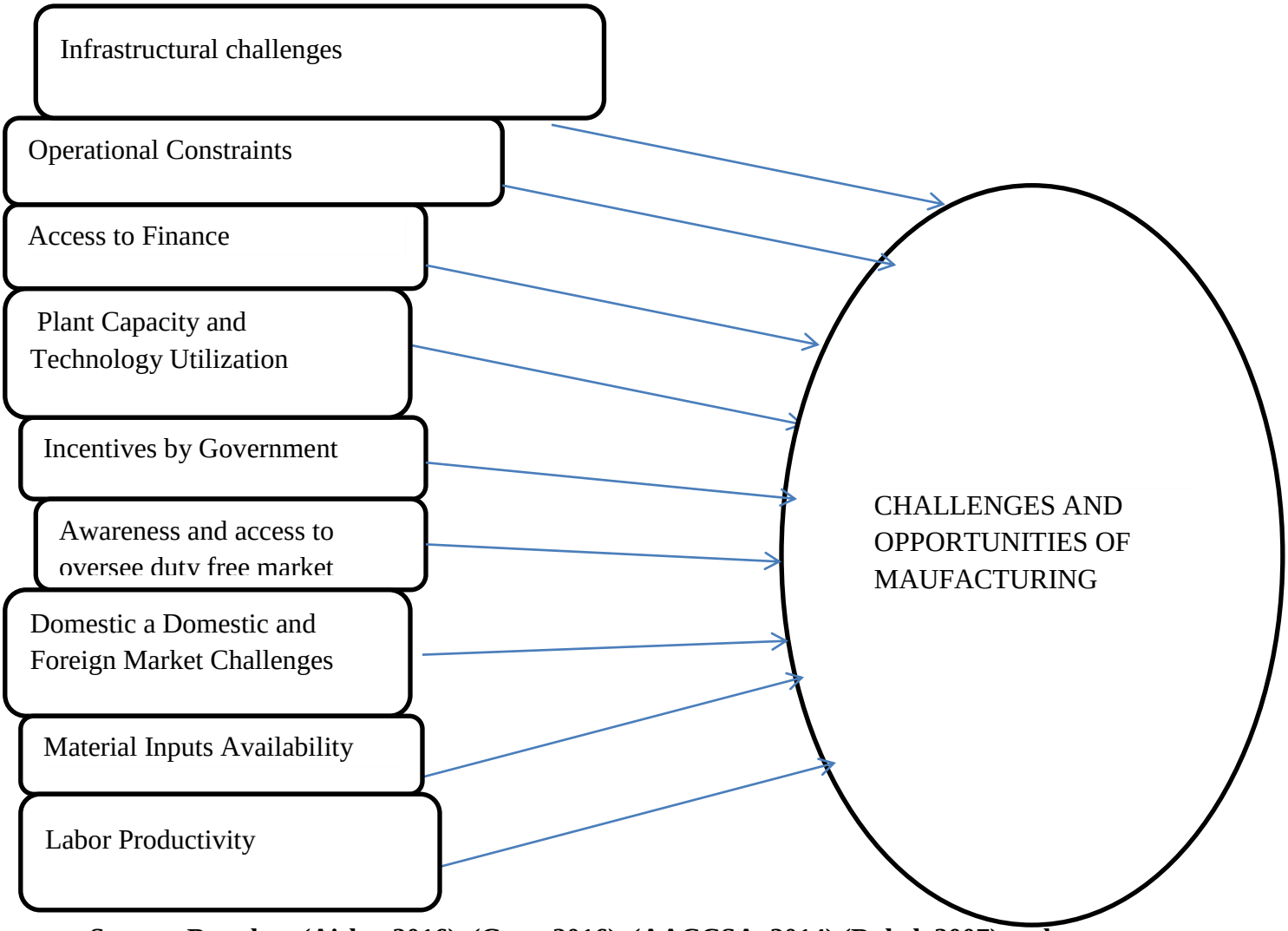
Local studies were conducted regarding challenge, opportunities and prospects of textile (Aisha ,2016), Impact of private manufacturing on local economy (Getu, 2016) and Drivers of manufacturing performance in medium and large scale firms in Ethiopia and manufacturing survey analysis (AACCSA ,2014) and opportunities and challenges of development for Africa in the global arena the cause of the Ethiopian textile sub sector (Rahel, 2007) . These studies gave great emphasis with limited sector and scenario without considering all manufacturing firms.

According to the past research studies reviewed, it is evident that not much research has been carried out in Ethiopia regarding Challenges and opportunities of Private Manufacturing Investment firms**.** Through a review of the literature and a series of informal discussion with major actors of the sector, it has been found that, despite its importance, it has not been studied and not well documented to as great extent within the context of challenges and opportunities to private sector locally in Ethiopia. However, currently, little information is available to this regard. Therefore, this study was conducted with the intention to fill this gap and its findings provide various insightful learning for policy makers and government officials, researchers and students interested in similar research theme for further investigation and contribute to overcome the challenges regarding involving in private manufacturing firms. Hence, determining the challenges and opportunities with regard to the capacity of the service providers' and interested investors will help emphasis the strengths and weaknesses of existing services delivery system and will provide foundational data to potential policy makers and investors.

2.5 Conceptual Framework for the Study

In view of the problem statement as well as research questions, theoretical foundations, and review of literatures presented in the prior chapters, a conceptual framework is developed as depicted in Figure 2.1. This framework posits that manufacturing challenges and opportunities of a firm.

Figure 2.1: conceptual frame work



Source: Based on (Aisha, 2016), (Getu, 2016), (AACCSA, 2014) (Rahel, 2007) and own Computation

CHAPTER THREE

RESEARCH DESIGN & METHODOLOGY

The research design, sample size, sampling techniques, data sources, data collection instrument and procedure, and methods of data analysis are presented in this chapter.

