Federal Democratic Republic of Ethiopia

Enhancing Economic Development and Job Creation in Addis Ababa: the Role of the City Administration

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Acknowledgments

The report forms part of the Non-Lending Technical Assistance (NLTA) Project on the Economic Performance of African Cities, which aims to support the Addis Ababa City Administration in enhancing economic growth and job creation, as one of four African cities covered by the project.

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The report was written by Emma Wadie Hobson based on background papers and data analyses produced for the project by various prominent researchers and World Bank staff. Namely:

1. Ethiopian Development Research Institute. 2017. *Alleviating the Barriers to Domestic Investment in Addis Ababa*. Addis Ababa, Ethiopia
2. Precise Consult International. 2017. *The Development and Promotion of Competitive Value Chains in Addis Ababa*. Addis Ababa, Ethiopia.
3. Gebre-Egziabher et al. 2017. *Institutional Barriers to Private Sector Development in Addis Ababa*. Addis Ababa, Ethiopia.
4. Thurlow, J., and J. Randriamamonjy. 2017. *Investing in Job Creation and Income Growth in Addis Ababa*. Washington, DC: International Food Policy Research Institute.
5. Amatova, E. 2017. *Entry Barriers for Domestic Firms in Addis Ababa*. Department of Geography and Environment, London School of Economics and Political Science.
6. Winterfeld, K. 2017. *Enhancing Domestic Investment Conversion: Regulatory Market Entry Barriers in Addis Ababa*. Department of Geography and Environment, London School of Economics and Political Science.
7. Background analyses by Tristan Reed (Consultant, GSURR), Bisrat Teshome (Consultant, GSURR), Olivia D'Aoust (Economist, GSURR), Juni, T. Zhu (Private Sector Development Specialist, GTC[3]), and Angus Kathage (Consultant, GSURR).

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[1] Social, Urban, Rural and Resilience Global Practice at the World Bank.

[2] Finance and Markets Global Practice.

[3] Trade and Competitiveness Global Practice.

Contents

Acronyms

AU	African Union
AAICEC	Addis-Africa International Convention and Exhibition Centre
BDS	business development services
CSA	Central Statistics Authority
DBE	Development Bank of Ethiopia
EDRI	Ethiopian Development Research Institute
EIC	Ethiopian Investment Commission
GoE	government of Ethiopia
GTP II	Ethiopia's Growth and Transformation Plan
ICT	information communication technology
ICCA	International Congress and Convention Association
IPDC	Industrial Park Development Corporation
MICE	meetings, incentives, conferences, and exhibitions
MSE	micro and small enterprise
OSC	one-stop center
SMMICDC	Small and Medium Manufacturing Industry Cluster Development Corporation
SAM	social accounting matrix
TTCI	Travel and Tourism Competitiveness Index
TVET	technical and vocational education and training

Executive Summary

This report is part of the World Bank's Technical Assistance project on Enhancing Economic Performance of African Cities. The client is the Addis Ababa City Administration, as an input to the effective implementation of the city's economic strategy.[1] The project aimed to apply the framework of the World Bank's (2015) global report on competitive cities to support policymakers in selected African cities in their efforts to plan reforms and investments that would alleviate constraints to the city's productivity and employment creation performance. In addition to the analytical part, culminating in this policy report, the project has also supported capacity-development efforts for various bureaus of the Addis Ababa City Administration, including an "Executive Training on City Competitiveness" for city leaders; Doing Business indicator reform with the Land Development and Management Bureau and the Construction Permit Office; and technical assistance in the area of investment promotion.

Policy makers in the Addis Ababa City Administration expressed a need for a detailed understanding of the city's comparative advantages, potentials, and constraints to help them put investments and reforms in place to help realize this vision. This report, therefore, aims to investigate Addis Ababa's key economic potentials and constraints and to identify some of the policy actions needed. The research has relied on various quantitative and qualitative methodologies to come up with the most comprehensive picture possible of Addis Ababa's economic performance, potentials and constraints.[2]

Government of Ethiopia (GoE) policy sees the future role of Addis Ababa as a main economic hub within a polycentric system of cities, gradually shifting to higher tech industries and services. The National Urban Development Spatial Plan seeks to reduce the primacy of Addis Ababa and promote a more polycentric system of cities, each building on specific local advantages. The plan envisages Addis Ababa as a main economic hub within 11 urban clusters, with a continued concentration of political, administrative, educational, financial, business, trade, and logistics functions in the city. It is expected to continue being the main destination for investment, particularly in industrial activities, and a gateway to the country for many foreign investors. Its economy is expected to further diversify, with a selective concentration of international functions and knowledge-intensive, high-tech industrial and service activities.

While Addis Ababa has been experiencing a very strong economic performance, high levels of unemployment remain a major challenge. Between 2008 and 2012, Addis Ababa achieved double-digit economic growth (averaging 12.4 percent), higher than comparator cities including Kampala, Nairobi, Kigali, and even Hanoi. This growth also created jobs, with unemployment levels declining in recent years, from 33 percent to 21 percent between 2003 and 2016. However, despite the decline in unemployment, over one in five people currently remains unemployed in Addis Ababa, which is higher than other urban areas in Ethiopia (averaging 16.9 percent). Even for those who have jobs, many suffer from problems of job quality. One in three people in Addis Ababa was underemployed in 2014.

Our analysis shows that low value-added services currently create more jobs in the city, but medium to high value-added manufacturing and service sectors create higher productivity jobs. Similar to other African cities, most jobs in Addis Ababa are in non-tradable, low-productivity service sector activities like trade, transport, hotels and catering, and other services (including domestic work within households). For example, workers in the wholesale and retail trade sectors, which account for one in four jobs in the city, generate value added per worker that is only 43 percent of the average for the Addis Ababa economy. On the other hand, higher value-added business services such as financial services, professional services, and information communication technology (ICT) account for only 10 percent of employment. Shifting from lower to higher productivity activities leads to higher overall growth and better quality jobs in the long term—as recently experienced by many Asian cities. Non-tradable sectors

(like retail, hairdressers, hotels, and street vending) are important job creators, but encounter diminishing returns because they are limited by the size of local markets.

There are several win-win subsectors, which generate above-average job creation as well as labor productivity gains. From a computable general equilibrium modelling exercise for Addis Ababa, construction, beverages, transport and storage, and machinery and vehicles emerged as important win-win sectors in terms of job creation potential and higher levels of productivity. Wholesale and retail trade, local services, and low value-added manufacturing (such as textiles, clothing, and other manufacturing) are also important for job creation. Whereas medium to high value-added manufacturing and services (for example, agro-processing, leather, chemicals, financial services, and supporting sectors such as transport, electricity, and water) are more important for higher productivity jobs.

Currently, Addis Ababa is the country's main industrial hub. The city dominates the great majority of industrial capacity in almost all the branches of light manufacturing that Ethiopia prioritizes. Addis Ababa accounts for almost a third of manufacturing gross domestic product in Ethiopia and completely dominates production in subsectors such as textiles and leather (contributing 66.3 percent), wood and paper (89.5 percent), metals (79.9 percent), machinery (51.6 percent), and "other manufacturing" (81.5 percent). The city houses a major share of higher value-added services such as finance (20 percent) and business services (34 percent).

However, the city seems to be experiencing declining performance within the sectors in which it is currently specialized, and new sectors of comparative advantage are still nascent. While the city has a comparative advantage in the medium value-added industries prioritized by the Second Growth and Transformation Plan (GTP II) (including agro-processing, publishing, textiles and clothing, leather and footwear, furniture, metals, and plastics), all these sectors, with the exception of metals, have experienced a declining share of employment in Addis Ababa compared with an increasing share of employment in the rest of Ethiopia. One likely reason for this is the restrictions on access to land for manufacturing activities in Addis Ababa since March 2015. While policy makers see Addis Ababa's future comparative advantage as being in higher value-added industries and services, these sectors are currently small. High value-added services employ a significant number of people in Addis Ababa (10 percent of the total labor force), but that is still small compared with the majority of the labor force. Higher technology manufacturing only employs 0.23 percent of the labor force. Given that unemployment in Addis Ababa is already the highest in urban Ethiopia, the city urgently needs to facilitate the establishment of new firms and sectors of comparative advantage to provide sources of employment.

In addition, domestic and diaspora investors, which are under the jurisdiction of the Addis Ababa City Administration, seem to face a tougher regulatory environment than foreign firms. A World Bank (2014) report on the investment climate in Addis Ababa showed that only 5 percent of domestic firms receiving an investment license are able to convert from the preoperational to the operational phase, whereas conversion rates for foreign investors in Addis Ababa are 60 percent.[3] While foreign investors wishing to establish in the city are supported by the Ethiopia Investment Commission (EIC) and the Industrial Park Development Corporation (IPDC), which provide substantial assistance including prioritized access to land in industrial parks, a one-stop service center, investor aftercare services, and various incentives, domestic and diaspora firms are under the jurisdiction of the Addis Ababa City Administration and do not receive similar support.

Based on our diagnosis of Addis Ababa's economic performance, the entry barriers that domestic and diaspora firms face, and the capabilities of the City Administration, the report recommends that policy makers focus their efforts on five linked policies. These aim at (i) the promotion of higher value-added sectors; (ii) better access to land for all users within the city; (iii) clearer and simpler procedures for domestic and diaspora investors; (iv) more competitively targeted enterprise support to better identify genuine entrepreneurs; and (v) increasing the capacity of the City Administration.

Work with federal agencies to promote higher value-added sectors in the city.

There is a need for a coherent strategy for encouraging the development of high value-added sectors that are important for Addis Ababa. The capacity of the City Administration and its Industry Bureau remains low in terms of devising implementable plans for sectoral development, and there is a lack of coordination and duplication of mandates with federal agencies providing sectoral support. For the Addis Ababa City Administration to promote high value-added sectors such as conference tourism or ICT and electronics sectors, it would require significant capacity building and a partnership with the relevant federal players. This is critically important given that the city will need to rapidly create a conducive environment for the development of the higher tech services and industries it seeks.

The City Administration could therefore seek the support of federal agencies to promote the structural transformation sought for Addis Ababa. Currently, federal level agencies have higher levels of capacity, yet they do not have a specific focus on Addis Ababa or on the types of sectors that could emerge in the city. Clearer delineation of responsibilities and establishment of coordination mechanisms among the city level Industry Development Bureau and the Federal Ministry of Industry and Trade, EIC, IPDC, and others will be critical to develop practical and implementable plans. Significant capacity development will also be needed for the Addis Ababa Industry Bureau to provide any useful sectoral value chain support. The Industry Bureau aspires to support firms in priority sectors in terms of product quality upgrading, market linkage, skills development through upgrading Technical Vocational Education and Training (TVET) curricula, and linking producers with research institutions. In practice, however, these types of activities are still nascent.

Better regulate access to land for industrial, commercial, and mixed uses and improve integration of various land uses.

Access to land remains a severe constraint to firm establishment in Addis Ababa. Land allocation decisions are subject to uncertainty, and firms are unaware of changes in policy or their impacts on applications. There are also major delays, with some firms reporting waiting up to three years to obtain land. Land allotment for manufacturing and services by the City Administration was effectively stopped in March 2015, and manufacturing firms are excluded from government land tenders. Service sector firms can access land through government tender, but this option, together with private rental and secondary lease purchase were considered by most firms interviewed to be too expensive to be profitable. Industrial parks and cluster zones do provide land and built worker spaces for manufacturing firms, but these target large and high tech firms, respectively.[4] In the meantime, our qualitative research showed that many small and medium firms have been stuck for years in the process of establishing their investment due to lack of access to land. Moreover, once firms secured land, further obstacles due to City Administration processes also cause delays in their abilities to operationalize their investment, and firms reported that government involvement in the land tendering and (previous) allotment processes opens avenues for corruption. Spatial analysis also shows that, while Addis Ababa has higher levels of density than most other African cities, it has less land use in commercial and industrial activities, in comparison with Nairobi and Dar es Salaam, for example.

The development of well-integrated land uses in Addis Ababa will require greater releases of land within the boundaries of the City Administration. Well-integrated land uses include close proximity of different land use zones (for example, industrial, commercial, and residential) and direct mixed use (for example, residential, services, and household industries). To develop a more efficient urban land management system, rezoning will be key. This should (i) reduce the amount of land in mono-use zones; (ii) reduce the size of such zones, so that better integration of various land uses is achieved through their close proximity to each other; and (iii) increase the share of land zoned for mixed uses. Simplifying procedures for lease transfer from tenants of land to other tenants will also contribute to better land allocation for its most productive uses, thereby increasing the economic productivity of the land. A

substantial broadening of the ranges of activities that are permitted on the different types of land is also recommended—whether for industrial, commercial, or mixed-use land.[5]

Several steps could support the City Administration in identifying vacant land within its boundaries and preparing it for release. First, to help firms that have been discouraged or are stuck because they do not know where they stand, the Land Development and Management Bureau should *rapidly* clarify and communicate the status of applications received to date. In the short term, the bureau could accelerate the development of an inventory of government-controlled land. With this it could identify vacant and under-used land to be zoned and released for mixed uses or small-size and well-integrated mono-uses with substantially broader ranges of permitted activities in each zone. In the medium term, affordable housing schemes, which would also help increase density of housing, are recommended. Deep and continuous dialogue with residents will also be important to the sustainability of any housing scheme. In the long term, focusing on the establishment of the modern urban land cadastre system with priorities on land zoned for commercial, industrial, and mixed uses, will be critical.

