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# Examine the Contribution of the Private Investment in Ethiopia Since 2018

Addis Tegegn Wegedereseegn<sup>1\*</sup> 

<sup>1</sup>Assistant Professor, LLL and Community Development, Madda Walabu University, Ethiopia. E-mail: [add.teg2009@gmail.com](mailto:add.teg2009@gmail.com)

### Article Info

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### Abstract

This study examines the contribution of private investment to Ethiopia's economic growth since 2018. Data from 2018-2024 show that the manufacturing sector dominates private investment, accounting for over 70% of projects and 74% of capital, while agriculture, though contributing less capital, remains vital in employment creation. The analysis also highlights sectoral contributions, policy reforms, and challenges faced by investors, such as regulatory hurdles, economic instability, and limited access to finance. Despite fluctuations caused by political instability and macroeconomic shocks, private investment has played a significant role in GDP growth, employment generation, and export performance. The study emphasizes the importance of ongoing policy reforms and targeted interventions to strengthen private sector participation in sustainable development.

**Keywords:** *Private investment, Ethiopia, Economic growth, Sectoral contributions*

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## 1. Introduction

Private investment has been recognized as a key driver of economic growth and job creation in Ethiopia, especially since the 2018 policy reforms aimed at liberalizing the economy. The post-2018 period marked a significant increase in private sector participation across manufacturing, agriculture, construction, and real estate. Manufacturing, with 70.60% of total projects, has emerged as the backbone of private investment, while agriculture remains crucial for employment, providing over 27% of permanent jobs. However, the investment climate has been affected by challenges such as political instability, regulatory barriers, inflation, and limited access to finance. Understanding the sectoral contributions, growth trends, and challenges faced by private investors is critical for devising strategies to enhance the sector's impact on Ethiopia's sustainable economic growth.

This article "Examine the Contribution of Private Investment in Ethiopia Since 2018", the main objective and possible specific objectives can be identified as follows:

**Main Objective:** To examine the contribution of private investment to Ethiopia's economic growth and development since 2018.

\* Corresponding author: Addis Tegegn Wegedereseegn, Assistant Professor, LLL and Community Development, Madda Walabu University, Ethiopia. E-mail: [add.teg2009@gmail.com](mailto:add.teg2009@gmail.com)

#### Specific Objectives:

1. To analyze the sectoral distribution of private investment (e.g., manufacturing, agriculture, real estate, and construction) from 2018 to 2024.
2. To assess the impact of private investment on employment creation (both permanent and temporary jobs).
3. To evaluate the role of policy reforms implemented since 2018 in shaping private sector growth.
4. To identify the challenges and constraints affecting private investment, including regulatory, financial, and infrastructure-related issues.
5. To provide policy recommendations to enhance the contribution of private investment to sustainable economic development.

## 2. Related Review of Literature

1. **Domestic Private Investment:** Discusses the trends of private investment in Ethiopia, the role of industrialization, and constraints like political instability and finance (Geddafa, 2023).
2. **Foreign Direct Investment (FDI):** Explains reforms post-2018, particularly liberalization, and their effects on manufacturing and agriculture sectors (Ashine, 2024; World Bank, 2021).
3. **Sectoral Contributions:** Covers manufacturing, agriculture, and services, which aligns directly with the sectors analyzed in your article (UNCTAD, 2022; Gebremariam *et al.*, 2022).
4. **Persistent Challenges:** Regulatory barriers, policy inconsistencies, and infrastructure challenges are highly relevant to explaining why contributions fluctuate (World Bank, 2021; Bekele and Melesse, 2020).
5. **Access to Finance as a Major Challenge:** Highlights financial constraints, collateral requirements, and foreign exchange shortages, which are key issues limiting private investment growth (UNCTAD, 2022; FAO, 2021).

## 3. Methods and Materials

### 3.1. Research Approach

- **Mixed-Methods Approach:** Since your article analyzes both quantitative trends (e.g., sectoral contributions, GDP, employment data) and qualitative factors (e.g., challenges, policy reforms), a mixed-methods approach is the most appropriate.
- **Quantitative Data:** Statistical analysis of secondary data (e.g., National Bank of Ethiopia, Investment Commission).
- **Qualitative Data:** Insights from interviews with stakeholders (government, private sector, and experts).