3.1 Research Design

Research design is the blueprint for fulfilling research objectives and answering research questions. In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the required information. In addition, it must ensure that the information collected is appropriate for solving a problem (Adams, Khan, Raeside and white 2007). A choice of research design is based on the objective of the research; the objectives of this research were to assess the challenges and opportunities of private medium and large scale manufacturing firms located in kality sub-city. So, this study adopted a qualitative and quantitative research approach by using a primary and secondary data source. Quantitative approach uses statistical methods in describing patterns of behavior and generalizing findings from samples to population of interest, around employs strategies of inquiry such as experiments and surveys (Creswell 2003). In order to answer the statement of the problem and meet the research objectives, the design of this study was descriptive type. Descriptive research studies are those studies which are concerned with describing the characteristics of a particular individual, or of a group. The main characteristic of this method is that the researcher has no control over the variables; he/she can only report what has happened or what is happening (Kothari, 2004).

Descriptive research 'paint a picture' using words or numbers and present a profile, a classification of types, or an outline of steps to answer questions such as who, when, where and how (Neuman, 2006, p. 35). When a particular phenomenon is under study, the research is needed to describe it, to clarify and explain its inner relationships and properties (Huczynski and Buchana, 1991). The descriptive research was portraying an accurate profile of people, events or situations (Robson, 1993). Therefore, this study used descriptive research design to assess the challenges and opportunities of the private manufacturing firms.

3.2 Research methodology

The researcher uses both qualitative and quantitative research approach which involves the use of primary and secondary data in order to answer the research questions and achieve its research objective.

3.3 Data Source

The study relies on both primary and secondary data sources. The primary data were collected through questionnaire. Primary sources are preferred over secondary sources to get fresh and detailed first hand facts for the specific study; whereas, secondary data were used only to write background information and documentation.

3.4 Data Collection Instruments

A survey questionnaire was adopted from Aisha (2016); Getu (2014); Getenet (2015); Rahel (2014) and modified by the researcher in Ethiopia manufacturing context to obtain primary data that enables the researcher to measure the relevant constructs. The survey was cross-sectional with the data collected at one point in time.

3.5 Target Population, Sample size and Sampling Technique

3.5.1. Target population

Manufacturing firms located in Addis Ababa and its periphery seem to have relatively long years of manufacturing and marketing experience as well as access to skilled labor, managerial expertise, and improved manufacturing technologies and practices. It is expected that firms located in this city perform better as compared to those operating in the regions and/or rural areas as Rijkers, *et al.* (2010) recently obtained important differences in the performance of rural firms and urban firms in the country. For its significance, therefore, this study has focused on firms selected from Addis Ababa mainly kality sub city.

According to the data found from the Ethiopian investment agency there are 448 private manufacturing firms in Kality sub-city of which 43 firms are operational and the rest 389 and 16 firms are in pre-implementation and implementation stages. Thus the current study particularly focused on those private manufacturing firms operated in Kality sub-city.

3.5.2 Sample Size and technique

The researcher has to draw conclusions on the basis of a sample and, therefore, sample size determination is an important element in any research, although it is a difficult one. To determine the sample size for the study, the researcher used the following a simplified formula. Sample size for the study is determined using the formula described below as stated used by Isreal G.P. (1992) and used by Olouch (2012).

$$n= N/1+N (e)^2$$

Where: n= sample size; N = size of population; and e = precision level

$$n=438/1+438(0.05)^2 = 211$$

The researcher applied proportional stratified simple random sampling techniques for the target population in Addis Ababa based , in view of the distribution of manufacturing firms in each category, is then used to determine 'how many firms' to choose from each industrial category (strata) considered in the study. Samples (firms) are eventually selected randomly from each category in light of the respective sample proportion. The names and addresses of manufacturing firms operating in Kality sub city are obtained from the Ethiopian Investment Commission through E-mail. Details of samples of respondent firms are presented below in the table 3.1.

Table 3.1: Distribution of Firms in the Population vs. Actual Participants

No	Category Of Manufacturing Industry	Firms In The population						Firms actually Participated					
		Operation		Implementation		Pre-Implementation		Operation		Implementation		Pre-Implementation	
		Freq.	%	Freq	%	Freq.	%	Freq	%	Freq.	%	freq	%
1	Mfg of food products and beverages	10	23.26	4	25.00	43	11.05	5	25.00	2	25.00	19	10.38
2	Garment and Textiles Factories	7	16.28	2	12.50	32	8.23	5	25.00	1	12.50	13	7.10
3	Mfg. of Chemicals and Chemical Products	2	4.65	2	12.50	38	9.77	0	0.00	1	12.50	21	11.48
4	Manufacture of Basic Iron and Steel	2	4.65	0	0.00	13	3.34	1	5.00	0	0.00	9	4.92
5	Mfg of fabricated metal and metal products	2	4.65	3	18.75	11	2.83	0	0.00	2	25.00	3	1.64
6	Assembly of Motor Vehicles, Trailers and Semi-Trailers	3	6.98	0	0.00	27	6.94	1	5.00	0	0.00	13	7.10
7	Mfg of furniture and related items	3	6.98	2	12.50	63	16.20	2	10.00	1	12.50	32	17.49
8	Manufacture of Construction Machinery, metal, cement products and electronic materials	4	9.30	1	6.25	42	10.80	1	5.00	0	0.00	17	9.29
9	Printing, packing and Corrugated Box Making	4	9.30	0	0.00	37	9.51	2	10.00	0	0.00	13	7.10
10	Cutting, shaping and finishing of marble and	3	6.98	0	0.00	9	2.31	1	5.00	0	0.00	3	1.64
11	Mfg of Leather & Leather Products	3	6.98	2	12.50	52	13.37	2	10.00	1	12.50	31	16.94
12	Aluminum Products Manufacturing and Assembling Factory	0	0.00	0	0.00	22	5.66	0	0.00	0	0.00	9	4.92
	Total number of population is 438	43	100	16	100	389	100						
	Sample size is 211							**20**	100	**8**	100	**183**	100

Source: Based on Ethiopia investment agency (2017/18) and Own Study (2018/19)

3.5.3 Unit of analysis and Respondents

The unit of analysis in this study is 'the manufacturing industry', and hence primary data was collected at the level of the manufacturing unit. Accordingly, many firms were actually included in their entirety in the current study because most manufacturing companies in the local context do have one 'Strategic Business Unit (SBU)', i.e. they involve in a single line of business and/or operate with a single plant or industry. The manufacturing plant represents the entire organization in this case and manufacturing strategy is formulated at firm level in such circumstances.