Clarify and simplify procedures for domestic investor licensing and establishment.

Lack of clear information from the City Administration about the investment process, together with institutional inefficiency, are barriers to firm establishment. Domestic firms trying to establish themselves in Addis Ababa complained that none of the relevant institutions provided clear and complete information on the steps that need to be completed and the order in which they should be completed. While there have been attempts to establish a one-stop center for domestic and diaspora investors at the City Administration[6], firms still do not receive all consolidated services they need in one place.[7]

The report therefore recommends a modern and consolidated one-stop center be put in place to serve domestic and diaspora investors, accountable directly to the mayor. Serving domestic and diaspora investors wishing to establish in Addis Ababa is the mandate of the City Administration. At the national level, the fact that the EIC, which supports foreign investors, reports directly to the prime minister is likely to have been an important factor in providing a more effective service. Making similar progress for domestic and diaspora investors wishing to establish in the city is important so that the constraints to their establishment can be alleviated and the local economy can link with and benefit from foreign investments. A modern and consolidated one-stop center at the City Administration would therefore complement the efforts of the EIC. Given that the main constraint to establishment was related to access to land, a priority is to rationalize and incorporate the various offices within the Land Development and Management Bureau into the existing one-stop center. It is important that this integrated one-stop center be supplied with modern systems and highly skilled personnel, and that the different agencies that participate in it understand the importance of the service and receive incentives to participate in it.

Target enterprise support more competitively.

The City Administration's support to Micro and Small Enterprises (MSEs) is not currently configured to support sustained entrepreneurship. The Addis Ababa MSE Bureau supports the formation and growth of MSEs by providing them with working premises, loans for investment and working capital (through the Addis Ababa Credit and Saving Institution), marketing support, extension services, and technology transfer and training. However, despite major government support over the past two decades, with notable achievements in job creation, only a very low number of MSEs are able to graduate from micro to small to medium enterprises. This is perhaps unsurprising given that beneficiaries were not selected for support based on the viability of their business idea or their entrepreneurship traits but based on their unemployment status. The requirement of group formation to access loans also meant that people are not coming together out of genuine business partnership, and the groups often do not function well.

The report therefore recommends that the MSE Bureau gradually move toward more competitive measures for targeting people with entrepreneurial potential. At least a proportion of individuals to be supported could be selected through an open business plan competition. Links could also be facilitated between enterprises supported and outsourcing opportunities in larger scale firms located in the industrial parks and cluster zones. The MSE Bureau could, for example, establish a business-to-business register where large firms and government agencies can advertise procurements and MSEs can register their services and bid. Finally, one-stop centers at the *kebele* level have lacked the capacity to provide an effective service to MSEs, and further efforts are therefore needed to improve their functionality—such as ensuring they have the staff and equipment needed and that staff are adequately trained.

Increase efficiency and capacity within the City Administration offices that interact with the private sector.

Significant inefficiencies and capacity gaps exist within various key offices. The institutional analysis undertaken for this study, involving City Administration officials, identified various issues. Overlapping mandates of several bureaus and departments result in lack of clarity and confusion in service delivery. For example, there are eight different departments involved in land preparation and transfer. Lack of effective coordination between the Addis Ababa city government bureaus and federal government agencies is another challenge. For example, various agencies, at subnational and national level, are all providing similar quality upgrading support to the textiles, leather, and metal industries within Addis Ababa. Coordination challenges in the provision of serviced land (between the Land Bureau, electricity utility, roads authority, and so forth) also cause significant delays. The predominantly manual and paper-based records system further slows effective service delivery. Other long-term institutional deficiencies were also identified, such as high staff turnover, low skill levels, corruption, and political interference. Firms that participated in the qualitative research also emphasized that complex procedures are providing a conducive environment for corruption. Firms complained that decisions that need to be made quickly are artificially delayed to open opportunities for corruption, particularly in land-related processes.

The report therefore recommends that the Office of the Mayor lead a capacity-strengthening initiative starting with the Land Development and Management and the Industry Bureaus. These two bureaus have the biggest impact on the environment for business for local firms and suffer from some major institutional inefficiencies, making their upgrading a first priority. Building on recent re-structuring efforts by the City Administration, this process could focus on (i) reducing overlapping mandates between offices (for example, the eight different offices involved in land preparation and transfer) and (ii) improved coordination between city-level bureaus and federal government structures. In particular, establishing a land and infrastructure coordinating board to facilitate interagency coordination between the Land Development and Management Bureau and the various agencies in charge of utilities and infrastructure is recommended to ensure that serviced land is provided to the private sector in a timely manner. Finally, (iii) capacitating key bureaus with computerized and modern management information systems, and e-governance systems, which would improve processing-time and reduce avenues for corruption. While finding solutions to the seemingly intractable problems of high staff turnover, low skill levels, corruption, and political interference are not easy, it is also the responsibility of higher officials to act to improve this inefficient working environment – for example a grievance redress mechanism to address instances of corruption or other such measures could be piloted.

In addition, some of the critical barriers to firm entry and growth in Addis Ababa are outside the remit of the City Administration and, therefore, require action at the federal level. These include (i) instituting urban land policy reforms, (ii) increasing access to finance, (iii) matching labor skills with the needs of higher value-added sectors, and (iv) reducing the cost and increasing reliability of ICT.

Critical to the success of the City Administration efforts for economic development and job creation is the need for closer dialogue and partnership with the private sector. There is a need for

a policy transition from government being the *provider* of jobs for the unemployed to being an *enabler* of the private sector's ability to grow and create jobs. While the GoE takes its responsibility for poverty reduction seriously and must be commended for its focus on job creation through its MSE and infrastructure programs, government alone cannot solve the unemployment problem and create the number of jobs needed. The private sector creates the majority of jobs in Addis Ababa and yet faces major constraints against entry, establishment, and growth, as outlined in this study. More impact could, therefore, be achieved if government's major efforts were refocused toward alleviating these constraints to enable private sector success and further job creation.

A first step for the City Administration in its efforts to play this role will be to establish a forum or mechanism for regular public private consultation and partnership.

Table ES.1 provides a quick summary of the key recommendations and detailed actions needed by the Addis Ababa City Administration in the short as well as the medium to long term.

Table ES.1: Summarized City-Level Recommendations

Issue	Quick wins (1–3 years)	Medium term (3–5 years)
1. Work with federal agencies on *promotion* of higher value-added sectors	**Office of the Mayor to:** • Partner with Ethiopian Investment Commission to implement investment attraction efforts such as city branding • Delineate responsibilities between the relevant bureaus of City Administration and federal agencies relating to promotion and quality upgrading of sectors including tourism, high-tech industry, and others	• Significant capacity development will be needed for the Industry Bureau to provide useful sectoral value chain development support.
2. Better regulate access to *land* for industrial, commercial, and mixed uses	• **Land Development and Management Bureau to:** • Rapidly communicate the status of land applications already received from firms • Develop an inventory identifying vacant or underused land to be zoned and released for mixed uses or small-size mono-use zones close to each other • Broaden ranges of permitted activities in existing industrial, commercial, and other zones	**Land Development and Management Bureau to:** • Expedite establishment of modern urban land cadaster, with priorities on land zoned for mixed uses
3. Clarify and simplify *procedures* for investor licensing and establishment	• Establish a modern and functional one-stop center for domestic and diaspora investors, accountable directly to the mayor	• Rationalize and incorporate the various offices within the Land Development and Management Bureau and Investment Agency into the city one-stop center • Convert as many procedures as possible to e-governance applications
4. Focus *enterprise support* for more growth-oriented entrepreneurs	**Micro and Small Enterprise Bureau to:** • Identify at least a proportion of MSEs to be supported in a more competitive manner (e.g., through business plan competitions, targeting individuals as well as groups) • Establish business-to-business register where large firms and government agencies can advertise procurements and small businesses can register and bid	**Industry Bureau to:** • Provide support to graduating MSEs including simplified regulations, facilitating market linkages, and supporting firms to improve business management and technical skills

5. Increase efficiency and *capacity* within the City Administration offices that interact with the private sector.	**Office of the Mayor to:** • Ensure the one-stop center has modern systems and that offices providing services are incentivized to provide good customer service **City Administration to:** • Hold quarterly meetings with representatives of the private sector in Addis Ababa (Chamber of Commerce, sectoral associations, microenterprise associations, and diaspora businessmen associations)	**Office of the Mayor to:** • Lead a capacity-strengthening initiative, starting with the Land Development and Management and Industry Bureaus • Focus on (i) reducing overlapping mandates, (ii) improving coordination and partnership with federal government agencies, (iii) supporting key bureaus with computerized and modern management information systems, and (iv) piloting innovative solutions to the long-term problems of high staff turnover, low skill levels, corruption, and political interference – such as establishing a grievance redress mechanism to address instances of corruption

Notes

[1] The spatial footprint of Addis Ababa is defined in the report as the boundaries of Addis Ababa Regional State. The report, however, also utilized nightlights data for its spatial analysis, which considers the whole agglomeration of Addis Ababa.

[2] See Appendix A for more information on the research methodologies used. Unless otherwise stated, the analyses in this paper rely on Central Statistics Agency (CSA) data, particularly the Urban Employment Unemployment Survey (UEUS several years) and the Large and Medium Scale Manufacturing Industries Survey (LMMIS several years). GDP data and job multiplier forecasts are based on the model developed in the IFPRI background paper, using the 2011 Social Accounting Matrix (SAM) (EPAU/IFPRI 2016); 2010 HCES (CSA 2012); 2013 NLFS (CSA 2013); 2009/10 LMMIS (CSA 2011a); 2011 UEUS (CSA 2011b); 2011 national statistics (CSA 2015). To benchmark Addis Ababa against other cities in Africa and internationally, data from Oxford Economics Global Cities Database (2008–12) was used.

[3] These statistics might be somewhat exaggerated, as the database at the Addis Ababa City Administration does not seem to be up to date. Nonetheless, the overall finding that domestic investors face particular challenges in establishing their investment in Addis Ababa is the relevant point. Interviews and data gathering by Precise Consult International for their value chain stocktaking (background paper to this report) also found similar proportions in the leather sector.

[4] The recently established Addis Ababa Small and Medium Manufacturing Industry Cluster Development Corporation plans to focus on high-tech industries.

[5] For more information on the benefits of mixed land use, see box 4.1.

[6] By the Addis Ababa Investment Agency and the Land Management Bureau.

[7] Including licensing, access to land, and aftercare services.

1. Background and National Policy Direction for Addis Ababa

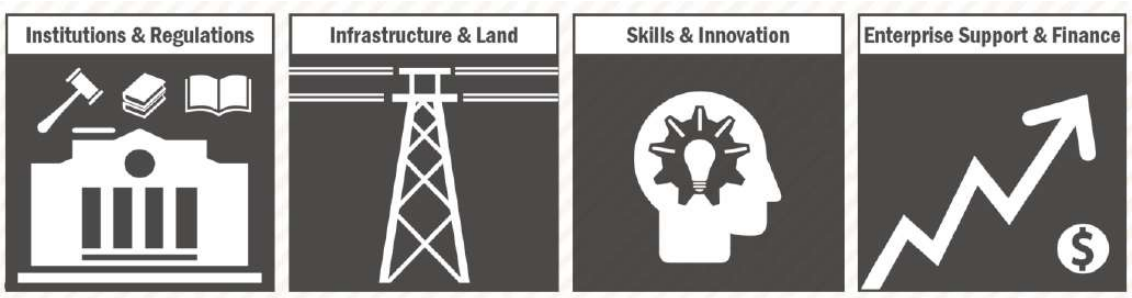
Cities Around the World Drive Economic Development and Structural Transformation, but in Africa the Effect Lags

Africa's fast urbanization has not been matched by structural transformation. International evidence shows how cities improve economic productivity.[1] As economic activity agglomerates, firms can meet their requirements for inputs from a variety of sources; access a wide range of services and infrastructure; and spark innovation through the exchange of ideas. Growing agglomeration in cities leads to economies of scale, raising productivity in nonagricultural sectors. All industrialized countries have gone through this process of urbanization (OECD 2016). Africa's high rate of urbanization—with more than 50 percent of its population expected to be living in cities by 2040 (World Bank 2013)—has not been matched by the structural transformation from low to higher value added industries and services seen in such other regions of the world as East Asia and Latin America. The main structural change has been a reduction in agriculture's share of output and a commensurate rise in the service sector. As a result, African countries are becoming low-value-added service economies even before they have industrialized—experiencing *premature deindustrialization* (Rodrik 2015).