### 3.2. Research Design

- **Descriptive and Trend Analysis:** The article already uses descriptive statistics (percentages, means) to show sectoral contributions.
- **Time-Series Analysis:** To examine changes in private investment trends across sectors from 2018–2024 (as reflected in the article's tables and figures).
- **Thematic Analysis:** For qualitative findings on challenges like policy barriers, political instability, and access to finance.

### 3.3. Data Sources and Collection

- Secondary Data:
  - From government reports (EIC, Ministry of Finance, Central Statistics Agency) and international organizations (World Bank, UNCTAD).
  - Used to assess contributions by sector (manufacturing, agriculture, services).
- Primary Data (Optional Enhancement):

- Surveys and Key Informant Interviews (KIIs) with private investors, government officials, and Chamber of Commerce members to validate findings.

**3.4. Sampling Technique (if Primary Data is Included)**

- **Stratified Sampling:** To represent all private sectors (agriculture, manufacturing, services, construction).
- **Purposive Sampling:** For selecting key informants with expertise in investment trends.

**3.5. Data Analysis Methods**

- Quantitative Analysis:
  - Descriptive statistics (percentages, means, standard deviation) for sectoral contributions.
  - Trend and time-series analysis for investment growth patterns (2018-2024).
- Qualitative Analysis:
  - Thematic/content analysis to interpret stakeholders’ views on challenges and policy impacts.

**4. Examine the contribution of the private investment in Ethiopia Since 2018**

The dominant sector is manufacturing with 70.60% of projects, 74.41% of capital, and 51.63% of permanent jobs, manufacturing is the backbone of private investment in Ethiopia. Its large share of temporary employment (47.59%) also highlights its dynamic role in both job creation and economic output.

Agriculture’s contribution to total projects (5.02%) and capital (0.004%) is modest, but it plays a critical role in employment, providing 27.14% permanent jobs. Low capital share suggests a reliance on traditional methods and underutilization of modern technologies.

The Real Estate, Machinery Rental sector contributes significantly to capital (14.63%) and temporary employment (45.46%), reflecting urbanization trends and infrastructure development. With 14.04% of permanent jobs and 1.71% of temporary employment, construction shows its importance as a steady job provider. Sectors such as Electricity (0.13% projects, 0.00% capital), Education, and Health contribute minimally, signaling untapped potential for investment and development. In creating employment opportunities manufacturing and agriculture remain the largest contributors to permanent jobs, while real estate and construction provide significant project-based, temporary employment.

The Table 1 summarizes the perceived challenges discouraging private sector investment in Ethiopia, presented through descriptive statistics for seven dimensions. Each dimension includes 345 valid responses, ensuring consistency

Sector	Total Projects (%)	Capital (%)	Permanent Employment (%)	Temporary Employment (%)
Agriculture	5.02%	0.004%	27.14%	0.87%
Manufacturing	70.60%	74.41%	51.63%	47.59%
Electricity	0.13%	0.00%	0.00%	0.00%
Education	0.47%	0.10%	0.00%	0.02%
Health	0.94%	0.16%	0.08%	0.63%
Hotels and Restaurants	2.07%	0.42%	0.48%	0.18%
Tour Operation, Transport, Communication	0.87%	0.69%	0.19%	1.25%
Real Estate, Machinery Rental	12.99%	14.63%	3.83%	45.46%
Construction Contracting	3.81%	2.34%	14.04%	1.71%
Others	3.08%	3.68%	2.63%	2.28%
Grand Total	100.00%	100.00%	100.00%	100.00%

and reliability of the data. The minimum and maximum values indicate that all dimensions are measured on comparable scales, with most ranges starting between 7 and 8 and extending up to 20 or 25.

The mean values represent the average perception of the severity of the challenges, ranked from highest to lowest as follows: Regulatory and Policy Challenges have the highest mean perception score of 17.50, followed by Economic Instability and Inflation with a mean score of 15.12. Social and Security Challenges score 14.85, while Market and Competition Issues have a mean of 14.60. The mean score for Infrastructure Challenges is 14.52, while Access to Finance and Labor and Human Resources are perceived with mean scores of 14.00 and 13.99, respectively.

This ranking indicates that regulatory and policy challenges are perceived as the most significant barriers, while labor and human resources are viewed as the least pressing. Regulatory and policy challenges exhibit the largest standard deviation (3.08), reflecting diverse perceptions among respondents. The high variance further emphasizes the broad range of experiences or awareness regarding policy-related obstacles. In contrast, Access to Finance has the smallest standard deviation (2.28), suggesting a more consistent perception of this issue across respondents.

