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Original Research Article

Assess the Trend in Private Sector Development after 2018 Political Reform in Ethiopia

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Abstract

This study investigates the dynamics of private sector development in Ethiopia following the 2018 political reform, using annual data from 2018 to 2024. By analyzing trends in total private investment projects, capital flows, and employment (both permanent and temporary), the research reveals significant year-to-year fluctuations in investment activities. The findings show that while certain years, such as 2021 and 2023, experienced notable rebounds in investment and job creation, these gains were often short-lived, with dramatic declines observed in 2020 and 2024. Time series analyses, including decomposition and autocorrelation methods, highlight the cyclical and unstable nature of investment patterns, influenced by economic shocks, policy shifts, and external uncertainties. The study also uncovers regional disparities, with Addis Ababa dominating private investment, followed by emerging regions like Afar and Amhara. Despite the declining number of investment projects, capital inflows and employment figures indicate a trend toward fewer but higher-impact projects. The research underscores the urgent need for stable policy frameworks and targeted regional strategies to foster sustainable, inclusive, and balanced private sector growth across Ethiopia.

1. Introduction

The role of the private sector in driving economic growth, employment creation, and investment flows has gained increasing attention in Ethiopia, particularly in the aftermath of the 2018 political reform. This reform ushered in a period of political transformation that was expected to foster a more conducive environment for private enterprise and market-led development. In theory, political liberalization can enhance investor confidence, stimulate entrepreneurship, and catalyze structural economic transformation. However, in practice, the impact of these reforms on private sector dynamics remains a subject of considerable debate.

This study aims to assess the trends in private sector development in Ethiopia between 2018 and 2024, with a particular focus on changes in investment projects, capital inflows, and employment patterns—both permanent and temporary. By analyzing time-series data and applying statistical techniques such as trend decomposition and autocorrelation analysis, the research provides a detailed picture of how private sector activity has evolved in a post-reform context. The findings are crucial not only for evaluating the outcomes of recent policy changes but also for informing strategies that promote inclusive and stable economic development across the country.

2. Review of Related Literature

The literature consistently positions the private sector as a central engine of growth, structural transformation, and employment in developing economies. In Ethiopia, the 2018 political reform was framed as a pivot from a predominantly state-led model toward greater private participation, liberalization, and selective privatization. Yet, the post-reform period has been marked by volatility in investment flows and employment creation, reflecting persistent macroeconomic, political, and institutional frictions that shape private sector behavior.

2.1 Domestic Private Investment

Domestic private investment has improved only gradually. Studies underline that inflation, interest rates, infrastructure gaps, and political instability remain decisive constraints. While the government's industrial-park strategy has opened room for manufacturing and agro-processing, financing bottlenecks and uncertainty continue to hold back depth and breadth of local private investment.

2.2 Foreign Direct Investment (FDI)

Reforms since 2018—partial privatization of SOEs and telecom liberalization—helped Ethiopia position itself as a manufacturing and agriculture FDI hub. However, conflicts (notably in Tigray and Oromia), policy inconsistency, and macroeconomic imbalances dampened investor confidence and tempered the durability of inflows. Sustained peace, predictable regulation, and credible implementation capacity emerge as prerequisites for stable FDI.

2.3 Sectoral Contributions

Agriculture. Despite employing the majority of the population, agriculture's transformation through private investment is slow, hindered by technology gaps, irrigation deficits, and logistics constraints. Private inflows have targeted cash crops and agro-industry value addition, but scaling remains uneven.

Industry. Post-2018 policy emphasized export-oriented industrialization via industrial parks (e.g., textiles, apparel, pharmaceuticals). Although these parks created jobs and attracted both domestic and foreign investors, unreliable infrastructure, logistics inefficiencies, and forex shortages erode competitiveness.

Services. Liberalization—especially in telecommunications—has catalyzed competition, innovation, and new market opportunities. Financial services and tourism have also expanded, though regulatory restrictions and shallow capital markets still limit the sector's transformative potential.

2.4 Regulatory and Policy Barriers

The literature highlights four mutually reinforcing bottlenecks:

1. **Bureaucratic inefficiency:** Lengthy, duplicative procedures for permits, customs, and approvals raise costs and uncertainty.
2. **Policy inconsistency:** Sudden, weakly communicated shifts in taxes and enforcement undermine planning horizons.
3. **Restrictive laws:** Continued state dominance in key sectors, land tenure rigidities, and limits on foreign bank entry curb competition and private dynamism.
4. **Institutional weakness:** Limited dispute-resolution capacity, slow courts, and under-resourced agencies discourage both domestic and foreign investors.