As Forza (2002) cited in Hallgren and Olhager (2009) notes, 'it is not possible for industry to produce answers to a questionnaire; this has to be done by human respondents'. In fact, it is customary to use informants/respondents in eliciting data about organizational challenges and/or opportunities (Miller and Roth, 1994; Kathuria, et al., 2010; Hallgren and Olhager, 2009). On this research, primary data is elicited from concerned manufacturing managers.

3.5.4 Data Analysis Technique

Data were analyzed using Statistical Package for Social Sciences (SPSS Version 20) program through a descriptive statistics to provide details concerning challenges and opportunities that affect the growth of private manufacturing firms. Data from questionnaires was summarized, edited, coded, tabulated and analyzed. Qualitative and Quantitative analysis was used as data analysis technique. Primarily the data was collected through the questionnaires and analyzed by using descriptive statistics for responses to be obtained by using likert scale method, open-ended and closed questions and then tabulated, coded and analyzed to present the research findings. Result was presented using figures, frequency, and mean.

3.5.5 Ethical Considerations

According to Leedy and Ormrod, (2013), in doing any research, there is an ethical responsibility to do the work honestly and with integrity. The basic principle of ethical research is to preserve and protect the human dignity and rights of all subjects involved in a research project. In this regard, the researcher assured that the respondents' information was confidential and used only for the study purpose. Before the data collection, the ethical issues were taken in to consideration

when the study is conducted. Appropriate communication was undertaken with the firm's mangers. Moreover, a formal letter was obtained from Addis Ababa University to inform them about the study.

During data collection respondents was informed the objective of the research is for the academician purpose. Participants was told that participation in the study is based on their free was voluntary, and there is no obligation to do so. They were also told that they are free to withdraw at any time and without giving a reason as well as no any penalty or loss of benefit for non-participation. No research-related adverse event is expected in this study. Furthermore, responses of participants have been treated with strict confidentiality and are not going to be disclosed to any outside party. Data on personal information is not gathered at all. The responses in the individual questionnaires were aggregate and only statistical summary and analysis are reported in this paper. As a general rule, therefore the study was not raising any ethical anxiety.

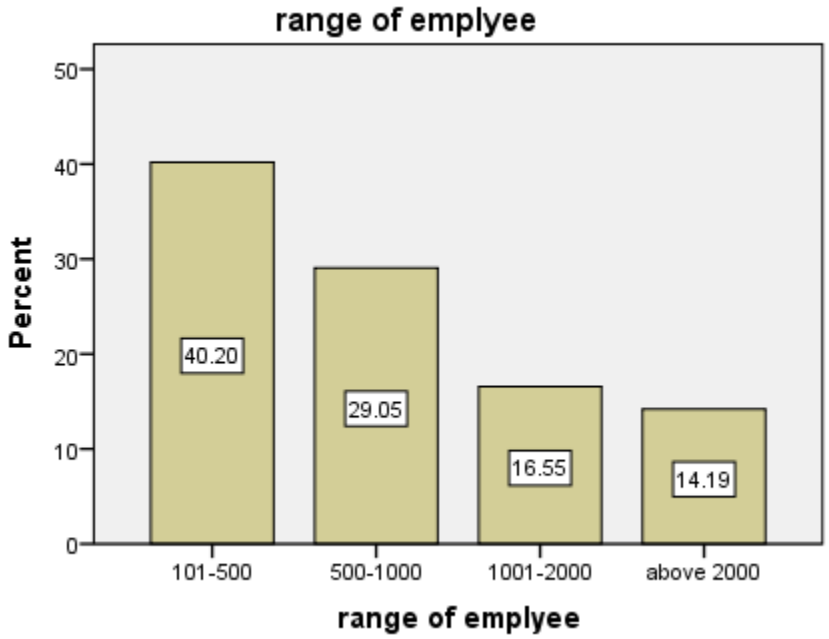
CHAPTER FOUR

RESULTS AND DISCUSSIONS

This chapter contains the findings and analysis of the research study based on interpretation of the data collected. The researcher distributed a total of 211 questionnaires to each industrial manager. Out of the total 211 questionnaires, 57 questionnaires were not collected and 154 useable questionnaires were obtained to enable a meaningful analysis of the data with 73% response rate. Statistical Package for the Social Sciences (SPSS) software is used to analyze the research findings. In this section, the study presents the empirical findings and discussions from the data obtained and analyzed using descriptive analysis.

4.1 General Demographic result

Figure1 Range of number of employees in the firm



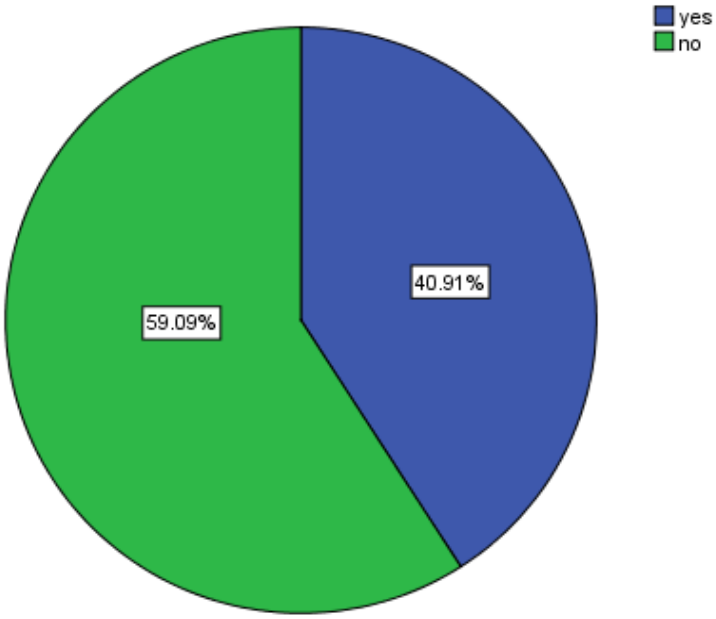
From the above figure majority (40.2%) of the employees are between the number of 101-500 while 29.05 % between 501-1000, about 16.55% are within 1001-2000, and 14.19% are above 2000 employees. Based on the research finding most of the firms are employing from within 101 and 500 employees.