Most distributions are slightly skewed to the left (negative skewness), indicating that respondents generally rate these challenges closer to the higher end of the scale. However, Economic Instability and Inflation shows a small positive skew, suggesting that a few lower scores pull the distribution slightly to the right. The kurtosis values, ranging between -0.620 and -0.071, indicate relatively flat distributions (platykurtic), which implies a broader spread of responses rather than a strong concentration around the mean.

Analyzing the overall implications, the higher mean scores for regulatory and policy challenges, economic instability, and social and security challenges reflect systemic issues that critically hinder private sector investment. While infrastructure challenges, market and competition issues, and access to finance are moderate concerns, labor and human resources is rated the lowest on average but remains significant. The variation in perceptions, as evidenced by standard deviations and skewness, highlights the need for tailored interventions. Certain challenges, such as access to finance, are widely recognized, while others, like regulatory challenges, are more polarizing and may require more targeted strategies.

#### 4.1. Trends of General Contribution Agricultural Investment in Economic Growth of Ethiopia

Since policies reform, the percentage of annual growth of agriculture, agriculture export and percentage of growth

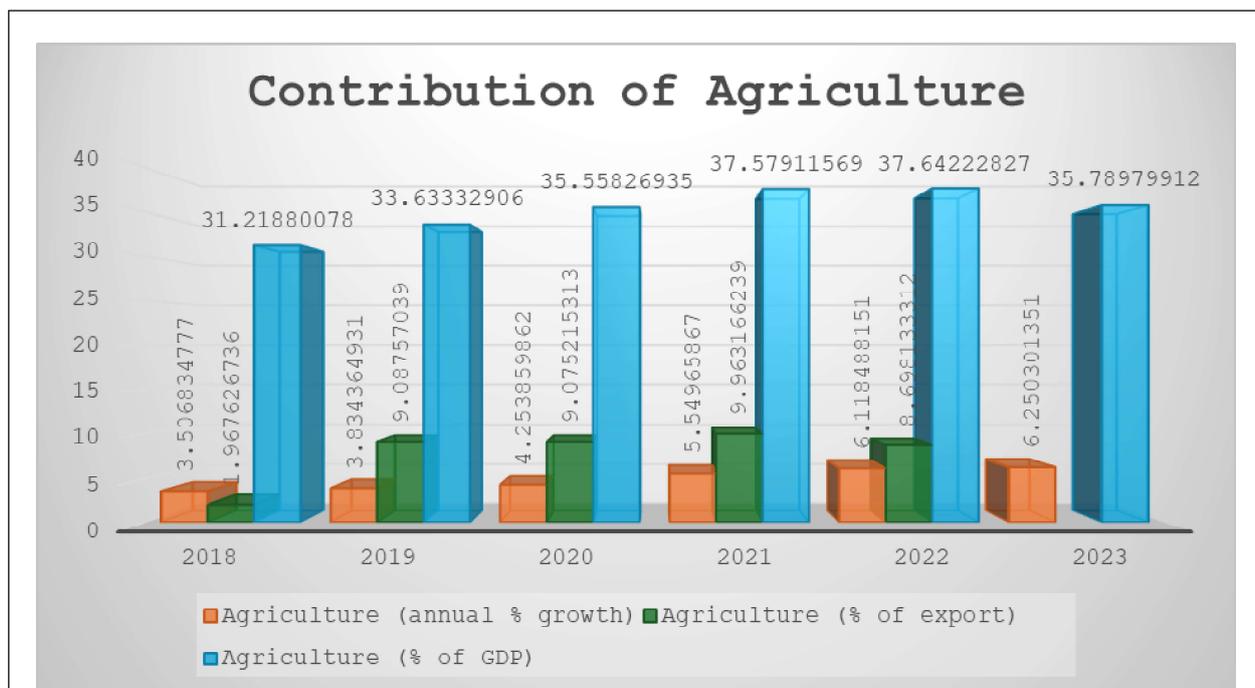


Figure 1: Trends of General Contribution Agricultural Investment in Economic Growth of Ethiopia

Source: World Bank (2024)