Recent World Bank research on spatial development (Lall, Henderson, and Venables 2017) shows that African cities are crowded, disconnected, and costly with poorly functioning land markets and ill-coordinated infrastructure investments. African cities are developing as collections of small and fragmented neighborhoods, which limits workers' job opportunities and prevents firms from reaping scale and agglomeration benefits. In these cities, 55 percent of urban households face higher costs relative to other countries with comparable per capita gross domestic product (GDP). These costs raise nominal wages, making African industries less competitive regionally and internationally. The study argues that as long as African cities lack functioning land markets and regulations and early, coordinated infrastructure investments, they will remain local cities trapped into producing only locally traded goods and services. For African cities to take advantage of agglomeration forces, city and national governments must resolve structural problems in land policy, urban planning, and coordinated infrastructure investments.

Worldwide, improved economic performance in cities has typically involved strategic leadership and action from policy makers. The World Bank's global research on competitive cities identified four drivers of competitiveness that successful cities invest in: (1) institutions and regulations, (2) infrastructure and land, (3) skills and innovation, and (4) enterprise support and finance (World Bank 2015a, 9–10) (see figure 1.1). Successful cities were also found to have strong political leadership that spearheads a collective effort toward economic development, in partnership with the private sector, and sets a clear vision for the success of prominent economic subsectors. See appendix A for practical examples of actions taken by local elsewhere in the world in these four areas. This framework guided our research in analyzing which issues, within these drivers, were major constraints in the case of Addis Ababa. The results are outlined in chapter 4.

Figure 1.1: Cities Need to Invest in Four Drivers of Competitiveness to Spur Growth and Job Creation



Source: World Bank 2015a, 9–10.

Addis Ababa Is Envisioned as the Economic Hub of a System of Cities

The GoE's Second Growth and Transformation Plan (GTP II) promotes industrialization as a main national policy objective, and urban areas will play a major role. GTP II aims to use industrial development and structural transformation to create opportunities for workers who migrate out of less productive sectors, like small-scale agriculture, to employment in higher-value occupations, most of which are based in Ethiopia's urban centers. The plan recognizes the importance of proactive management of urban centers and emphasizes increasing job opportunities in cities (mainly through supporting MSE development), addressing housing problems, and other urban service provision.

The Addis Ababa City Administration's GTP II Strategy (2015-2020) aims to promote its role as an industrial center. The city's GTP II aims to produce more skilled human resources; support technology transfer and innovation; improve productivity; build infrastructure; increase investment; develop micro, small, and medium enterprises; and organize internal processes. A main objective is to improve productivity and competitiveness by increasing manufacturing capacity and outputs and making export products more competitive in the global market. The strategy gives special focus to medium value-added manufacturing industries. Several subsectors have been prioritized for development: (1) leather and leather products, (2) textiles and garments, (3) agro-processing, (4) construction, (5) chemicals and pharmaceuticals, and 6) metal engineering.[2]

More recently, the GoE developed the National Urban Development Spatial Plan, which seeks to reduce the primacy of Addis Ababa and promote a more polycentric system of cities. Addis Ababa is a primate city - with a population over eleven times bigger than the second largest city. The GoE is working toward a vision of a more polycentric system that leads to the growth and development of other secondary cities in order to promote more equitable and balanced urban and regional development. The system is envisaged to provide services for rural areas, avoid excessive congestion along the main transportation corridors, and offer a platform on which to build balanced regional development.

The Spatial Plan envisages Addis Ababa as a main economic hub within a system of urban clusters. Those clusters include (i) Addis Ababa metropolitan cluster, (ii) Mekelle cluster, (iii) Dessie- Kombolcha cluster, (iv) Gondar cluster, (v) Bahirdar cluster, (vi) Samera-Mille-Assiayta cluster, (vii) Diredaw, Harar, and Jigjiga eastern cluster, (viii) Nekempte-Jimma cluster, (ix) South Rift Valley cluster, and (x) Gode-Kebridahar–Oasis City network (see map 1.1). The plan includes the cities of Adama, Bishoftu, Sebeta, and Dukem, ranked 4th, 12th, 13th, and 14th, respectively, in population. The Plan expects Addis Ababa to continue to act as the main command center of the country, concentrating political, administrative, educational, financial, business, trade, and logistics functions. It will be the main destination for investment, particularly in industrial activities, and a gateway to the country for many foreign investors.

The Addis Ababa City Administration has significant scope to facilitate economic development

The Addis Ababa City Administration has the necessary mandates, areas of jurisdiction and, to a large extent, financial resources to promote economic development. As a "chartered city," Addis Ababa has the status of both a city and a state, and its mayor has the rank of minister, reporting directly to the prime minister. The City Administration has both state and municipal functions and is responsible for a wide variety of areas that affect economic development. These include land development and administration; domestic and diaspora investor licensing; support to MSEs; TVET; and industrial sector and cluster development.

The City Administration has a strong fiscal position, but expenditures mainly focus on the provision of basic services. The city benefits from fiscal sovereignty and generates 98 percent of its budget from own source revenues.[3] In 2015, Addis Ababa generated total revenue of 21.6 billion birr (around US$1 billion) and made significant investments in sectors relevant to economic development, including infrastructure, transportation, and small-business clusters, among others (see table 1.1). Increasing expenditure on economic development functions and services to local firms would likely involve an increase in budgetary resources as well as institutional capacity for implementation. Capital expenditure as a proportion of total expenditure is high in Addis Ababa compared with other cities (Wadie Hobson 2010).

Table 1.1: Addis Ababa City Administration Total Expenditure in Billions of Birr (2009/10–2014/15)

Budget year	Baseline: 2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	
Recurrent expenditure	**2.010**	**3.362**	**3.576**	**4.679**	**6.440**	**7.980**	
Capital expenditure	**2.906**	**3.414**	**4.748**	**7.857**	**11.574**	**12.784**	
Total expenditure	**4.917**	**6.776**	**8.324**	**12.535**	**18.013**	**20.764**	
Education	0.528	0.703	0.928	1.339	1.449	1.995	
Health	0.254	0.34	0.480	0.773	1.007	1.331	
Water	0.492	0.603	0.842	1.365	2.739	2.559	
Roads	1.221	1.405	1.503	3.909	5.742	5.801	
Housing	0.262	0.520	0.378	0.780	1.176	1.113	
Micro and small enterprises	0.180	0.122	0.205	0.303	0.409	0.396	
Other expenditures	1.980	3.078	3.989	4.066	5.491	7.566	

Source: Addis Ababa City Administration (2015)

This report aims to investigate Addis Ababa's key economic potential and constraints in terms of creating more and better jobs and to identify actions needed by the City Administration. The report is organized as follows. After this introductory chapter, there are four main sections. Chapter 2 underscores Addis Ababa's importance within Ethiopia's system of cities and describes its recent economic performance. Chapter 3 identifies the city's comparative advantages and identifies economic sectors with potential to generate more and better-quality jobs. Chapter 4 drills down to the constraints to firm-level success and job creation, which are within the remit of the City Administration, and to what actions are needed to alleviate them. Chapter 5 focuses on other critical barriers that require action by federal government and, finally, Chapter 6 provides a summary of major actions and recommendations. For more information on the research methodologies and data sources used to produce this report, please see appendix A.

Notes

[1] For a compendium of developing country evidence, see Overman and Venables 2005.

[2] The City Administration also plans to modernize its tax administration system to increase access to information, foster taxpayer compliance, boost law enforcement activities, and ease of doing business. The administration also plans to transform the rent-seeking attitudes and practices of citizens by prioritizing issues around land administration, revenue collection, government procurement, contract management, and market systems.

[3] With the remaining 2 percent coming from the federal road fund and external assistance.

2. Addis Ababa's Role in Ethiopia's System of Cities and the City's Recent Economic Performance

Addis Ababa Is Preeminent among Ethiopia's Cities

Addis Ababa is the largest and most economically significant city in the country. This should be seen in context, however. Ethiopia's urban population share is only 17 percent (as of 2012, World Bank 2015b). Even the capital is currently home to only 3.6 percent of the country's population and represents an estimated 6–10 percent of gross domestic product (GDP).[1] Still, Addis Ababa's estimated population (over 3.5 million) is more than eleven times larger than Ethiopia's second largest city, Dire Dawa (297,316 people). The city's economically active population (over 1.8 million) is higher than Adama (185,326), Gonder (173,621), Mekelle (164,609), Bahirdar (153,304), Hawassa (157,618), and Dire Dawa (138,067) combined (CSA 2016). The city is the only urban area in Ethiopia capable of delivering scale economies in terms of concentrated demand, specialization, diversity and depth of skills, innovation, and technology transfers (World Bank 2012).

The capital is the country's main industrial hub. The city dominates industrial capacity in almost all the branches of light manufacturing that Ethiopia prioritizes. Addis Ababa accounts for almost a third of manufacturing GDP in Ethiopia and completely dominates production in various subsectors (table 2.1).

Table 2.1: Addis Ababa's Contribution to National GDP by Sector and Industry (percent)

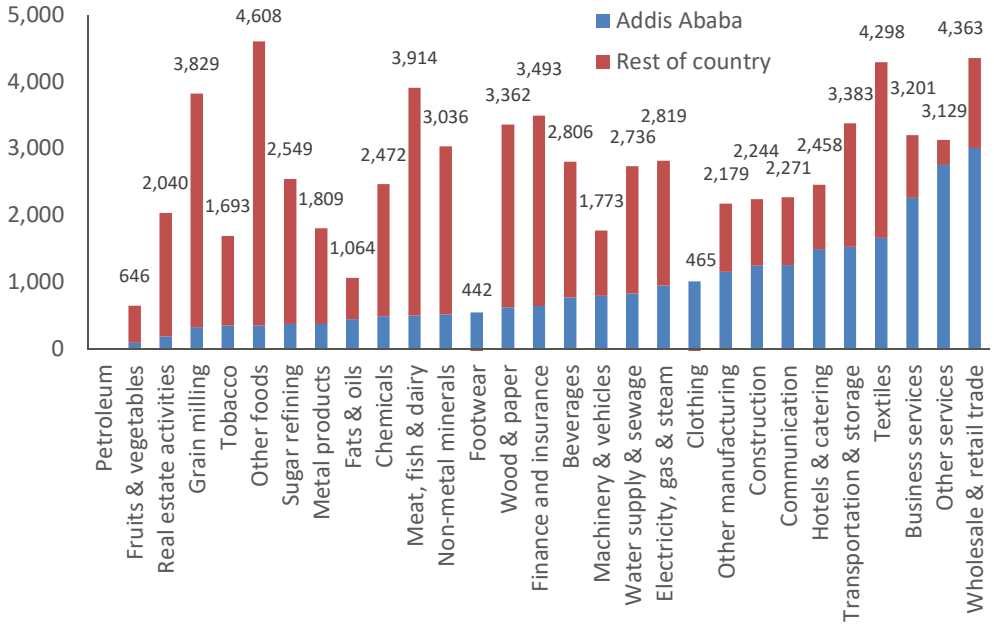
Sector	Share of national GDP
All sectors	**6.4**
Agriculture	**0.1**
Industry	**17.1**
Mining	**1.3**
Manufacturing	**29.2**
Food processing	17.7
Beverages and tobacco	10.5
Textiles and leather	66.3
Wood and paper	89.5
Chemicals	18.3
Non-metallic minerals	33.8
Metals and products	79.9
Machinery and vehicles	51.6
Other manufacturing	81.5
Electricity and water	**5.9**
Construction	**15.8**
Services	**9.4**
Wholesale and retail trade	3.9
Transport and storage	21.4
Hotels and catering	6.5
Communication	1.5
Finance	19.9
Real estate activities	7.4
Business services	33.9
Public administration	10.3
Education	14.4
Health and social work	24.1
Other services	41.3

Source: EPAU/IFPRI 2016; and CSA 2011a, 2011b, 2012, 2013, 2015.

Economic modelling shows that increased investment in Addis Ababa has job multiplier effects for the rest of the country. As figure 2.1 shows, given the current structure of input-output links within and between economic sectors, the estimated effects of a US$1 million investment in many of Ethiopia's prominent sectors has a greater impact on job creation elsewhere in the economy than within Addis Ababa itself. For example, investing in Addis Ababa's meat, fish, and dairy sector, creates 496 jobs in the city compared with 3,418 in the rest of the country. This reflects relatively weak intersectoral links within Addis Ababa itself, and most links run from the city to the rest of the country. For example, footwear manufacturing generates demand for leather from the rural livestock sector; textiles have links to cotton; meat, fish, and dairy have links to livestock; and wood and paper have links to forestry.

Investments in Addis Ababa also have more of a poverty reduction effect in the rest of the country than in the capital. The largest share of estimated consumption from investment in Addis Ababa occurs outside the capital city. For example, almost all the estimated consumption gains from investing in food processing in Addis Ababa occur within rural areas or other urban centers (US$1.68 out of US$1.81 for a US$1 investment).