4.2 Descriptive Statistics Result about Challenges of Private Manufacturing Sector

4.2.1 Infrastructural Challenges

From 154 questions distributed to the respondents to determine whether the infrastructure is adequate and consistent for their production majority of the respond that there is no adequate infrastructure.

Figure 2: Results of Infrastructural Challenges

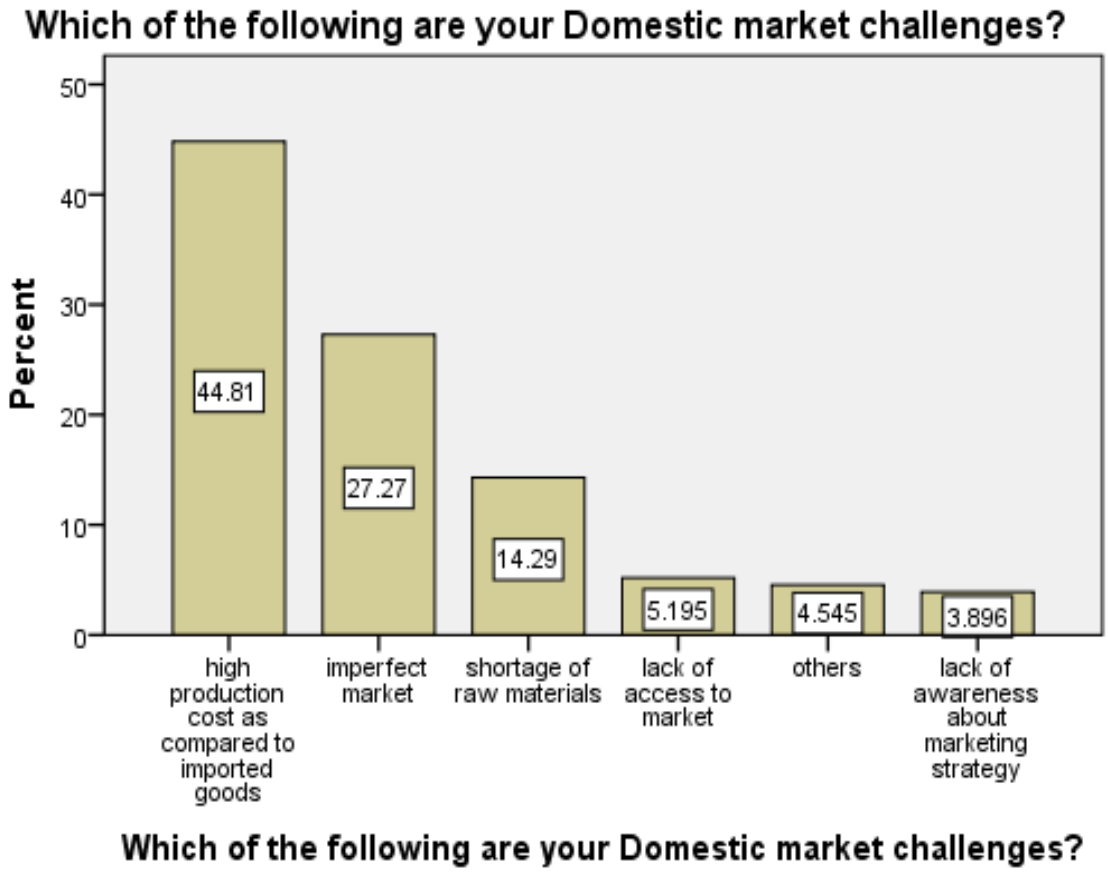


Source: own research result 2018

From the above figure 2 about 40.91% of the respondents responds that there is adequate and consistent supply of utilities such while majority of them 59.09% responds that there is no adequate and consistent supply of utilities such as water electricity, and telecommunication as per the firm's production capacity. Thus, most of them said that there is no adequate and consistent supply of utilities. This finding is consistent with Getu Hailu(2014) studied on Impact of Private Manufacturing Investment on Local Economy a Case Study at Mekelle zone. The author found that constraints include high land lease rate, bureaucratic hurdles to secure land and absence of infrastructure service. This finding also supported by Escribano, Guasch and Pena (2008) finding. The finding was 30-60% of the adverse effect on firm productivity in Africa is due to deficient infrastructure and the power sector account 40-80% of the infrastructural impact.

4.2.2 Domestic and Foreign market challenges in the sector/sub-sector

Figure 3: Descriptive result of Challenges of domestic and foreign market challenges in the sector



from the above figure about 44.81% of the respondents have the problem of high production cost as compared to imported goods, about 27.27% have encountered with a problem imperfect market, 14.29% have shortage of raw materials, 5.6% have lack of aces to market and the rest 3.9% and 4.55% of respondents assume their domestic market challenges is lack of awareness about marketing strategy. From this one can conclude that private manufacturing firms have a problem of high production cost as compared to imported goods. This finding is also supported by Aisha (2016). The author point out in her finding most of the domestic market challenges in the textile industry is that presence of used cloths by lower level community, commodity price

inflation, unavailability of sufficient and reliability of spare parts and domestic markets are highly sensitive in price changes.

Aisha (2016) in her research titled Assessment of Challenges, Opportunities and Prospects of Textile Industry in Ethiopia: The Case of Yirgalem Addis Textile Factory PLC point out that the domestic market challenges for the factory is that the unavailability of sufficient and reliable spare parts, and dye staff suppliers in the local market makes the factory not to meet its objective, because the spare part is either very expensive or not easily found. The price change brought a high effect in the factory and the consumer might prefer the used clothes for it is so cheap for the lower level community due to low disposable income of consumers. Therefore, the Factory might face a problem by the smuggled clothes and the consumer might not purchase.