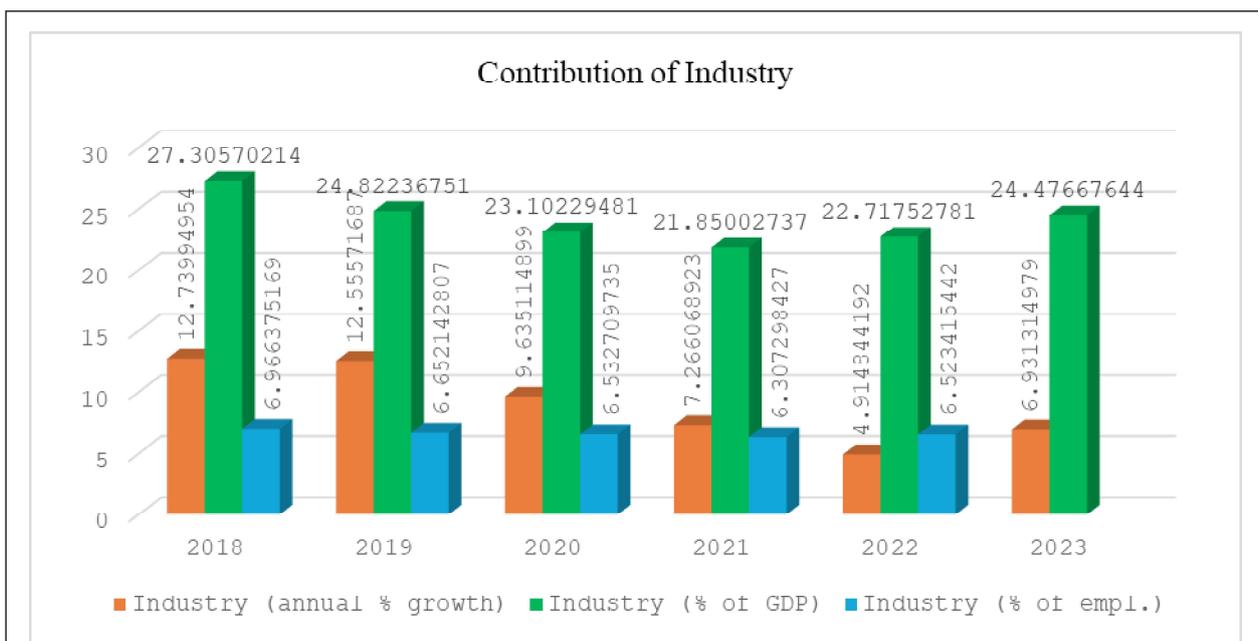
domestic product (GDP) of agriculture has registered a significant hike. From 2018-2019, while the annual percentage of growth has increased from 3.506834777 to 3.834364931, the percentage of export has registered a steep hike gone up from 1.967626736 to 9.08757039. During this period, percentage of GDP has gone up from 31.21880078 to 33.63332906. With the same fashion and trend, the percentage of annual growth of agriculture, agriculture export and percentage of growth domestic product (GDP) of agriculture has registered a significant climb. As of 2020-2021, annual percentage of growth has increased from 4.253859862 to 5.54965867, the percentage of export has recorded increment up from 9.075215313 to 9.963166239. In the same period percentage of GDP has gone up from 35.55826935 to 37.57911569.

This rapid expansion and positive growth trend, however, not showed constant and optimistic growth, rather since 2022 to 2023 registered small growth and decline. Annual percentage of growth rate showed a slight increment from 6.118488151 to 6.250301351 and in the same period percentage of GDP has gone decline from 37.64222827 to 35.78979912. It is evident from the available qualitative data that within a span of two to three years beginning from 2021, while the county faced political instability, and The African Growth and Opportunity Act (AGOA) case. As stated by EIC:

*There are currently no departing members. Some left during Covid-19 and AGOA which was four years ago. There is no similar process now. In this regard, there are areas with high political instability. In the last five or six years, there have been problems with political instability.*

#### 4.2. Trends of General Contribution Industrial Investment in Economic Growth of Ethiopia

As shown in Figure 2 contribution of industry in Ethiopia reductions throughout the year due to unsuitable investment climate for the investor and political instability. The contribution of industry in terms of annual percentage of growth shows negative or decline growth trends in Ethiopia from 12.739 % in 2018 to the end of period specified in this study 6.931 % in 2023. In the period the maximum amount 12.739 % registered in 2018, while the minimum 4.914 % in 2022.