These frictions push firms toward informality, elevate operating costs, and disproportionately burden SMEs—the backbone of job creation.

2.5 Infrastructure Deficits

Transport, energy, ICT, and industrial infrastructure remain below the threshold required to unlock scale efficiencies. Despite large public investments, power unreliability, logistics congestion, and slow telecom upgrades persist. Industrial parks themselves frequently face electricity, water, and logistics bottlenecks, diluting policy intent.

2.6 Access to Finance

Credit scarcity, high collateral requirements, an underdeveloped capital market, forex shortages, and restrictive financial regulation jointly constrain firm growth, innovation, and export competitiveness. The dominance of public banks and the absence of foreign banks limit product diversity and competition, while SMEs face acute exclusion from formal credit.

2.7 Comparative Insights

Comparative work on less developed African economies shows overlapping constraints—finance, infrastructure, and institutional capacity—yet also underscores that Ethiopia's post-2018 industrial policy push and export orientation provide distinctive opportunities. Lessons from regional experiences emphasize the value of public-private partnerships, local innovation (e.g., farmer-led irrigation), and stable, transparent rules of the game to convert reform intent into durable investment gains.

2.8 Synthesis and Implications for This Study

The reviewed literature converges on three themes directly aligned with this article's 2018–2024 trend analysis:

1. **Reform–volatility paradox:** Ambitious liberalization coexists with sharp cyclical swings in projects, capital, and employment—consistent with our observed boom-bust patterns across 2021 and 2024.
2. **Binding constraints remain binding:** Regulatory uncertainty, infrastructure gaps, and finance shortages systematically weaken the transmission of reforms into sustained private investment growth.
3. **Spatial concentration:** The heavy tilt toward Addis Ababa in projects, capital, and jobs mirrors the literature's emphasis on regional disparities and the need for targeted, place-sensitive policy.

Accordingly, stabilizing the investment climate will require credible, consistently implemented reforms that (i) streamline regulation and reduce policy volatility, (ii) close infrastructure and finance gaps—especially for SMEs, and (iii) purposefully decentralize opportunity through regional industrial policy instruments. These insights frame the empirical patterns reported in this study and inform the policy recommendations advanced in the conclusion.

3. Methods

This study employed a quantitative research approach using secondary data to analyze the trends in private sector development in Ethiopia following the 2018 political reform. The dataset covered annual observations from 2018 to 2024, focusing on four key indicators: the total number of private investment projects, capital inflows (in thousands of Birr), permanent employment, and temporary employment.

Data Collection

The study utilized official records and aggregated statistics on private investment projects and employment data obtained from national investment and labor-related reports. These data were compiled for the period 2018–2024 to examine the dynamics of private sector activity.

Data Analysis

To capture the underlying trends and patterns, the analysis involved:

1. **Growth Rate Calculation –** Yearly growth rates for each indicator (total projects, capital, permanent employment, and temporary employment) were computed to assess fluctuations in investment performance.
2. **First Difference Analysis –** Differences in growth rates between consecutive years were calculated to understand changes and volatility across time.
3. **Time Series Decomposition –** A decomposition approach was applied to isolate trend and irregular components, highlighting cyclical behavior in private sector development.
4. **Autocorrelation Analysis (ACF & PACF) –** To detect cyclical patterns and lagged relationships, autocorrelation and partial autocorrelation functions were computed for growth rate series.
5. **Regional Distribution Analysis –** Private investment data were disaggregated to assess regional contributions (e.g., Addis Ababa, Afar, Amhara) to overall private sector development.

The combination of these methods enabled the identification of both temporal and regional patterns, as well as the factors contributing to the volatility of private sector investment during the study period.

4. Analysis and Discussion

4.1 Assess the Trend in Private sector development after 2018 political reform in Ethiopia

Table 1 presents the yearly growth rates for total projects, capital, permanent employment, and temporary employment in Ethiopia, highlighting significant instability in private investment over the analyzed period. In 2019, the number of projects grew by 15.97%, indicating positive growth compared to 2018. However, a sharp decline of -47.87% was recorded in 2020, likely driven by external factors such as the COVID-19 pandemic disrupting investment activities. A modest recovery followed in 2021 with a 7.55% increase, suggesting early stabilization of project investment post-pandemic.