Table 1: Foreign market challenges

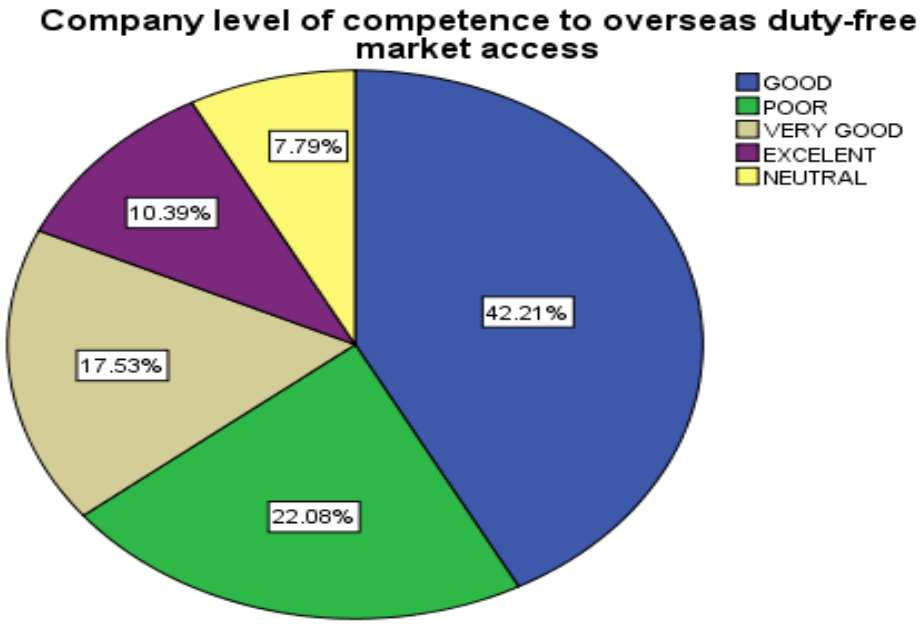
Foreign market challenges	Quality problem	43	27.9
	uncompetitive global market	16	10.4
	lack of knowledge about foreign market	28	18.2
	Inefficient production	20	13
	logistic challenge	25	16.2
	high transportation cost	22	14.3
	Total	**154**	**100**

Source: own research result 2018

From the above table respondents are asked regarding their foreign market challenges. From those respondents 27.9 % of the respondents have quality problem which is uncompetitive globally, About 10.4% of them have uncompetitive global market, 18.2% have lack of knowledge about foreign market, 13% inefficient problem, 16.2% have logistic challenge, and 14.3% have high transportation cost. In this study the researcher identifies major foreign market challenges to private investors. Top on the list are, quality problem, lack of knowledge about foreign market, and logistic problem. This finding is also supported by a survey of AACCSA (2014) titled the Ethiopian manufacturing survey analysis. They identify major challenges of food and beverage product producer faces while selling products in the domestic and foreign markets. Top on the list are high cost of production compared to imported goods, low tariff protection, Insurgent of illegal goods and lack of access to market as major domestic market

challenges. In similar fashion high cost of production compared to other competitor, lack of knowledge about foreign market trends, low capacity to produce in bulk and inability to keep product standards were most frequently mentioned foreign market challenges by private firms.

Figure 4: Company level of competence to overseas duty-free market access



Source: own research result 2018

From the above figure 4, 154 respondents are asked to level the company level of competency to oversee duty free market access. From those 42.21% of respondents respond that their company level of competency to oversee duty free market access is good. While 10.3% 17.53% and 22.08%, of the respondents replied that company level of competency to oversee duty free market access is excellent, very good and poor respectively. The rest 7.79% of respondents remain neutral. Thus, here one can conclude that the private manufacturing firms are good in company level of competence to utilize duty-free market access.

4.2.3 Access to Skilled manpower, plant and Technology Utilization

Table 2: Descriptive result of skilled manpower availability in Ethiopia

Statements	Responses	Frequency	Percent (%)
Rating skill man power availability in Ethiopia	Highly satisfactory	7	4.5
	Satisfactory	10	6.5
	Neutral	15	9.7
	Not satisfactory	83	53.9
	Significantly Poor	39	25.3
	Total	154	100

Source: Own research result 2018

From questions distributed to sample respondents to rate the availability of skilled man power in Ethiopia majority of the respondents (53.9%) rated as not satisfactory. The rest, 25.3%, 9.7%, 6.5% and 4.5% of the respondents rate the availability of skilled man power as significantly poor, neutral, satisfactory and highly satisfactory respectively. From these the researcher can conclude that the availability of skilled man power in Ethiopia is poor. This study contradicts the findings of Aisha (2016) which states that, availability of young work force ready for change and having more than 50 years experience in the textile industry is an added opportunity for manufacturing firms in the textile industry but supported by a survey report of AACCSA (2014) which states that Inadequate supply of man power in the labor market is the primary constraint of the Ethiopian leather industry.

Table 3: Descriptive result of plant and technology utilization in Ethiopia

Statements	Responses	Frequency	Percent (%)
Rating plant and technology utilization	More than Enough	9	5.8
	Enough	17	11
	Not Enough	70	45.5
	Significantly poor	42	27.3
	Neutral	16	10.4
	Total	154	100

Source: Own research result 2018

Firms are asked to rate efficient utilization of plants and technologies under their management. About 45.5% of the sample respondents' rating was "not enough" for their plant utilization while "significantly poor" and "enough" were responses by 27.3%% and 11% of the samples, respectively. The rest 10.4% respondents stay neutral 5.8% of the respondents said that plant and available technologies utilization under their control is "more than enough".