Figure 2.1: Estimated Number of Jobs Created from a US$1 Million Investment in Addis Ababa



Source: Background Paper by Thurlow, J., and J. Randriamamonjy. 2017. Investing in Job Creation and Income Growth in Addis Ababa. Washington DC: International Food Policy Research Institute.

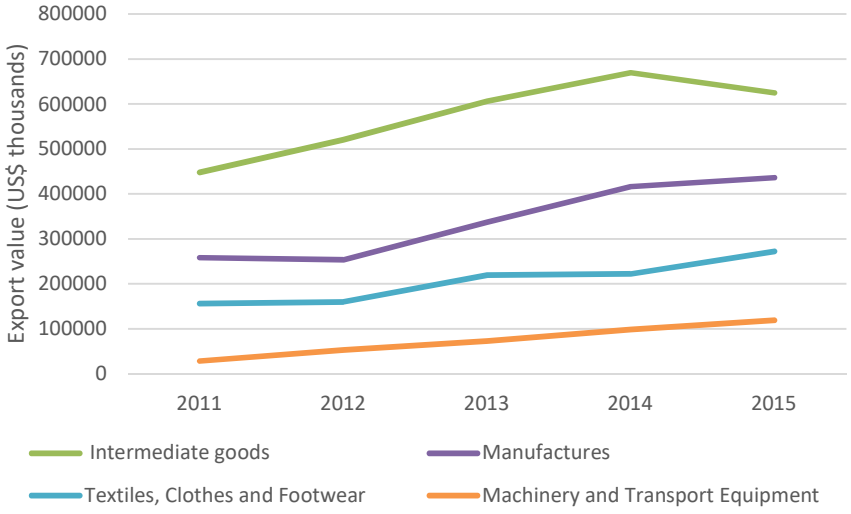
There is some specialization across Ethiopian cities. The National Urban Development Spatial Plan envisions Addis Ababa as a cluster within a "polycentric" system of cities, each with its own specialization (Egis International 2015). Appendix 5 shows our analysis of all manufacturing industries with a location quotient greater than 1 and a share of employment greater than 2.5 percent in at least one of six cities. If these two criteria are met, we consider the city to have emerged as a hub for a given industry.[2] The evidence shows that some industrial hubs are emerging outside Addis Ababa. However, some key industries still have hubs only in the capital. For instance, Adama has emerged as the only major hub for assembly of motor vehicle bodies; Hawassa is the only hub for cordage, rope and twine, structural clay products, wood products, and rubber; and Mekele has emerged as the only hub for the manufacture of cement, lime and plaster, and spirit. However, Addis Ababa remains the only main hub for the production of footwear, tanning and dressing of leather, and wine. The results also show that average location quotients are higher outside of Addis Ababa, indicating that other cities are more specialized.

In an effort to promote further specialization of other cities, and also reduce the primacy of Addis Ababa, the government is investing in road and rail infrastructure and industrial parks that highlight specific sectors and build on each city's advantages.[3] For instance, Dire Dawa, given its relative proximity to the port in Djibouti, where imported inputs are sourced, is envisioned as a new hub for vehicle assembly, and an industrial park in Adama is expected to further develop the same sector. Hawassa, given its existing specialization in rope and twine and low labor costs relative to Addis Ababa, is envisioned to become a center for textile and garment manufacturing. The Kilinto industrial park, to be focused on pharmaceuticals, is planned in Addis Ababa, which is envisioned as a future center for high-tech manufacturing.

Addis Ababa's connectivity to regional and global markets has seen significant improvement. The capital is at a connectivity disadvantage—it is an inland city of a landlocked country. Connectivity has, however, improved because of the GoE's recent investments. The recently completed Addis Ababa–Djibouti railway has shortened the round-trip travel time from 3 days by road to 12 hours. Addis Ababa's Bole International Airport is one of the busiest airports in Africa and is undergoing capacity upgrades.

Firms in Addis Ababa were found to be more productive than elsewhere in the country and are internationally cost competitive. When focusing on diverse productivity measures, two groups of firms emerge: the high performers located in Addis and its surroundings versus the low performers in Dire Dawa and remote locations within Oromia. Labor productivity of manufacturing firms in Addis Ababa was also found to be on par or slightly higher than international comparators (such as Zambia and Vietnam). This labor productivity lags behind middle-income economies such as China and South Africa and reflects a higher capital intensity rather than more efficient production, but low wages allow Ethiopia, at large, and Addis Ababa, specifically, to remain competitive even while firms in other countries are more productive overall (World Bank 2014a). While city-level export data are unavailable, an analysis of countrywide export data shows that Ethiopian manufacturing sectors, which are concentrated in Addis Ababa, are increasing their access to regional markets. Exports of textiles, clothes and footwear, and machinery sectors—in which Addis Ababa specializes—have recently grown (figure 2.2). Other Sub-Saharan African countries and the Middle East and North Africa region are the primary markets for these growing exports.

Figure 2.2: Selected Manufacturing Export Performance

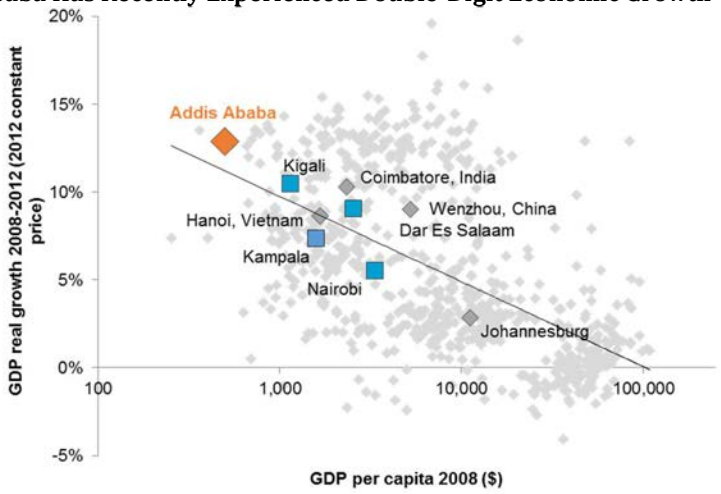


Source: Data from UN COMtrade 2016.

Addis Ababa Has Achieved Strong Recent Economic Performance but Unemployment Remains a Major Challenge

The city is in a competitive position against neighboring cities in East Africa. As figure 2.3 and table 2.2 show, Addis Ababa experienced double-digit economic growth, averaging nearly 13 percent between 2008 and 2012—higher than comparator cities including Kampala, Nairobi, Kigali, and even some East Asian cities. GDP per capita growth averaged 9.1 percent between 2010 and 2012, again the highest among all comparators. This growth was associated with job creation; Addis Ababa reduced unemployment from 33 percent to 21 percent between 2003 and 2016. This is an impressive achievement given the growth in the city's population. Unlike other African cities, informality is low and decreasing, with less than 15 percent of employment being informal, according to official statistics. (This is, however, mainly as a result of the GoE's major efforts to formalize informal enterprises and support micro and small enterprises in starting licensed businesses.) The share of wage employment also increased from 62 percent to 72 percent between 2003 and 2014.[4] While this is a marginal increase, it is encouraging, because evidence suggests that wage employment, as opposed to self-employment, leads to the emergence of a middle class in developing countries.

Figure 2.3: Addis Ababa Has Recently Experienced Double-Digit Economic Growth



Source: Oxford Economics Global Cities Database 2012.

Table 2.2: Addis Ababa Achieved Impressive Economic Performance Relative to Comparators

City	Population growth	GDP growth	GDP per capita growth	Forecast population growth	Population	GDP per capita
	CAGR, %	CAGR, %	CAGR, %	CAGR, %	Millions	US$
	2008–2012	*2008–2012*	*2010–2012*	*2017–2030*	*2017*	*2012*
Addis Ababa, ETH	2.1	12.4	10.3	4.2	3.4	732
Dar es Salaam, TZA	5.7	8.8	3.1	5.0	5.7	2,918
Kigali, RWA	4.0	9.7	5.6	4.2	1.3	1,295
Kampala, UGA	4.0	6.7	2.7	5.0	2.1	2,516
Nairobi, KEN	3.9	5.7	1.9	4.1	4.2	2,624
Johannesburg, ZAF	3.5	2.6	-1.0	1.3	9.8	11,006
Hanoi, VNM	5.4	8.2	2.8	2.6	3.9	4,721
Coimbatore, IND	4.1	10.5	6.5	2.5	2.7	2,957
Wenzhou, CHN	4.0	9.2	5.2	1.8	3.4	20,163

Source: UN Urbanization Prospects Database; Oxford Economics Global Cities Database 2012.

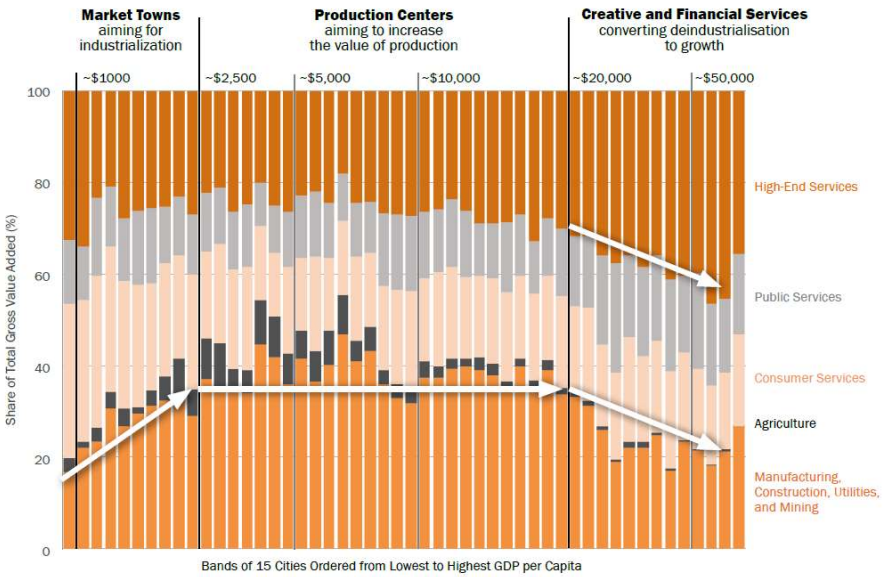
This economic success has a "pull effect" of better jobs and incomes that encourages rural people to migrate to Addis Ababa. The highest share of the country's internal migrants (47 percent) is registered in Addis Ababa (CSA 2014). Migration seems to be responsible for a significant share of the city's population growth in Addis Ababa, given that fertility rates in the city are below the replacement level (estimated at 1.5 children per woman in 2011) (CSA 2011c). There are good reasons to come to the city. Per capita GDP in Addis Ababa is almost double the average for the rest of the country, and labor productivity is more than double. This translates into lower poverty levels, and most of Addis Ababa's population is in Ethiopia's top consumption quintiles.

The city's main economic problems are high unemployment and underemployment. Despite reductions in unemployment, Addis Ababa's unemployment rate is 21 percent.[5] This rate is high in absolute terms and relative to other urban areas in Ethiopia, where unemployment averages 16.9 percent (CSA 2016). Even many who have jobs are likely to be underemployed, with one in three people being underemployed in 2014 (albeit lower than other urban areas in Ethiopia, which experienced even higher underemployment at 43 percent). Women represent the majority of the unemployed (65 percent of the unemployed in Addis Ababa in 2014) and the unemployed in Addis Ababa are also more educated than in the rest of the country (with over half of those being unemployed in 2014 having a secondary or postsecondary education). This indicates that, while education and human capital levels are improving, there is still an issue with the city's ability to create enough jobs and in matching labor skills with employers' needs. This is cause for concern given that Addis Ababa's population, currently estimated at 3.5 million people, is expected to reach 5.8 million people by 2030.[6]

Addis Ababa Needs Structural Transformation to Create Better-Quality Jobs

Global evidence highlights the importance of structural transformation from low value added sectors to tradable and higher value-added sectors that create better quality jobs. Growth of tradable sectors is associated with faster city-level growth, especially for the top 10 percent of the fastest-growing cities internationally.[7] Figure 2.4 presents 750 cities stratified into bands of 15 according to their levels of development. As cities develop, they generally evolve from market towns dominated by non-tradable consumer services (with industry averaging about 20 percent of gross value added) to more industrialized production centers, with the share of industry growing to around 35 percent (World Bank 2015a). The goal is to increase the value of production and create an increase in GDP per capita from about US$2,500 to up to US$20,000.

Figure 2.4: Cities Typically Industrialize and Increase Their Overall Value of Production to Transition from Market Towns to Production Centers with Higher GDP per Capita



Source: World Bank 2015a.