**Figure 2: Industry Contribution in Annual % Growth, % of GDP and % of Employment**

Source: World Bank (2024)

In the study period on average the percentage share of GDP in Industry sharply declined and shows a negative growth trend from 27.305% in 2018 to 21.850% in 2021. However, in the following two years since 2022 and 2023 the percentage share of GDP in Industry increases and shows a positive growth trend from 22.7175% to 24.4766% respectively. In terms of job opportunity created by the industry sector show similar and positive growth trend throughout the study years. On average 6.5% of job employment is created by the sector. This is because of employment case and related rules and regulations, the companies have obligation not arbitrary dismantle their workers.

Table 2 demonstrates the policy reform contribution for private sector development in Ethiopia. As a result, majority 166 (48.1%) of the respondents are agreed as policy reforms are supportive to do business in Ethiopia. However,

Items (N = 345)	Agree	%	Not Agree	%	I Don't Know	%
Policy reforms are Supportive to do business	166	48.1	74	21.4	105	30.4
Policy reform improve business climate	129	37.3	91	26.3	126	36.2
Private play pivotal role in national economy growth since policy reforms of 2018	266	77.1	24	6.9	55	15.9
Gov't support private sector development in the reforms	129	37.3	118	34.2	98	28.4
Institutional and policy frameworks are supportive to private sector	161	46.6	86	24.9	98	28.4

*Source: Survey Result (2024)*

74 (21.4%) of the respondents are not agreed with the policy reforms support to do business, and the remaining 105 (30.4%) of the respondents are not sure (replied “I don’t know”) about the supportiveness of the policy reform to do business in Ethiopia. On item 2 “*Policy reform improve business climate*”, relatively, majority 129 (37.3%) and 126 (36.2%) of the respondents are replied agree and I don’t know respectively. The remaining 91 (26.3%) of the respondents are not agreed on the question raised.

On item 3 “*Private play pivotal role in national economy growth since policy reforms of 2018*”, the largest number 266 (77.1%) of the respondents are agreed and only 24 (6.9%) of the respondent are not agreed about the role of the private sector for national economic growth. Though, 55 (15.9) of the respondents are replied I don’t know how the role of the private sector for national economic growth. On item 4 “*Gov’t support private sector development in the reforms*” about 129 (37.3%), 118 (34.2%), and 98 (28.4%) of the respondents are agreed, not agreed and don’t know for government support private sector development since the reform respectively. On the last item “*Institutional and policy frameworks are supportive to private sector*” majority 161 (46.6%) of the respondents are agreed, 86 (24.9%) of the respondents are not agreed, and the remaining 98 (28.4%) of the respondents replied don’t know about the institutional and policy frameworks support for private sector.

Based on the aforementioned secondary data of the contribution of private investment across sectors in Ethiopia and quantitative survey result since 2018-2024, plays a crucial role in Ethiopia’s economic development. Since 2018, various factors have influenced the trends and levels of private investment in Ethiopia, reflecting both opportunities and challenges within the economic landscape.

In conclusion, the contribution of private investment in Ethiopia from 2018 to 2024 has experienced fluctuations characterized by initial growth followed by decline due to various macroeconomic challenges and security issues. While government initiatives aim to create a conducive environment for investment, ongoing reforms will be critical in reversing the downward trend and fostering sustainable economic growth.

## 5. Conclusion

Since 2018, private investment in Ethiopia has contributed significantly to economic development, particularly in manufacturing and agriculture. While the early years of reform witnessed strong growth, political instability, the loss of AGOA privileges, and macroeconomic challenges have slowed progress in recent years. Nonetheless, the private sector continues to play a vital role in employment creation and infrastructure development. Government efforts to improve policy frameworks and support private initiatives have yielded positive outcomes but remain insufficient to address persistent challenges. Strengthening institutional capacity and promoting a stable investment environment are essential to unlock the full potential of private investment.

## 6. Recommendations

- 1. Strengthening Policy and Regulatory Frameworks:** Simplify business regulations, ensure policy consistency, and reduce bureaucratic hurdles to improve the investment climate.
- 2. Enhance Access to Finance:** Establish financial mechanisms, such as credit facilities and guarantees, to support Small and Medium Enterprises (SMEs).

3. **Invest in Infrastructure:** Expand infrastructure development, particularly in energy and transport, to facilitate industrial growth and competitiveness.
4. **Promote Political Stability:** Ensure peace and security to build investor confidence and attract long-term investments.
5. **Support Agricultural Modernization:** Encourage technological advancements and modern farming practices to enhance productivity and export potential.
6. **Encourage Diversification:** Incentivize investment in underdeveloped sectors like education, health, and renewable energy to balance economic growth.

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