Table 4: descriptive results of production capacity of a firm

Are you producing in full capacity at the moment?	Yes	39	25.3
	No	115	74.7
	Total	154	100
If your answer in Q.11 is No what makes your firm unable to operate at full capacity/ Reason for underutilization of capacity.	In efficient domestic demand	5	3.2
	Shortage raw material	6	3.9
	limited export market	4	2.6
	old plant and poor productivity of plant capacity	21	13.6
	low labor productivity	15	9.7
	breakdown of Power	39	25.3
	low working capital and high financing cost	25	16.2
	Total	**115**	**74.7**

Source: Own research result 2018

Among close ended questions distributed to sample firms "are you producing at full capacity" 74.7% of the respondents replied that they are not producing at full capacity at the moment while about 25.3% of them are producing in their full capacity. And from the above sub-construct table respondents who do not produce at full capacity were asked to state the reasons for under production capacity. They state that break down of power, low working capital and high financing cost and old plant technology are the major constraints for their under capacity production. This finding is supported by the findings of Aisha (2016) who studied the challenges, opportunities and prospects of Yirgalem Textile factory. Her finding points out that the textile industries were operating below their full capacity. Among reasons mentioned by the author for

the underutilization of capacity is breakdown of power, shortage of inputs both from domestic and foreign markets, low labor productivity and low working capital and high cost of credit are the top ones among others.

Table 5: The overall service delivery process of the governmental investment offices

Statements	Responses	frequency	Percent (%)
Rating overall service delivery process of the governmental investment offices	Highly satisfactory	5	3.2
	Satisfactory	41	26.6
	Neutral	18	11.7
	Not satisfactory	66	42.9
	Significantly Poor	24	15.6
	Total	154	100

Source: Own research result 2018

As part of the Government's commitment to insure efficient service delivery and create an enabling investment environment; the government has been applying different types of incentives. But as of the sample respondent from the sector government services was rated as "not satisfactory" by 42.9% of respondents, "satisfactory" by 26.6% of the respondent, "significantly poor" and "highly satisfactory" by 15.6% and 3.2% respectively. The rest 11.7% of the respondents remain neutral. From this one can infer that the service delivery performance of the government is not satisfactory. This may hinder the governments end over to reach middle level income, create employment opportunities, enhancing innovation, accelerating economic growth and reducing poverty.

4.2.4 Finance

Access to finance at a reasonable cost to finance working capital and investment of enterprises is a condition for economic development, as demonstrated by extensive literature.

Table 6: Descriptive result of Finance challenge for private manufacturing sector in Addis Ababa

Statements	Responses	frequency	Percent (%)
Do you have access to credit from financial institutions?	Yes	62	40.3
	No	92	59.7
	Total	154	100
Credit access from financial institutions	Highly satisfactory	25	16.2
	Satisfactory	47	30.5
	Not satisfactory	59	38.3
	Significantly poor	23	14.9
	Total	154	100
In Q.14 your answer is yes did you able to get the loan amount as per your request?	Yes	25	16.2
	No	37	24.01
	Total	62	40.3
In Q.14 your answer is No what is the reason for lack of Access to finance?	High collateral requirements of banks	33	21.4
	Lack of in-depth customer knowledge by banks	14	9.1
	Poor market segmentation of banks	17	11
	Lack of proper business strategy by banks	2	1.3
	Lack of proper business plan provided by firm to banks	4	2.6
	Effect of legal and regulatory framework	22	14.3
	Total	92	59.7

Source: own research result 2018

From the above table most of the respondents about 40.3 % have access to credit but the remaining 59.7% have no access to credit. From the above table about 16.2%, 30.5%, 38.3%, and 14.9% of the respondents are highly satisfactory, satisfactory, not satisfactory, significantly poor level in credit access from financial institutions respectively. Therefore, one can conclude that firms are not satisfactory in credit access from financial institutions. From the above table majority of the respondents which is about 24.1% of firms don't get loan amount as per their request while 16.2% of the respondents are getting loan as per their request.

From the above among firms which have not getting loan majority of the respondents have reasons such as high collateral requirements of banks, effect of legal and regulatory framework, poor market segmentations lack of in-depth customer knowledge by banks, and lack of proper business strategy by banks. This finding is supported by the finding of Harhoff and Korting (1998). Saibal (2007) Firms in developing countries suffer largely from shortage of finance argued that lack of external sources of finance is a major constraint for investment. Saibal (2007) listed three major problems associated with the external sources; information asymmetry between lenders and borrowers, managerial agency problem, and high transaction costs.

Financial access increases entrepreneurship, innovation, and productivity by allowing firms to benefit from existing growth opportunities. It also promotes competition by lowering barriers to entry for new firms, creates jobs, and reduces income inequality (Claessens Stijn, 2005).

4.2.5 Incentive

Table 7: Descriptive result incentives

Statements	Responses	Frequency	Percent (%)
Rating incentives provided by the government	Excellent	12	7.8
	Very good	36	23.4
	Good	70	45.5
	Poor	17	11
	Neutral	19	12.3
	Total	154	100

Source: own research result 2018

From the above table 7 Sample Respondents are asked to rate incentives provided by the government. As part of the Government's commitment to encourage and create an enabling investment environment, the government has been applying different types of incentives. But as of the sample respondent from this sub sector government incentives was rated as "good" by 45.5% of respondents, "very good " by 23.4% of the respondent, "excellent" and "poor" by 7.8% and 11% respectively. The rest 12.3% of the respondent's remain neutral about the incentives provided by the government.

In addition to the impressive business opportunities in the sector, government incentives in the development of both local and global markets, make it pretty attractive in terms of huge investment and utilizing the "Hot Cake" opportunity of unexploited local market share even if the local market has been suffering from threats of smuggled second-hand clothes, monopoly of low-cost Asian (China, Thailand, Indian and Malaysian) garment/apparel products (Ethiopian Investment Agency's, 2008).

Table 8: Descriptive result of operational constraints

What are the Operational Constraints that mainly affect your business?	Investment climate	2	1.3
	Land acquisition delays	6	3.9
	Low quality infrastructure	19	12.3
	Tax administration is costly and time consuming	7	4.5
	Complex and bureaucratic entry procedures	46	29.9
	Customs and trade regulations	20	13
	practice of the informal sector	50	32.5
	growth for new comers	4	2.6
	Total	154	100

Source: own research result 2018

From questions distributed to sample respondents to identify their major operational constraints the majority of them replied that practice of the informal sector, Complex and bureaucratic entry procedures, Customs and trade regulations and Low quality infrastructure are the major constraints for the sector. This finding is supported by the finding and conclusion made by Kefyalew and Tsegabirhan (2010). The authors showed dissatisfaction of exporting firms with the quality of infrastructure, finance and institutional services. However, their study revealed

modest improvements over time with the exception of power supply. The econometric result revealed a positive effect of R&D and foreign/joint venture ownership. Other researchers like Alaba (2006), Lyakurwa (2007), Biggs (2007) are among the studies on that showed and support this finding that the effect of poor institutions on the manufacturing sector in SSA. They found that delays associated with license and work permits, larger number of documentations and signature requirements are some of the features of institutions in SSA.