As in other African cities, low value-added services constitute the lion's share of Addis Ababa's employment and GDP. Despite the GoE's recent efforts toward industrialization and attraction of foreign direct investment, most jobs in Addis Ababa are still in low-productivity sectors like trade, transport, hotels and catering, and other services, including domestic work within households. While wholesale and retail trade generate one in four jobs in the city, workers in these sectors generate value-added per worker that is only 43 percent of the average for Addis Ababa's economy. The public sector employs at least 20 percent of labor—a much larger share than most comparable cities—public sector employees represent one in three wage employees (Hill and Meija-Mantilla 2016). Finally, higher value-added business services such as logistics, financial services, and information and communications technology account for only 10 percent of employment.

Creating more and better-quality jobs through the growth of tradable industries and services in Addis Ababa is therefore a policy priority. The growth of the manufacturing and tradable service sectors is important if the city is to specialize in sectors that can take advantage of agglomeration economies to increase productivity and wages. Continuing to specialize in non-tradable services might still generate jobs and economic growth but is unlikely to result in better quality jobs with higher productivity and wages as more people enter a labor market limited by local purchasing power.

Notes

[1] Our calculation estimates Addis Ababa's contribution as 6.4 percent of GDP, based on the IFPRI background paper calculations using the 2011 Social Accounting Matrix (SAM) (EPAU/IFPRI 2016); 2010 Household Consumption Expenditure Survey, HCES (CSA 2012); 2013 National Labor Force Survey, NLFS (CSA 2013); 2009/10 Large and Medium Manufacturing Industry Survey, LMMIS (CSA 2011a); 2011 Urban Employment and Unemployment Survey, UEUS (CSA 2011b); 2011 national statistics (CSA 2015). This is also consistent with the estimate of Addis Ababa's GDP in the Oxford Economics Global Cities Database. The latest information from Addis Ababa's Bureau of Finance and Economic Development estimates Addis Ababa's contribution as 10 percent of national GDP.

[2] The location quotient reflects the relative regional concentration of sectors. It compares an industry's share of regional employment with its share of national employment. The location quotient allows one to determine industries that make the

regional economy unique but that could also negatively impact the local economy, should they experience declining competitiveness. A location quotient above 1 indicates that a locality has relatively more employment in that sector than in the national economy. Due to data limitations, we were not able to undertake a similar analysis for the service sector.

[3] Primacy is typically measured as population size of the biggest city being disproportionately larger than other cities.

[4] World Bank staff calculations based on CSA's Ethiopia Employment, Unemployment Survey Data, for several years.

[5] This is according to the CSA's *Urban Employment Unemployment Survey* for 2016. A recent study by Addis Ababa University estimated a lower rate of unemployment for Addis Ababa (14.5 percent). However, the CSA survey data is the one that can be considered comparable with other cities and across time in Ethiopia, and therefore this report uses CSA data.

[6] World Bank Staff calculation based on the UN World Urbanization Prospects Database growth rate of Addis Ababa.

[7] Tradable sectors expand the local economic pie through increased demand that is not limited by the purchasing power of the local market.

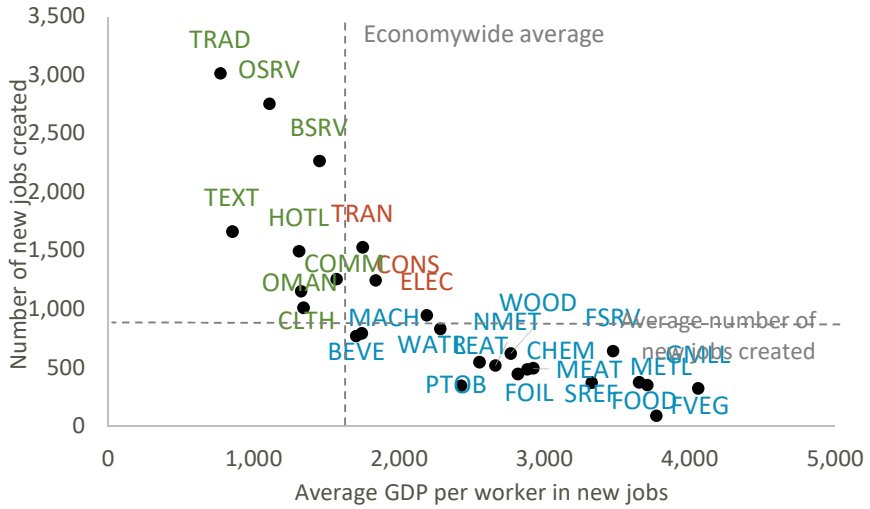
3. Economic Sectors with the Potential to Generate More and Better-Quality Jobs in Addis Ababa

Few Sectors Can Create Both More Jobs As Well As Higher Productivity Jobs

A sectoral job multiplier analysis for Addis Ababa was undertaken for this report (Thurlow and Randriamamonjy 2017). The analysis estimates the size and economic structure of Addis Ababa's economy, develops an economic model for Addis Ababa that captures the structural linkages between sectors and households within the local economy, and between the city and the rest of the country. We use the model to assess the economy-wide impact of investing in each of Addis Ababa's economic sectors, including industries and services. Given the structural characteristics of the local economy, the analysis indicates which sectors are most likely to stimulate local job creation and income growth in Addis Ababa as well as in the rest of the country. To provide more realistic results, the model also included the assumption of limited supply of resources such as skilled workers (for more information on the methodology, please see Appendix A).

It is not easy to find win-win subsectors that create many jobs as well as improve productivity and wage levels in the short term. While all policy makers would like to find economic sectors that will do so, it appears that in the short term not many sectors could achieve these goals at the same time. See figure 3.1. The top right-hand corner indicates subsectors that could potentially achieve both goals. Transport and storage, machinery and vehicles, energy generation and distribution, construction, and beverages all have above average returns in both areas, although the absolute number of new jobs is not high (see also Table 3.1).

Figure 3.1: Current Economic Subsectors Important to Job Creation and / or Structural Transformation in Addis Ababa



Source: EPAU/IFPRI 2016; CSA 2011a; CSA 2011b; CSA 2012; CSA 2013; CSA 2015.
Note: Color coding indicates subsectors that are more important to job creation (green), subsectors that are more important to structural change (blue), and subsectors that can help achieve both goals (red). MEAT = meat, fish, and dairy; FVEG = fruits and vegetables; FOIL = fats and oils; GMLL = grain milling; SREF = sugar refining; FOOD = other foods; BEVE = beverages; PTOB = tobacco; TEXT = textiles; CLTH = clothing; LEAT = footwear; WOOD = wood and paper; PETR = petroleum; CHEM = chemicals; NMET = nonmetal minerals; METL = metal products; MACH = machinery and vehicles; OMAN = other manufacturing; ELEC = electricity, gas, and steam; WATR = water supply and sewage; CONS = construction; TRAD = wholesale and retail trade; TRAN = transportation and storage; HOTL = hotels and

catering; COMM = communication; FSRV = finance and insurance; REAL = real estate activities; BSRV = business services; OSRV = other services.

In terms of numbers of jobs created in the short term, the analysis indicates that lower-value-sectors create more jobs. Trade, local services. and low-value-added manufacturing (such as textiles and clothing) create the largest number of new jobs. In particular, the service sector in Addis Ababa not only creates large numbers of jobs and substantial welfare gains in response to new investments, but they also increase consumption among lower-income households in both the capital city and the broader economy. As figure 3.1 shows, new jobs created by these sectors tend to have low productivity levels, however. Many of these jobs are also unlikely to result in higher wages in the long term, because they will continue to be limited by the purchasing power of the local market.

In the long term, however, medium-high value-added manufacturing and services are most important for high productivity jobs. As figure 3.1 shows, sectors such as agro-processing, leather, chemicals, and financial services, as well as supporting sectors such as transport, electricity, and water, are estimated to generate jobs with much higher relative productivity levels (measured as GDP per worker). While one important research study (Blattman and Dercon 2016) has shown that manufacturing jobs in Ethiopia currently generate lower wages and incomes than informal entrepreneurship,[1] the experience of newly industrialized countries in East Asia shows that increasing specialization in industrial sectors is likely to increase wage levels in the long term, given their ability to open opportunities for insertion into international markets. Shifting from lower to higher productivity activities will also lead to higher overall growth, which is likely to create more jobs in the long term. It will also lead to higher earnings at the individual level in the longer term.

Table 3.1: Policy Objectives and Their Important Economic Subsectors

Policy areas with above-average returns	Targeted investment sector
Jobs, poverty, and structural change	Construction, beverages, and transportation and storage
Jobs and structural change	Machinery and vehicles
Poverty and structural change	Chemicals; electricity, gas, and steam; fats and oils; nonmetal minerals; other foods; sugar refining; water supply and sewage
Jobs and poverty	Wholesale and retail trade, other services, clothing communication
Jobs only	Other manufacturing, textiles
Structural change only	Business services; footwear; fruits and vegetables; grain milling; hotels and catering; meat, fish, and dairy; metal products; tobacco; wood and paper

Source: Thurlow, J., and J. Randriamamonjy. 2017. *Investing in Job Creation and Income Growth in Addis Ababa*. Washington, DC: International Food Policy Research Institute.

The Addis Ababa GTP II focus on creating both types of jobs is a forward-looking and pro-poor approach. The plan prioritizes supporting industrial sector development to create better quality jobs in the long term, while providing support to MSEs and unemployed youth, many of whom engage in lower value added sectors, for job creation in the short term.

Addis Ababa's Competitiveness is Declining in the Sectors It Currently Specializes In

Ababa Ababa's current comparative advantages are in medium-value-added industries, and the national majority of these are located in the city. Table 3.2 shows the results of location quotient analysis, which helps determine the prominent manufacturing industries in which Addis Ababa is more

specialized than the national economy.[2] The subsectors in which Addis Ababa is more specialized and that also involve a significant share of labor include agro-processing; publishing, textiles and clothing, leather and footwear, furniture, metals, and plastics. Other subsectors, which had a smaller share of labor but in which Addis Ababa was highly specialized include manufacture of tobacco products, glass, and vehicles. The majority of economic activity in these sectors is located in Addis Ababa and its surrounding areas in the Oromia region. For example, within the leather and footwear subsector, 90 percent of all tanneries and 95 percent of shoe manufacturers operating in the country are within 70 kilometers radius of the capital. In the textile and garment sector, 75 percent of all factories are in Addis Ababa and surrounding areas. Finally, more than 90 percent of the 5,000 businesses engaged in the construction sector in Ethiopia are in the capital city.

Table 3.2: Addis Ababa Is Currently Specialized in Agro-Processing, Publishing, Textiles and Clothing, Leather and Footwear, Furniture, Metals, and Plastics

Subsector	Share of labor	Location quotient
Manufacture of wine	6%	3.15
Publishing and printing services	7%	2.53
Manufacture of wearing apparel except fur	8%	1.92
Tanning and dressing of leather	6%	1.63
Manufacture of furniture	7%	1.63
Bakery	5%	1.50
Manufacture of structural metal products, tanks, reservoirs, and containers of metal	9%	1.47
Manufacture of footwear	6%	1.29
Manufacture of plastics	10%	1.29

Source: WB calculations based on Ethiopia's Large and Medium Manufacturing and Electricity Industries Surveys.
Note: A location quotient of more than 1 indicates specialization.

The city's competitiveness in the priority sectors is, however, declining compared with other locations in the country. With the exception of metals, the subsectors in table 3.2, identified as those in which the city has a comparative advantage, have recently experienced a declining share of employment in the city, accompanied by an increasing share of employment in the rest of Ethiopia, including Oromia region. Table 3.3 shows their recent performance compared to the national economy based on shift-share analysis. Shift-share analysis helps identify industries where a regional economy has comparative advantage over the wider economy and upon which the local economy is dependent or would be vulnerable if in decline. It decomposes regional growth in employment by calculating how much can be attributed to national, industry, and regional factors. This is based on United Nations Statistics Division's International Standard Industrial Classification (ISIC Level 4) of All Economic Activities, 3.1 revision. (See appendixes A and C for the full analysis).