This recovery continued in 2022 with an 11.11% increase in the number of projects. A significant rebound occurred in 2023, with growth reaching 58.95%, reflecting renewed investment activity. However, 2024 saw a dramatic contraction of -65.56%, potentially due to economic, policy, or external challenges disrupting investment inflows. These fluctuations point to an unstable environment for attracting consistent foreign direct investment (FDI).

Capital investment experienced extreme variability, with a notable peak in 2021 at 386.26%, likely reflecting concentrated investment activities that year. This contrasts sharply with dramatic declines in 2020 (-78.26%) and 2024 (-96.99%), stressing the volatility in capital flows, possibly due to economic uncertainties or shifts in investor confidence.

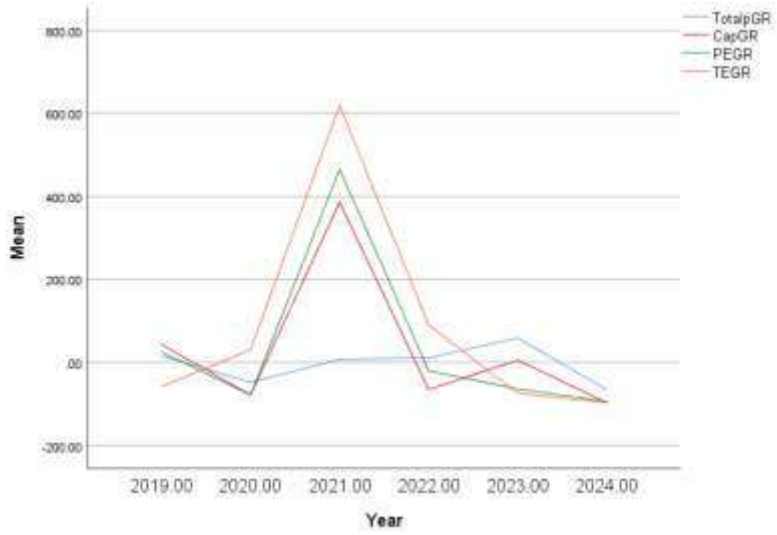
Permanent employment trends also exhibited high variability. A remarkable growth of 465.57% in 2021 aligned with the capital investment peak, suggesting strong job creation during that year. However, significant declines in 2023 (-63.85%) and 2024 (-94.05%) indicate challenges in maintaining stable, long-term employment opportunities.

Temporary employment growth was even more volatile. A dramatic surge of 619.42% in 2021 likely reflected short-term labor demands tied to investment spikes. However, this was followed by a steep decline in 2024 (-96.69%), suggesting that temporary roles are highly sensitive to project-specific or economic fluctuations.

Overall, the data reveals substantial instability in private investment in Ethiopia. While 2021 and 2023 were marked by significant growth in project numbers, capital investment, and employment, these gains were not sustained, with sharp declines in subsequent years. The variability in growth rates highlights challenges in creating a stable investment climate capable of supporting consistent economic development. Policymakers must address the underlying factors contributing to these fluctuations to foster a more predictable and sustainable investment environment.

Table 1: shows the distribution of Yearly Growth Rate for private investment in Ethiopia

Years	Total Projects	Growth Rate (%)	Capital ('000 Birr)	Growth Rate (%)	Permanent Employment	Growth Rate (%)	Temporary Employment	Growth Rate (%)
2018	263		16,091		9,815		7,666,080	
2019	305	15.97	23,046	43.20	12,287	25.20	3,216,949	-58.05
2020	159	-47.87	5,011	-78.26	2,668	-78.28	4,202,735	30.66
2021	171	7.55	24,369	386.26	15,089	465.57	30,232,208	619.42
2022	190	11.11	8,479	-65.22	12,044	-20.19	57,593,924	90.49
2023	302	58.95	8,971	5.80	4,356	-63.85	14,945,855	-74.06
2024	104	-65.56	270	-96.99	259	-94.05	494,893	-96.69



The first differences in growth rates for total projects, capital, permanent employment, and temporary employment in Ethiopia reveal significant year-to-year fluctuations from 2019 to 2024. This method highlights changes in growth rates between consecutive years, providing insights into the dynamics of investment and employment trends.