Table 9: Descriptive result of Institutional and governmental policies frameworks

Statement	Response	frequency	Percent (%)
Do you believe that presence of appropriate policy framework that protects the domestic industries from foreign market aggression has positive influence for the sector?	Yes	119	77.3
	no	35	22.7
	total	154	100

Source: own research survey 2018

From the second sub-construct majority of them about 77.3%% respondents said presence of appropriate policy framework that protects the domestic industries from foreign market aggression has positive influence for the sector while the rest said that there is not positive influence for the sector.

4.2.6 Descriptive Statistics Summary of Opportunities for Private Manufacturing Investment in the sub-city

There are opportunities with respect to private manufacturing sector in Ethiopia especially in Addis Ababa.

Table 10: Descriptive result of Opportunities for the manufacturing firms in Addis Ababa

Opportunities	Number of respondents	Percentage (%)
excellent climate	32	20.8
cheap labor force	57	37
Industrial park development	38	24.7
abundant mineral resources	12	7.8
security of investment	4	2.6
availability raw materials	11	7.1
Total	154	100.0

Source: own research survey result 2018

As it is possible to observe from the above table, 20.8 % of the respondents said that excellent climate and fertile soils is one of the investment opportunity, 37% of them said that cheap labor force is one of the other opportunity, 24.7% of them said also industrial park development in the city is other opportunity for the private manufacturing firms development. The rest 7.8%, 2.6%, and 7.1% of the respondent s said that abundant mineral resources, security of investment and availability of raw materials respectively are the other opportunities. One can conclude that excellent climate and fertile soils, cheap labor force, and industrial park development are the major opportunities for the private manufacturing firm development in the city.

Table 11: comparing some of African countries wage rate

Country	Labour cost per worker	Capital cost per worker	GDP per capita
Kenya	$ 2,118.01	$ 9,775.45	$ 1,116.09
Tanzania	$ 1,776.65	$ 5,740.99	$ 10.94.95
Senegal	$ 1,561.64	$ 2,421.98	$ 775.45
Ethiopia	$ 909.28	$ 6,137.98	$ 471.19

Source: Alan, Christian, Vijaya,Divanshi (2017)

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Introduction

This is the final chapter that aims to conclude the study. It includes conclusion of the study results, recommendations based on the study results, and recommendations to future study. In conclusion section of the study; the researcher tried to show the findings of the study. Finally, the researcher provides a recommendation according to the study result.

5.2 Conclusion

After the proper analysis of the questions distributed to the respondents the researcher summarizes the following.

- Based on the research finding most of the firms are employing from within 101 and 500 employees
- As observed from the respondents o there is no adequate and consistent supply of utilities
- High production cost as compared to imported goods, quality problem, and lack of knowledge about foreign market are the major domestic and foreign market challenges.
- Company level of competence to utilize free trade agreement and overseas duty-free market access is good.
- Break down of power, low working capital and high financing cost and old plant technology are the major constraints for their under capacity production for the sector.
- The reasons that firms do not able to get loan are, but not limited, high collateral requirements of banks, effect of legal and regulatory framework, poor market segmentations lack of in-depth customer knowledge by banks, and lack of proper business strategy by banks.
- Excellent climate and fertile soils, cheap labor force, and industrial park development are the major opportunities for the private manufacturing firm development in the city.

- The existence of appropriate policy framework that protects the domestic industries from foreign market aggression has positive influence on the development of affirm with in the industry.

- The practice of the informal sector, Complex and bureaucratic entry procedures, Customs and trade regulations and Low quality infrastructure are the major constraints for the sector.

- Excellent climate and fertile soils, cheap labor force, and industrial park development are the major opportunities for the private manufacturing firm development in the city

5.3 Recommendation

Manufacturing is a wealth-creating sector of an economy, and closely connected with engineering and industrial design and provides important material support for national infrastructure. Promoting private investment in manufacturing sector has a significant benefit in enhancing innovation, accelerating economic growth and reducing poverty. It creates more job opportunities, generates more revenue and increase income of the poor; and it eventually ensures long-term socio-economic development (Fietas& Sinha, 2011). Manufacturing is critical and is probably the most important engine of long-term growth and development. As countries transform from primary agricultural-based economies to manufacturing based ones, more sustainable revenue for growth is obtained (Getenet, 2015).

The overall objective of the study was to identify the challenges and opportunities of private manufacturing firms . In this regard, the data analysis using quantitative and qualitative methods were made. According to the research objective and based on the data analysis, the researcher provides the following recommendations to the concerned bodies

- 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.

- **Enhance Access to Finance:** Limited access to finance to fund manufacturing projects and shortage of foreign currency to import raw material and intermediary goods are the main problems of the manufacturing firms in Ethiopia. Thus, the government should alleviate this problem by coordinately working with financial service providers found both within Ethiopia and abroad in order to make available funds for new investment in manufacturing sector in addition to giving due attention to reserve foreign currency that useful for importing raw materials and capital goods.

- **Improving Availability of Material Inputs:** Although the country's major natural resource base is its rich agricultural potential, it has not been utilized for the development of the industrial sector (AACCSA, 2004). As a result, manufacturing industries which hugely consuming agricultural inputs such as agro-processing, textile and leather industries faced chronic raw material supply shortage.

- **Upgrading Technological Capability of the Firms:** Developing technological capability requires adequate and continuous investment not only on equipment, machinery and related assets, but also on information, labor educations and technological know-how.