Table 3.3: The Subsectors in Which Addis Ababa Is Highly Specialized Have Experienced Declining Performance in the City Compared to Improved Performance Elsewhere in the Country

Specialized manufacturing subsector	Employment share nationally	Employment share in Addis Ababa
Manufacture of wine	Increasing	Declining
Publishing and printing	Increasing	Declining
Wearing apparel	Increasing	Declining
Tanning and dressing of leather	Increasing	Declining

Furniture	Increasing	Declining
Bakery	Increasing	Declining
Metal	Increasing	Increasing
Footwear	Increasing	Declining
Plastics	Increasing	Declining

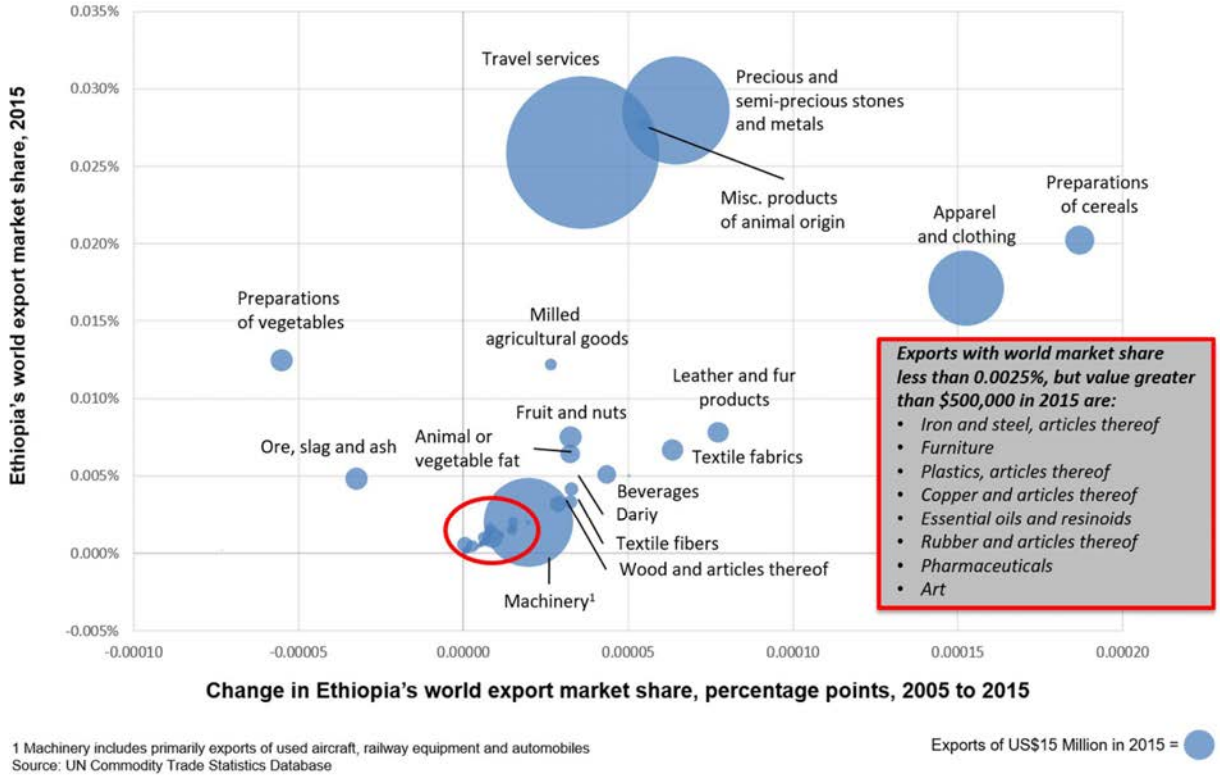
Source: WB staff calculations based on the Ethiopian National Labor Force Surveys 2003–14.

A continuation of these trends, without a commensurate increase in new sectors of comparative advantage, will be a threat to efforts to further reduce unemployment in Addis Ababa. Addis Ababa already has higher unemployment levels than other urban areas in Ethiopia. At the same time, the city has been experiencing declining competitiveness in the sectors in which it is most specialized compared to other parts of the country. This is a source of vulnerability for the city economy and for creating future job opportunities in the city. It is important to promote the emergence of new sectors in which Addis Ababa has a comparative advantage, while also alleviating the barriers and constraints that current sectors face.

Addis Ababa Could Have Emerging Potential In High-Value-Added Manufacturing and Services, But These Sectors Are Still Very Small

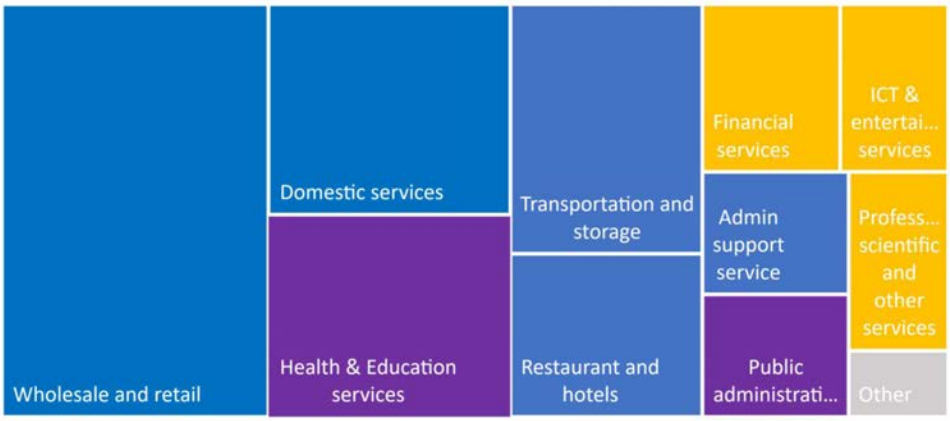
High-tech manufacturing in Addis Ababa is emerging but nascent. Addis Ababa city administrators have wondered whether the city could increasingly specialize in high-tech industries and services. We undertook a desk-based analysis of available data[3] to try and identify any emerging high-value-added clusters. Out of the Organization for Economic Co-operation and Development's list of high-tech industries, the biggest employer in Addis Ababa was the manufacture of irradiation, electro medical, and electrotherapeutic equipment (employing 1,221 people). This was followed by manufacture of computers and peripheral equipment (809), communications equipment (782), and pharmaceuticals (766). However, all these subsectors combined employ only 0.23 percent of the labor force (CSA 2016.) Also, as figure 3.2 shows, the only export sectors that can be considered high-tech/high-value industries and services in Ethiopia are pharmaceuticals and travel services. While data is not available for Addis Ababa specifically, the data for Ethiopia as a whole indicate that few high-tech exports are emerging in general.

Figure 3.2: Emerging or New Clusters within Ethiopian Exports



On the other hand, high-value-added services employ a significant number of people in Addis Ababa. Financial services and insurance employ the largest number of people (nearly 70,000), followed by professional consulting, scientific and technical activities (employing nearly 47,000 people) and, finally, ICT, including publishing, telecoms, computer services, and so forth (employing over 32,000 people).[4] As figure 3.3 shows, these three categories together constitute 10 percent of total employment in Addis Ababa (growing from 8 percent in 2014).

Figure 3.3: Addis Ababa's Service Subsectors as a Share of Total Employment, 2016



Source: CSA 2016.

The further growth of high-value-added services is, however, likely constrained by Ethiopia's costly and unreliable access to the Internet. Although Ethiopia is competitive in terms of labor costs and corporate tax rates, the cost of fixed broadband Internet is extremely high, at US$295 per month, compared to US$38 in Kenya, and US$6 in India (World Bank 2014b). Poor and unpredictable Internet connectivity creates difficulties for firms that must be reliably connected to their customers. Beyond manufacturing, tradable service businesses, such as software development, media and entertainment, outsourcing, and design services, require dependable Internet connectivity. Other countries like Nigeria and Kenya, which have successfully branched into ICT exports, have less costly and more reliable Internet access.

Conference tourism and electronics may be possible new sectors with potential. To better understand Addis Ababa's potential in new areas, we took stock of various value chains (Precise Consult International 2017). The value chains studied were chosen based on the interest of stakeholders and the existence of value chain studies at the national level. The stocktaking commenced with a wide scan of available studies on nine sectors prioritized by the City Administration. Interviews with principal stakeholders were conducted to gather primary information and value chain experts and key stakeholders helped identify intervention points for sector development.

Conference tourism offers opportunities for Addis Ababa

Ethiopia has a nascent potential in tourism, but so far, government promotion efforts have been limited. The World Economic Forum's Travel and Tourism Competitiveness Index (TTCI) for 2015 ranked Ethiopia as 17th in Africa in travel and tourism enabling factors such as business environment, safety and security, health and hygiene, human resources, enabling policy, infrastructure, natural and cultural resources, and ICT readiness. While the federal government has prioritized the development of the tourism industry in GTP II, TTCI rates government efforts as insufficient, ranking 118 out of 141 countries for government prioritization of the industry or efficacy in promoting the country brand. This is due to low government spending, marketing campaign ineffectiveness, incompleteness and timeliness of travel and tourism data, and inadequate country branding initiatives. Ethiopia also scores a low 124 out of 141 countries for tourism infrastructure due to a lack of sufficient hotel room supply, scant presence of major car rental companies, and dearth of ATMs that accept VISA cards.

There is a growing global tourism market which Ethiopia has the potential to benefit from. In 2016, business tourism spending worldwide accounted for US$1.8 trillion, or 23 percent of tourism's total contribution to GDP (World Travel and Tourism Council 2017). The Global Business Travel Association reports that global business travel spending grew 3.1 percent in 2016. Growth is expected to accelerate: 5.2 percent in 2017, 6.1 percent in 2018, and 7 percent in 2019 and 2020 (GBTA 2017). In 2013, according to W Hospitality Group, the global meetings, incentives, conferences, and exhibitions (MICE) industry was worth between US$650 billion and US$700 billion. Africa represents only around 2 percent of that figure, or about US$13 billion, but the MICE segment, has been growing steadily in the last decade. From 5,838 events and 4 million participants in 2006 to 12,227 and five million participants in 2016 (Ward 2014).

Addis Ababa has the potential to capture part of this growth. In comparison to the rest of the country, Addis Ababa is endowed with relatively advanced infrastructure, the highest number of star-rated hotels, a trainable workforce, cultural and entertainment options, and better financial services. Home to the country's globally competitive Ethiopian Airlines, the city is a key entry point for international tourists through Bole International Airport. The capital is the seat of the African Union (AU) and United Nations Economic Commission for Africa (UNECA) and ranks third in the world for highest number of diplomatic missions. Despite hardly any government focus, the conference tourism subsector has been growing, with the International Congress and Convention Association (ICCA) ranking Addis Ababa 9th in Africa as a leading destination for MICE tourism in 2015. The top four cities were Cape Town, Johannesburg, Marrakesh, and Nairobi. Foreign investment in the sector has also grown in Addis Ababa, with the number of hotels registered by foreign investors gradually increasing from only two investors in 1995 to 33 newly

registered businesses in 2015 (reaching a total number of 129 foreign-owned hotels, including joint ventures).

Several factors, however, hamper the growth potential of MICE tourism in Addis Ababa. These include the relatively low number of international meetings hosted per year (12 international conferences in 2016 compared with 62 in Cape Town), lack of a state-of-the-art convention center (outside the AU and UNECA facilities), and limited government strategic planning. Among African destinations, Ethiopia scores poorly in ICT readiness and tourist service infrastructure. Another major challenge is the lack of high quality human resources necessary for delivering tourism products and services. The country received a TTCI ranking of 131 out of 141 for qualification of the labor force in 2015. The tourism sector also lacks enterprise support in terms of access to finance and incentives for foreign investment.

The Addis Ababa city government could have a strategic engagement with the Ministry of Tourism to promote Addis Ababa as a MICE tourism destination in Africa. By leveraging its reputation as the diplomatic and political capital of Africa, Addis Ababa could prioritize MICE tourism as a strategic entry point into nationwide tourism. The city could serve as a focal location for conferences and exhibitions that bring in high-spending tourists and foreign currency. MICE tourism would also support other industries by showcasing specialized goods and services and attracting sales opportunities for local enterprises. The city's Culture and Tourism Bureau could engage with the Ministry of Tourism and the private sector in devising a MICE development strategy that focuses on (i) promotion and marketing, (ii) coordination among key stakeholders, (iii) tourism infrastructure through public private partnerships, (iv) human resource capacity training, and (v) enterprise support and development for businesses within the industry. The GoE could develop the capacity to bid for international conferences and increase targeted MICE tourism marketing.

Other actions at the national level are also needed: for example, simplifying the process for obtaining conference and stop-over visas and cell phone connections. Such actions could open opportunities to capture some of the 10 million transit passengers who remain in Bole Airport. Improvement in online marketing would enable a much wider reach of travelers and more efficient use of marketing funds. Public private partnerships for tourism infrastructure development, such as strengthening existing joint ventures like the Addis-Africa Convention and Exhibition Centre, will be critical (see box 3.1). The city and/or the country needs a convention bureau with dedicated and skilled staff and a national MICE strategy. In Rwanda, a component of the Governance for Competitiveness Technical Assistance Project created a convention bureau and built its research and marketing capabilities. This contributed to Rwanda and Kigali's improved attractiveness as MICE destinations. According to ICCA, Rwanda's ranking in hosting international meetings in Africa 21 in 2013–14 to 3 in 2016–17 (ICCA 2014; 2017). Revenue from MICE events associated with the Convention Bureau rose from US$29.6 million in 2014 to US$47 million in 2016 (World Bank 2017). Other public-private activities could also be explored to organize annual festivals and events, etc.