The analysis shows a marked decline in growth rates from 2019 to 2020, reflecting a sharp drop-in activity. While a recovery is observed in subsequent years, the overall trend remains volatile, with a particularly steep decline in 2024. The fluctuations are most pronounced in 2021, which experienced a significant surge, followed by a sharp drop in 2022. This instability in capital growth rates may reflect the impact of economic shocks, policy changes, or external factors influencing investment decisions.

Permanent employment growth exhibits similar variability, peaking dramatically in 2021 before declining in the following years. This pattern highlights challenges in sustaining job creation and retention, possibly tied to the unpredictability of investment flows. Temporary employment also shows considerable volatility, especially in 2021 and 2022, suggesting inconsistent demand for short-term labor driven by project-based or seasonal factors.

In summary, the differencing analysis underscores the high unpredictability across all series, indicating that external economic conditions heavily influence growth rates. These substantial fluctuations reflect an unstable investment environment, which poses challenges for long-term economic planning and policy development. Future analyses could benefit from employing additional transformation techniques or incorporating more extensive data to establish clearer trends and enhance predictive modeling.

Table 2: Summary of the first differences of total project, capital, permanent employment & Temporary Employment Trends.

Year	Total Projects Trend (%)	Capital Trend (%)	Permanent Employment Trend (%)	Temporary Employment Trend (%)
2019	15.97	43.20	25.20	-58.05
2020	-63.84	-121.46	-103.48	88.71
2021	55.42	464.54	543.85	588.08
2022	3.56	-451.26	-485.76	-497.33
2023	47.84	5.80	-63.85	-164.55
2024	-124.51	-102.79	-30.20	-22.64

4.2 Seasonality and Trends Analysis

To analyze the yearly growth rates of private investment in Ethiopia across total projects, capital, permanent employment, and temporary employment, a time series decomposition was performed. This analysis of seasonality and trends aims to highlight patterns of growth or decline over time in these metrics.

Seasonality captures repeating patterns over fixed intervals, such as year-over-year cycles. While this dataset spans only seven years—limiting the identification of clear seasonal patterns—the analysis includes seasonality to account for possible periodic fluctuations. The decomposed time series reveals high volatility across all categories, reflecting a dynamic and unstable investment environment.

Total Projects

The trend in total projects exhibits significant variability. Positive growth is observed in 2019 and 2021–2023, contrasted by steep declines in 2020 and 2024. This indicates a volatile investment climate, where external factors likely influenced the number of projects. The increase in certain years highlights potential growth opportunities, but the declines suggest challenges in sustaining project initiation.

Capital Investment

Capital investment shows extreme fluctuations, with major growth in 2019 and 2021 but significant declines in 2020, 2022, and especially 2024. The 386% spike in 2021 reflects a year of high investor confidence and substantial capital flows, whereas the 96.99% drop in 2024 underscores the uncertainty of the investment environment. This volatility likely stems from macroeconomic or political factors impacting funding availability and investor sentiment.

Permanent Employment

Growth in permanent employment mirrors the inconsistency observed in other metrics. Significant peaks occur in 2019 and 2021, with a notable 465.57% increase in 2021, indicating robust job creation linked to investments that year. However, this was followed by sharp declines in 2020, 2023, and 2024, revealing instability in the capacity of private investment projects to generate long-term employment opportunities.

Temporary Employment

Temporary employment exhibits the highest levels of fluctuation. The dramatic 619.42% peak in 2021 reflects a surge in short-term job opportunities, likely tied to specific projects requiring intensive labor. However, extreme lows in 2019, 2023, and 2024 suggest that temporary employment is highly responsive to investment fluctuations, rising sharply during growth periods but declining just as drastically during downturns.

A key Insights and implications of this results is that, while certain years, particularly 2021, show strong positive trends across all metrics, significant declines in 2020 and 2024 highlight the challenges of maintaining consistent growth in Ethiopia's private sector. These fluctuations suggest that economic and political instability, as

well as shifts in funding and market conditions, play a significant role in shaping investment and employment patterns.