- **Promoting Investment in the Manufacturing Sector:** Encourage investment in manufacturing industries, especially, attracting foreign investors to invest, because they do not only invest their capital but also new technology. As new technology comes to the country or expanded by domestic investors, it is easy to transfer from one firm to another so that possible way of expansion of new technology, without incurring high costs. This technological level is developed either by carried out of R&D by firms or research institutions in addition by providing on-the –job learning and trainings to works.

- **Improve Infrastructural Facilities:** The inadequacy of infrastructure has been one of the major constraints for the manufacturing sector development. This study has

identified that roads, energy, water supply, and other facilities are not well-developed to support the development of the manufacturing sectors in Ethiopia.

- Promote product and process innovation, as well as research and development
- Improve global competitiveness for companies
- Actions to increase small-scale enterprises' access to technology and markets should also be prioritized
- Serious effort is needed to improve and shorten the bureaucracy for the private sector. In this regard, the merits and qualification of people employed by government need to be assessed very carefully. Furthermore, business entry regulations and processes should be simplified to promote a dynamic and thriving private sector.
- In order to improve the investment climate for the private sector further, there is a need to explore new ways of working with the private sector in order to harness its expertise and resources for inclusive and sustainable development
- The government focus on the expansion of the infrastructure and improvement of institutional, organizational and regulatory frameworks is expected to improve the investment climate in Ethiopia and can be taken as a great opportunity for private sector development.

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APPENDIX

ADDIS ABAB UNIVERSITY

SCHOOL OF BUSINESS AND ECONMOICS

DEPARTMENT OF ACCOUNTING AND FINANCE

TITLE OF THE STUDY: Challenges and Opportunities of private manufacturing Investment in Addis Ababa kality sub-city

Dear Sir/Madam

I am a lecturer at Queens University College and currently pursuing my Masters of Science (Ms) in Finance study in the University of Addis Ababa, School of Business and Economics. I am conducting this research in fulfillment of the requirements for the Degree of Masters of Finance. The purpose of the study is to determine the Challenges and opportunities of private manufacturing. The findings might help to understand how the variables influence plant **performance especially in developing economies like Ethiopia**. The successful completion of the study and the realization of its objectives, in this regard, considerably depend on your genuine participation and cooperation in providing the necessary data through this questionnaire. The response you give in the questionnaire would be so valuable and hence, I extremely appreciate your effort and time taken in filling the same and returning it as soon as possible. Your willingness to participate in fact not only helps to complete this study but also benefits the manufacturing sector in the country as well as in other developing countries.

Let you also feel free in providing the required data as all the information you give will remain confidential and only statistical summary and analysis to be reported in the study. In particular, I would like to assure you that your firm's name, your name, your position, and other personal information will remain anonymous (undisclosed) in any way in the study. In the future, if you need knowledge and professional advice regarding aspects of manufacturing Investment practices, and performance, I would be very glad to do my best to work with you and your organization. You can use my telephone and e-mail address mentioned below for further contact. Thank you in advance for your cooperation and help!

Atenaf Yehuala Akale, MS Candidate, Addis Ababa University
Address: Cell phone: +251-966-798584; e-mail: atenafyehuala2017@gmail.com

A. General Description

Name of the firm's owner ---------- Kind of Sector ----------

Please, thick the X mark in the box and give your opinion on the blank space where necessary.

1. Ownership

. Range of Number of Employees that you have

1-20 employees	*21-50 employees*	*51-100 employees*	*101-250 employees*	*More than 250employees*

1. Did you believe that there is adequate infrastructure?

Yes	No

4. Rating incentives produced by the government

Excellent	*V. Good*	*Good*	*Average*	*Poor*	*Don't know*

5. Company's level of awareness to export under free trade agreement or preferential market opportunities

Well informed	*Unclear about its practically*	*Never consider as an opportunity*	*No awareness about it*

6. Company level of competence to overseas duty-free market access

Excellent	*V. Good*	*Good*	*Average*	*Poor*	Neutral

7. Which of the following are your Domestic market challenges?

Lack of Access to market	High production cost as compared to Imported goods	Lack of Awareness	Shortage of Raw inputs	Imperfect market	

8. Foreign market challenges

Quality problem	Uncompetitive global market	Lack of knowledge about foreign market	Inefficient production	Logistic challenges	Finance	High transportation cost

9. Rating skilled man power productivity in Ethiopia

Highly satisfactory	*satisfactory*	*Not satisfactory*	*Significantly poor*	Neutral

10. Rating plant and other technology utilization

More than enough	*Enough*	*Not Enough*	*Significantly poor*

11. Are you producing in full capacity at the moment?

Yes	*No*

12. If your answer in Q.11 is No what makes your firm unable to operate at full capacity/ Reason for underutilization of capacity.

- Insufficient domestic demand
- Shortage of raw material.
- Limited export market
- Old plant and and poor productivity of plant capacity
- Low labour productivity
- Break down of power
- Low working capital and high financing cost

13. The overall service delivery process of the governmental investment offices

Highly satisfactory	*satisfactory*	*Not satisfactory*	*Significantly poor*	Neutral

14. Do you have access to credit?

Yes	No

15. In Q.14 your answer is yes did you able to get the loan amount as per your request?

Yes	No

16. Credit access from financial institutions

Highly satisfactory	*satisfactory*	*Not satisfactory*	*Significantly poor*	Neutral

17. In Q.14 your answer is No what the reason for lack of Access to finance? **Please note that it is possible to choose more than one.**

- High collateral requirements of the banks
- lack of in-depth customer knowledge by the banks

- poor market segmentation of banks
- lack of proper business strategy by the banks
- lack of proper business Plan provided by the firm to the banks
- Effect of legal and regulatory framework

18. What are the Operational Constraints that mainly affects your business?
    - Investment climate in Ethiopia does not foster productivity
    - Land acquisition delays
    - Low quality Infrastructure
    - Tax administration is costly and time consuming
    - Complex and bureaucratic entry procedure
    - Customs and trade regulations
    - Practices of the informal sector
    - Growth for new comers

A. Opportunities for private Manufacturing Investment

1. What kind of opportunities is available in the business area that you engaged in?

_____
_____
_____
_____
_____
_____
_____
_____

Appendix 2