Box 3.1: Public-Private Joint Ventures in Conference Tourism: The Case of the Addis-Africa International Convention and Exhibition Centre (AAICEC)

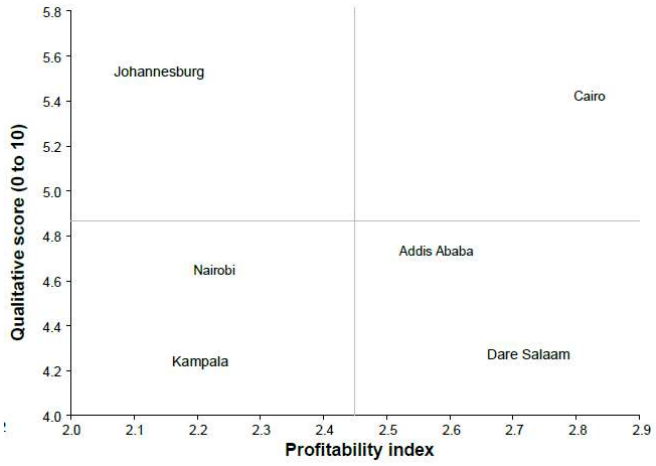
A joint venture between the city of Addis Ababa and multiple private investors, the Addis-Africa International Convention and Exhibition Centre (AAICEC) Share Company will build a state-of-the-art convention center in the capital city with a conference hall that holds 2,000 seats. Located in the CMC area of Addis Ababa, AAICEC will include an exhibition area, hotels, restaurants, shopping mall, and other services.

The AAICEC plans to address major challenges within the tourism sector in Addis Ababa, including availability of venues, sufficient hotel rooms, quality food and beverage services, and a high-end marketplace for purchasing Ethiopian-made products. The center will serve as a primary case study on how organized partnerships can grow industries and create jobs in Addis Ababa.

The electronics and ICT sectors also have potential for growth in Addis Ababa

Computer and computer-equipment manufacturing and communication equipment (cell phones) are industries where Ethiopia could have a comparative advantage (World Bank 2016b). As production processes have been increasingly standardized, opportunities for off-shoring have increased in these chains, with the main beneficiaries to date having been China, Malaysia, Thailand, Vietnam, the Philippines, and some countries in Eastern Europe. Current manufacturing in Ethiopia, however, is focused on assembly, with a very limited presence of component manufacturing (with components and other supplies being imported), resulting in relatively low domestic value-added manufacturing and a complex supply chain. While Ethiopia is facing intense competition to enter this market, it has an interesting value proposition within the Sub-Saharan African market, offering a financially attractive location with reasonable quality (see figure 3.4).

Figure 3.4: Among Sub-Saharan African Cities, Addis Ababa Has Potential in Electronics

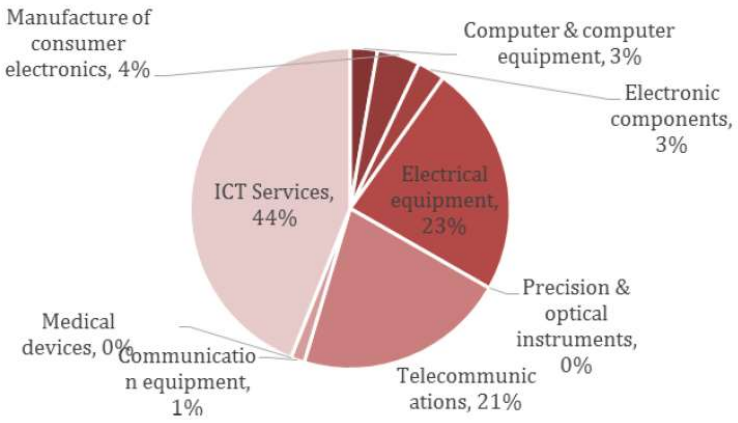


Source: World Band 2016.

Ethiopia's ICT and electronics activities are currently concentrated in Addis Ababa. These employ a small number of individuals (24,000) in Addis Ababa, which accounts for 38 percent of the country's urban employment in the sector. Within the sector, ICT services, electrical equipment, and telecommunication contribute 44 percent, 23 percent, and 21 percent of the total jobs, respectively (see

figure 3.5). Moreover, most of the key companies in the ICT and electronics sector are either located or have their headquarters in Addis Ababa.

Figure 3.5: ICT Services Contribute a Large Share of the Electronics Sector in Addis Ababa



Source: World Bank 2016b.

However, there are qualitative weaknesses, such as limited sector presence and a thin local supplier base, in the operating environment. Also, a restricted pool of labor with the required skills and experience inhibits the expansion potential of this sector. Poor access to finance and foreign exchange required for acquiring components and equipment is another issue.

The federal government is implementing measures to help these sectors emerge. Efforts include a dedicated ICT park being developed with many companies already having relocated there from Addis Ababa city center. Other industrial parks are also being developed where electronics manufacturing can locate. Institutionally, the combined sector of electronics and ICT falls under three government bodies with an interest in setting relevant policy and strategy: Ministry of Industry, Ministry of Communication and Information Technology, and the Ethiopian Investment Commission (EIC). International experiences, however, point to some pitfalls of high-tech parks and innovation policies. These might provide interesting lessons learned for the GoE to consider (see box 3.2 for examples).

For the Addis Ababa city government to support the ICT and electronics sectors, significant capacity building and a close partnership with federal agencies are required. Currently the only bureau at the city level that has been mandated to support this sector is the newly established Small and Medium Manufacturing Industry Cluster Development Corporation. The corporation will be charged with running industrial parks where SMEs can cluster and has been instructed to prioritize high-tech manufacturing industries that are friendly to the environment and can be established on small amounts of land. Its mandate is, however, restricted to the provision of land and serviced premises. The sectoral analysis of the ICT and electronics sectors indicates that, in the short term, the emphasis should be on growing the presence and capabilities of computer and communication equipment (mobile phones) assembly. The growth of assembly operations is the route through which sufficient scale can be created to start building a domestic value chain with both foreign and local supplier companies. Assembly operations need to be supported in their efforts, not only to supply the domestic market, but also to export to regional markets.

Finally, further analysis on other emerging high value-added sectors would be useful. For example, analyses on the machinery and vehicles and financial and business service sectors could be helpful in terms of informing the City Administration's emerging vision for economic succession into new and higher value-added sectors.

Box 3.2: International Experiences with High-Tech Parks Have Not Achieved Encouraging Results in Cases Where the Wider Environment Was Not Conducive

Technology parks have become a popular policy solution for many emerging economies across the world. Despite a handful of successful cases, the real impact of technology parks is still poorly understood, and the vast majority of experiences show little beneficial impact. An extensive review of the impact of technology parks from across the world concluded that while they are an appropriate policy instrument in some instances, they are not suitable in most cases.

A key reason for the disappointing returns from many technology parks is their failure to account for local capacities. In Tunisia, the focus of technology parks did not match the specialization of the host regions. Despite Sfax hosting a concentration of biotechnology firms and research institutions, the national biotechnology parks were implemented in Sidi Thabet, which is 300 kilometers to the north. Thus, more than just failing to recognize optimal locations for specific types of parks, the outcome undermined the economic and technological development potential in both locations.

More generally, environments in which technology parks are situated are required to be especially conducive to innovative activity. For example, Greece's prominent technology parks lacked the conducive environments to be successful. The regions where parks were situated lacked adequate levels of research and development (R&D) expenditure, skilled workers, or strong R&D institutions. Instead the parks relied on offering occupants' technology-orientated infrastructure and business services. However, these interventions did not have a catalytic effect, given the lack of a conducive R&D environment. Since their inception in the 1990s these parks, despite absorbing a proportionally large share of R&D expenditure (10–35 percent), contribute less than 0.45 percent to their respective region's GDP and have been unable to create a viable innovation system.

The regions where technology parks have been successful, share characteristics that have enabled their success. Prior to technology park investment, these regions had existing technological capabilities and institutions and had a critical mass of firms and skilled employees with sufficient specialization. Evidence suggests that without first addressing these primary prerequisites, investment in technology parks might be a waste of resources.

Source: Rodriguez-Pose, Hardy 201.4 *Technology and Industrial Parks in Emerging Countries, Panacea or Pipedream?* New York: Springer.

RECOMMENDATIONS: PROMOTION OF HIGHER VALUE SECTORS

Significant capacity development will be needed for the Industry Bureau to provide any useful sectoral value chain support. Federal government agencies are already providing major support for increased investment and quality upgrading of GTP II priority industrial sectors. For example, firms in export-oriented industries such as leather, textiles, and agribusiness benefit from investment incentives including exemption from custom duties, income tax holidays, right to repatriate capital and profits, and guarantees against expropriation. The GoE is also constructing industrial parks throughout the country, including several in Addis Ababa. Several institutes are also involved in quality upgrading, for example, the Leather Industry Development Institute, the Textile Industry Development Institute, and the capacity-building program for the construction sector. On the other hand, while the Addis Ababa Industry Bureau aspires to support firms in priority sectors in terms of quality upgrading, market links, skills development through upgrading TVET curricula, and linking producers with research institutions, in practice these types of activities are still at a nascent stage.

In the meantime, the City Administration could seek the support of federal agencies to promote higher value added sectors in Addis Ababa. In terms of further support for specific industries or value chains, currently, federal-level agencies are the ones that have higher levels of capacity and are likely to have a better impact. They do not, however, have a specific focus on Addis Ababa or the types of sectors that could be important for the city (for example, conference tourism and electronics, among others). Clearer delineation of responsibilities and establishment of coordination mechanisms between the city-level bureau and the Federal Ministry of Industry and Trade, EIC, Industrial Park Development Corporation, and other federal agencies will also be critical to develop practical and implementable plans. Capacity-development efforts targeted at the Addis Ababa Industry Bureau will also be important.

Notes

[1] With most employees quitting the industrial sector quickly, finding that the jobs are unpleasant and entail serious health problems. On the other hand, the entrepreneurship program had much better outcomes, raising earnings by 33 percent and providing steady work hours; it halved the likelihood of taking an industrial job in future.

[2] The location quotient reflects the relative regional concentration of sectors. It compares an industry's share of regional employment to its share of national employment. The location quotient allows one to determine which industries make the regional economy unique but that could also negatively impact the local economy if they experience declining competitiveness. A location quotient above 1 indicates that a locality has relatively more employment in that sector than does the national economy. Due to data limitations, we were not able to undertake a similar analysis for the service sector.

[3] Addis Ababa's Large and Medium-scale Manufacturing Industries Survey (LMMIS) data, Employment Unemployment Survey data as well as Ethiopia's export data in the UN's Commodity Statistics Database.

[4] According to the CSA Employment Unemployment Survey 2016.

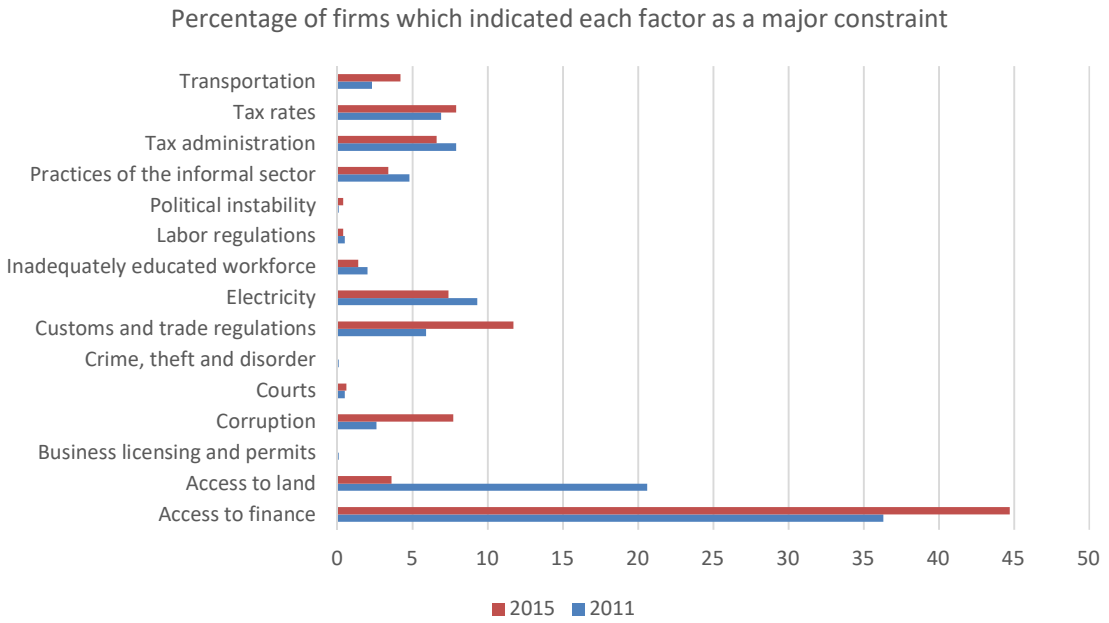
4. Alleviating Constraints to Firm Establishment: The Role of the City Administration

Why Do Domestic Firms in Addis Ababa Face a Tough Environment for Entry?