To achieve more sustainable growth, targeted policies are needed to stabilize investment flows, encourage consistent project initiation, and support both permanent and temporary employment creation. These measures could help reduce volatility and promote more stable economic development.

Table 3: Summary Table of Decomposed Components.

Year	Total Projects Trend (%)	Capital Trend (%)	Permanent Employment Trend (%)	Temporary Employment Trend (%)
2018	-	-	-	-
2019	15.97	43.20	25.20	-58.05
2020	-47.87	-78.26	-78.28	30.66
2021	7.55	386.26	465.57	619.42
2022	11.11	-65.22	-20.19	90.49
2023	58.95	5.80	-63.85	-74.06
2024	-65.56	-96.99	-94.05	-96.69

The average growth rate of -3.31% indicates a decline in the total number of projects over the analyzed period, suggesting a challenging environment for private investment. This decline may be attributed to economic, political, or social factors that discourage new investments.

In contrast, the average growth rate of 32.47% in capital investment reflects a significant increase in the amount of capital committed, despite the reduction in project numbers. This suggests that while fewer projects were initiated, the projects that did occur attracted more substantial investments. This trend may indicate increased confidence in the viability of specific sectors or projects.

The average growth rate of 39.07% in permanent employment demonstrates that the investments undertaken created a substantial number of stable jobs. This is a positive indicator of the private sector's contribution to generating long-term employment opportunities, even in the context of declining project numbers.

The very high average growth rate of 85.30% in temporary employment indicates that many investments involved significant short-term labor requirements. This trend likely reflects the nature of construction or other project-based jobs, which are not permanent but provide critical short-term employment opportunities.

Overall, these findings suggest that while the number of private investment projects may be declining in Ethiopia, the projects that are realized tend to involve substantial capital investments and contribute positively to both permanent and temporary employment. This underscores the complexity of Ethiopia's investment landscape, where the quality and economic impact of investments may outweigh their quantity in terms of fostering growth and job creation.

Table 4: summary table of the average yearly growth rates for private investments in Ethiopia from 2018 to 2024.

Category	Average Growth Rate (%)
Total Projects	-3.31
Capital ('000 Birr)	32.47
Permanent Employment	39.07
Temporary Employment	85.30

The autocorrelation and partial autocorrelation analysis indicate that private investment growth rates in Ethiopia follow cyclical patterns with varying intensities across different categories. Both the autocorrelation

function (ACF) and partial autocorrelation function (PACF) at lag 1 are negative, signifying a tendency for fluctuations to revert after each period. This suggests a mild negative pattern in annual project growth rates, likely influenced by economic or policy cycles affecting investment levels.

Specifically, the ACF of -0.399 and PACF of -0.479 at lag 1 point to a moderate negative autocorrelation, implying that growth in the number of projects tends to decrease following a period of increase, and vice versa. This pattern may reflect yearly variations in project initiation rates driven by shifts in policy or economic conditions. At lag 2, the magnitude of the negative ACF and PACF values decreases, indicating a weaker reversal effect over two years but with some residual fluctuation.

Overall, this trend suggests that while annual project numbers are subject to fluctuations, there is a gradual stabilizing effect over longer time frames.

The negative autocorrelation and partial autocorrelation at lag 1 indicate that capital growth rates tend to follow a pattern of consecutive reversals, suggesting that capital investments are highly sensitive to changes in economic conditions or shifts in investor sentiment. The autocorrelation function (ACF) value of -0.418 and the partial autocorrelation function (PACF) value of -0.502 reflect a strong negative autocorrelation, implying that significant increases in capital investment are often followed by sharp declines, and vice versa. These fluctuations may result from factors such as changes in funding availability, variations in investor confidence, or shifts in regulatory policies.

At lag 2, the ACF becomes weakly positive (0.108), while the PACF remains slightly negative (-0.120), indicating a modest trend toward stabilization after the initial reversal. This suggests that the magnitude of fluctuations diminishes over a two-year horizon, reflecting smaller, more gradual changes in capital investment levels.

Regarding the trend in permanent employment, the negative autocorrelation and partial autocorrelation values at both lags indicate a persistent cyclical pattern. At lag 1, the autocorrelation function (ACF) is -0.237, and the partial autocorrelation function (PACF) is -0.284, reflecting a moderate negative autocorrelation. This suggests that growth in permanent employment tends to follow a cyclical pattern, with increases often occurring after declines. These fluctuations may be influenced by longer-term factors such as investment cycles or adjustments in the labor market. At lag 2, the negative values persist, with an ACF of -0.154 and a PACF of -0.338, indicating that the two-year cyclical pattern continues, though its effect diminishes. This trend may reflect gradual adaptations in permanent staffing driven by longer-term economic conditions or structural changes.

For temporary employment, the ACF and PACF at lag 1 are close to zero (0.026 and 0.031, respectively), indicating very low autocorrelation. This suggests that growth in temporary employment does not exhibit a clear short-term pattern. However, at lag 2, both ACF and PACF turn strongly negative (-0.443 and -0.667, respectively), signaling a pronounced cyclical pattern over a two-year period. This may indicate that temporary employment fluctuates in response to longer-term cycles, potentially driven by economic conditions, variations in project funding, or the demand for seasonal or project-based labor.

The analysis of total projects and capital growth reveals a strong negative autocorrelation at a 1-year lag, indicating significant annual fluctuations. Capital growth, in particular, exhibits sharp reversals, potentially reflecting economic constraints or limitations in funding availability.

The trend in permanent employment demonstrates moderate negative autocorrelation across both 1- and 2-year lags, suggesting gradual adjustments in staffing levels. These slower changes are likely influenced by structural factors in the labor market or long-term economic conditions. In contrast, the trend for temporary employment shows minimal autocorrelation at a 1-year lag but exhibits strong negative autocorrelation at a 2-year lag. This indicates greater variability aligned with longer project cycles or shifts in demand for temporary labor.

These findings suggest that private investments in Ethiopia are shaped by economic cycles and project-based fluctuations. Employment trends, particularly in the permanent and temporary sectors, display lagged responses to

investment dynamics. Overall, the patterns highlight fluctuations in private investment growth rates, driven by a combination of cyclical economic factors and short-term adjustments in both investment and employment practices.

Table 5: Autocorrelation and Partial Autocorrelation Results for private investment growth rates in Ethiopia.

Series	Lag	Autocorrelation (ACF)	Partial Autocorrelation (PACF)
Growth Rate - Total Project	1	-0.399	-0.479
	2	-0.063	-0.420
Growth Rate – Capital	1	-0.418	-0.502
	2	0.108	-0.120
Growth Rate - Permanent Employment	1	-0.237	-0.284
	2	-0.154	-0.338
Growth Rate - Temporary Employment	1	0.026	0.031
	2	-0.443	-0.667

Analyzing the distribution of private investment in Ethiopia reveals significant regional disparities, with Addis Ababa holding a dominant position. Nearly half (46.98%) of all private investment projects are concentrated in Addis Ababa, underscoring its status as the country's economic hub and a highly attractive destination for investors. The city also attracts the largest share of capital (37.57%), which supports infrastructure and service sectors critical to sustaining broader economic activities.

Furthermore, Addis Ababa accounts for more than half (58.46%) of all permanent employment opportunities, a reflection of its established industries, business operations, and support services. Temporary jobs are even more concentrated in Addis Ababa (74.76%), likely driven by high short-term labor demands in construction, trade, and service sectors. This significant share of investments and employment highlights Addis Ababa's pivotal role in driving Ethiopia's economic growth, providing both sustained and temporary employment opportunities while serving as a central hub for development.

Afar has emerged as a growing regional contributor, hosting 36.22% of total projects and 33.19% of total capital investment. These figures suggest that the region attracts projects requiring substantial capital, likely in resource extraction, energy production, or large-scale agriculture. Afar also supports a significant share of employment, contributing 29.80% to permanent jobs and 19.78% to temporary jobs, which aligns with the labor needs of resource-based industries requiring ongoing workforce engagement.

Amhara is a mid-level contributor, accounting for 9.24% of total projects and 13.75% of capital investments. These figures indicate moderate activity in sectors such as industry and agriculture. However, the region's employment contributions are relatively modest, with 4.96% of permanent employment and 3.85% of temporary employment, suggesting that many projects in this region are less labor-intensive compared to other regions.

Other Regions (Benishangul-Gumuz, Dire Dawa, Gambella, Oromia, Sidama, SNNPR, Somali, and Tigray): These regions contribute more modestly across investment and employment metrics, reflecting varying levels of industrial and agricultural development.

Private investments across Ethiopia are critical drivers of economic growth, job creation, and regional development. While Addis Ababa remains the dominant region, regions such as Afar and Amhara are also significant contributors, indicating the potential for more balanced regional growth. Investments in these regions diversify economic activities, enhance local development, and create employment opportunities.

The data highlights a concentration of investment projects and capital in a few regions, particularly Addis Ababa. This unequal distribution stresses the need for policies that promote more equitable investment across Ethiopia. Incentives and targeted support for underrepresented regions could foster balanced regional development, unlocking economic potential nationwide.

Private investment plays a crucial role in Ethiopia's economic development. While Addis Ababa is the leading center of investment and growth, fostering investments in other regions through targeted incentives and policies is essential. This approach would promote a more balanced and inclusive economic landscape, contributing to sustainable development across the country.

Table 6: Shows the role private investments for economic growth and development of Ethiopia and Regional Contributions.

Regions	Total Projects Contribution (%)	Capital Contribution (%)	Permanent Employment Contribution (%)	Temporary Employment Contribution (%)
Addis Ababa	46.98%	37.57%	58.46%	74.76%
Afar	36.22%	33.19%	29.80%	19.78%
Amhara	9.24%	13.75%	4.96%	3.85%
B.Gumze	0.87%	11.79%	0.43%	0.03%
Dire Dawa	1.07%	2.06%	1.35%	0.41%
Gambella	2.81%	0.85%	2.50%	0.86%
Oromia	1.67%	0.57%	2.47%	0.08%
Sidama	0.33%	0.05%	0.03%	0.04%
SNNPR	0.27%	0.14%	0.00%	0.16%
Somali	0.20%	0.00%	0.00%	0.00%
Tigray	0.27%	0.00%	0.00%	0.00%
Grand Total	100%	100%	100%	100%

5. Conclusion

The analysis of private sector development trends in Ethiopia from 2018 to 2024 reveals a highly volatile investment environment, marked by significant fluctuations in project numbers, capital inflows, and employment creation. While some years—particularly 2021—witnessed strong performance across all indicators, these improvements were not sustained, as evidenced by sharp declines in subsequent periods, especially in 2020 and 2024. Such instability appears to be driven by a combination of economic disruptions, political transitions, and external shocks like the COVID-19 pandemic.

Capital investments and employment patterns show a tendency toward cyclical reversals, reflecting inconsistent investor confidence and the lack of a stable enabling environment. Regional disparities are also evident, with investment and employment heavily concentrated in Addis Ababa, while other regions, though increasingly active—still lag significantly behind. This unequal distribution highlights the need for more inclusive and balanced development policies.

Overall, the study underscores the importance of establishing a more predictable and supportive policy framework to stabilize investment flows, promote regional diversification, and enhance job creation. Targeted interventions, strategic reforms, and institutional strengthening will be critical to transforming the private sector into a reliable engine of economic growth and sustainable development in Ethiopia.

6. Recommendations

a) Establish a Stable and Predictable Policy Environment:

b) The government should ensure consistent and transparent investment policies to build investor confidence. Avoiding abrupt regulatory changes and providing clear communication on policy reforms will reduce uncertainty and attract both domestic and foreign investors.

c) Strengthen Infrastructure and Logistics:

d) Investment in reliable power supply, modern transport systems, and ICT infrastructure is critical to reducing operational costs and improving competitiveness. Public-private partnerships (PPPs) can play a key role in financing and managing large-scale infrastructure projects.

e) Enhance Access to Finance for SMEs:

f) The financial sector needs reforms to expand credit availability, lower collateral requirements, and introduce innovative financing instruments (e.g., venture capital and equity markets). Liberalizing the banking sector and introducing foreign financial institutions can improve competition and financing options.

g) Promote Balanced Regional Investment:

h) Incentive packages, such as tax breaks and infrastructure support, should be provided for regions outside Addis Ababa to encourage equitable economic development. Regional industrial zones and agro-processing hubs could be strengthened to reduce the concentration of investments in the capital.

i) Develop Sector-Specific Investment Strategies:

j) Priority sectors such as manufacturing, agro-processing, ICT, and tourism should be targeted with customized incentives and capacity-building programs. Encouraging technology transfer and skills development in these sectors will generate higher-value employment.

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