Domestic firms face a tougher regulatory environment than foreign firms when establishing an investment in Addis Ababa. Addis Ababa City Administration is responsible for facilitating domestic and diaspora investment, whereas the Ethiopian Investment Commission (EIC) is responsible for foreign investment. A World Bank (2014) report on the investment climate in Addis Ababa highlighted that only 5 percent of domestic firms that receive investment licenses are able to convert from the preoperational to the operational phase of investment—that is, to establish their businesses—whereas conversion rates for foreign investors in are much higher, at 60 percent. These statistics might be somewhat exaggerated, as the database at the Addis Ababa City Administration does not seem to be up to date. Nonetheless, the overall finding is that domestic investors face particular challenges in establishing their investment in Addis Ababa. Interviews and data gathering by Precise Consult International for their background paper on value chain stocktaking found similar results in the leather sector. According to interviews with the EIC and the Addis Ababa Investment Office, they issued investment licenses to 18 foreign and 108 domestic investors in leather manufacturing projects, respectively. Only 5 of the domestic investments are currently operational, with the remaining 103 still in the preoperation phase, whereas only 8 of the 18 foreign projects are still in the preoperation phase.

Data on constraints facing already operational enterprises is only part of the picture, because it does not tell us what prevents many enterprises from establishing. Already operational businesses in Addis Ababa indicated that they face constraints in access to land and finance and a difficult regulatory environment, among other issues (figure 4.1). It is important to note, however, that these results are for operational (that is, established) firms and likely understate problems with access to land, for example – as operational firms tend to have already secured land.

Figure 4.1: Access to Finance, Land, and Electricity and a Difficult Regulatory Environment Are the Main Constraints for Operational Firms in Addis Ababa



Source: World Bank Enterprise Survey 2011 and 2015 data for Addis Ababa.

Benchmarking Addis Ababa against comparator cities shows that it performs best on security levels and transportation, while it performs worse on corruption and the regulatory environment for business (table 4.1). The city is perceived by firms as relatively safe, with just 2 percent small share of sales being spent on security versus 10.8 percent in Kampala. Only 7.5 percent of firms in Addis report that transport is a major obstacle, compared with a quarter to a third of firms in East African comparators. Other variables tell a different story. The quality of productive infrastructure, particularly water and power, is poor, with 29.2 percent and 80.4 percent of firms reporting outages of each factor, respectively, in the previous year. Access to finance is also poor, with only 24 percent of firms having access to an overdraft facility, a basic function of corporate checking accounts, and only 26.6 percent of sales on average sold on credit, indicating weak transaction finance. Although these shares are much worse in Kampala and Dar es Salaam, they are much better in Kigali, for example. Addis Ababa, however, performs worse on aspects of corruption, particularly in obtaining construction permits. In terms of other regulations, while time taken to get key permits—such as for importing inputs, initiating operation, or commencing construction—is fairly good, managers in the city spend 13.8 percent of their time dealing with government regulation. This is the most among the comparator cities selected. More frequently than in most of the selected comparators, managers reported that informal gifts were expected in exchange for basic government services, such as an electrical connection, or during a tax audit.

In order to shed light on why many domestic firms never succeed in establishing in the first place, we commissioned qualitative research to explore their barriers to entry (EDRI 2017). Qualitative interviews were held with 42 firms (33 of which were stuck in the pre-operation stage or had been discouraged altogether and 9 that were operational firms, for comparison purposes). These included firms in the manufacturing, services, and construction sectors. The sampling and selection of firms relied on the Addis Ababa City Administration investment office's database of firms. Firms that had failed to operationalize were those that had been issued an *investment license* (beginning of the establishment process) but were currently in the pre-operation stage. Operational firms were those who had successfully obtained a *business license* (end of the establishment process).

The research found that access to commercial or industrial land was the main barrier to entry – and another major constraint was the lack of access to finance. Additional issues included corruption and a difficult regulatory environment. Operational firms were found to be similarly constrained by difficulty in accessing finance and land for expansion, while other important constraints for them included poor electricity, foreign currency, and skill shortages.

The following subsections further unpack the major barriers that are within the jurisdiction of the Addis Ababa City Administration, providing more detailed information on how and why they affect firms and recommending actions needed at the city level. The issues that are within the mandate of the federal government are discussed in chapter 5.

Table 4.1: Benchmarking Firm-Level Constraints in Addis Ababa against Other Cities

	Addis Ababa	Dar es Salaam	Kampala	Kigali	Johannes-burg	Nairobi	Tamil Nadu State	Red River Delta	Wenzhou
Country	*ETH*	*TZA*	*UGA*	*RWA*	*ZAF*	*KEN*	*IND*	*VNM*	*CHN*
Year	*2015*	*2014*	*2013*	*2015*	*2007*	*2013*	*2011*	*2013*	*2012*
Productive infrastructure and services									
Experienced power outages (%)	80.4	89.5	83.4	61.9	56.3	91.3	77.4	15.2	49.4
Experienced insufficient water (%)	29.2	9.6	29.7	5.6	7.1	14.5	16.3	32.3	1.8
Share of sales spent on security (%)	2.0	5.8	10.8	9.8	3.2	4.5	2.6	7.8	1.2
Connective infrastructure									
Ranked transportation as major obstacle (%)	7.5	37.4	13.9	26.9	3.5	26.5	21.9	5.5	9.6
Land									
Days to obtain construction permit	43.5	34.4	12.7	58.0	123.9	32.9	54.1	19.3	25.2
Access to finance									
Firms with overdraft facility (%)	24.6	9.2	2.0	44.4	50.5	34.7	64.6	9.9	34.9
Sales paid for after delivery (%)	26.6	10.8	14.2	34.5	41.3	40.6	29.3	52.0	53.5
Regulation									
Manager's time dealing with gov't regulation (%	13.8	4.6	7.3	7.2	7.3	8.7	1.9	3.2	1.9
Days to obtain import license	11.5	20.7	19.5	6.2	30.3	12.1	15.3	18.4	
Days to obtain operating licenses	4.8	15.8	10.5	11.2	41.0	18.7	34.4	8.2	13.1
Corruption									
Gift expected for electrical connection (%)	18.1	22.6	37.9	0.0	6.1	25.4	46.2	11.5	0.3
Gift expected for tax auditors (%)	17.5	12.4	6.2	4.6	3.2	22.5	16.8	12.8	0.0
Gift expected for construction permit (%)	55.9	6.3	0.8	14.2	0.0	47.6	30.0	30.9	0.0

Source: World Bank staff illustration based on World Bank Enterprise Survey Data. Responses are representative of all nonagricultural firms in the private sector. Blue indicates the favorable end of the distribution among cities; red indicates the less favorable end.

Note: As the Enterprise Surveys in Vietnam and India were undertaken at the regional level, the results for the broader regions containing the comparator cities, Hanoi and Coimbatore, are presented in the table.

Access to Land

Numerous firms have been discouraged or stuck in the process of establishing themselves in Addis Ababa due to lack of access to affordable land

Most discouraged firms were awaiting land allotment. Within Ethiopia's land management system where all land is owned by the State, sectors prioritized in Addis Ababa's GTP II, such as manufacturing activities and tradable services, like hotels, used to be entitled to apply for government allotment of subsidized land. However, land allocation decisions have been taking a long time, with some firms waiting up to three years (see table 4.2). [1] The long decision-making process at the Addis Ababa City Administration was identified as the main bottleneck. The final decision was traditionally made by the City Cabinet, based on the proposal of the Land Development and Management Bureau. While this process had been devised to alleviate land mismanagement, it has caused long delays due to the cabinet's infrequent meetings. These delays in allotment were also blamed by firms for distorting land prices in the tender, rental, and purchase markets due to a more restricted supply, leading to the price hikes.

> "After I completed the preoperation processes, I transited to the implementation stage and applied for land. It has been almost two years since I applied for land. This is the major reason why I am still stuck. I didn't get a land certificate yet."
> —potential investor, Addis Ababa

Table 4.2: Examples of Firms Experiencing Long Delays in Accessing Land to Establish Investment

Investor	Main problem	Further details
Manufacturing of plastic shoes	Awaiting land allotment decision for 1.5 years	The investor received an investment license for manufacturing plastic shoes as an import substitution product. He applied for land in Kolfe Keranyo but has not yet received a response 1.5 years later. He has given up hope that he will receive land, but he does not seek to rent or purchase because it is too expensive. The investor has not established the manufacturing business and is only engaging in the import and wholesale of plastic shoes.
Firm specializing in processing and packing food products for export	Awaiting land allotment decision for 2.0 years	The firm is already engaged in raw/lower quality coffee processing for the local market. The investor wanted to expand to process and pack coffee and sesame for the export market. The City Administration's land allocation committee first informed the investor that his proposal does not meet the criteria of having 250 employees. Once he fulfilled this criteria in the proposal, he was told that the threshold had been raised to 320. The request was evaluated by the City Administration over a six-month period and was subsequently sent to an industrial park, where it has now been for 1.5 years, with no answer received. The firm has therefore not been able to operationalize its larger investment, processing for the export market, and continues to run a small-scale operation focused on the local market.

Investor	Main problem	Further details
Car repair business	Awaiting land-allotment decision for 2.5 years	The investor has a modest car repair business and obtained an investment license for an expanded operation. He has not received a response yet after 2.5 years and has gone to the City Administration times but can never meet the people in charge of allotments. He has not established the expanded operation and continues to await a response.
Manufacturing electrical equipment	Has been trying to access affordable land for 3.5 years but has been rejected twice for allotment	The firm was engaged in the import of technology products and wanted to go into manufacturing of batteries. The owner took a proposal to the City Administration 3.5 years ago but after six months was told he was rejected because batteries did not involve sufficient value addition. He applied again a year later but was rejected again. He is currently using his residential land as a location to manufacture, but it is a smaller operation than he had planned to establish, and he struggles with access to sufficient electricity for manufacturing.

Recent policy changes aim to restrict the growth of medium-value-added industries in the city, even though they are prioritized in Addis Ababa's GTP II Strategy. Recent discussions with policymakers in the City Administration suggest that the focus has now changed to restricting the growth of medium tech manufacturing in the city, in favor of supporting the growth of higher value-added manufacturing and services. Land allotment for manufacturing and services by the City Administration has stopped, or at least nearly stopped, since March 2015,[2] and manufacturing firms cannot participate in the government tender process. Many firms interviewed were still awaiting a decision or communication from the City Administration. While the previous process of land allotment did not meet the needs of firms, in the current hiatus the situation is even worse, with domestic manufacturing firms currently being severely affected. Firms in the service sector (for example, hotels, restaurants, and retail shops) can at least still access land through bidding in the government tender process, but manufacturing firms cannot participate. The only avenue open to manufacturing firms is to establish themselves in one of the new industrial parks or clustered zones that the GoE is in the process of creating. Neither option seems feasible for the majority of small and medium domestic firms, though. The Industrial Park Development Corporation (IPDC) manages 3 industrial parks in Addis Ababa, with two more private-sector-managed parks envisaged. IPDC's focus is, however, mainly on large firms, particularly FDI companies and exporters. The Small and Medium Manufacturing Industry Cluster Development Corporation (SMMICDC), under the Addis Ababa City Administration, has been mandated to develop and administer industrial clusters (mainly responsible for access to land and sheds) through development of three land areas allotted for this purpose.[3] The SMMICDC, however, plans to focus on high-tech industries (that are environmentally friendly and do not require large amounts of land).

Access to land through government tender, private rental, or purchase were considered too expensive for firms to be profitable, and firms felt that the government's currently heavy involvement opens avenues for corruption. Firms raised serious issues about bidding in the government tender process, claiming that it opens doors to corruption. While unscrupulous City Administration officials as well as private sector individuals are jointly responsible for corruption, a more flexible system for accessing land in the city would certainly reduce avenues for corruption. Firms felt that speculators pose a major threat to genuine bidders, who find it difficult to afford the high sums of money requested for these plots of land. By offering extra-legal payments to officials, speculators are often able to pay a fraction of the stated bidding price, while genuine firms are prevented from accessing the land. Speculators then retain the land for some time and resell use rights at higher prices, further raising land prices.

Even after firms have secured land, other obstacles due to City Administration processes cause further delays. Firms reported that the transfer of land from the City Administration was a cumbersome and bureaucratic process that involves long waits and repetitive appointments. One source of delay is the lack of coordination between the City Administration and the agencies that provide infrastructure and utilities (like power, access roads, and water and sanitation) to service the land. While it is stipulated that services need to be installed before land is transferred to the investor, delays often occur, and sometimes services are not provided in the end. Delays in obtaining construction permits after land has been transferred are another obstacle, with the World Bank Doing Business 2017 index placing Ethiopia 176 out of 190 countries in ease of accessing construction permits. The requirement that more than 50 percent of the construction on site must be completed before land transfer can occur is also difficult, because firms get stuck in a vicious cycle—they cannot access finance because they do not yet have land title and they cannot finish construction without access to finance.

Finally, the City Administration's enforcement mechanisms to seize land back from speculators and non-serious investors are weak and sometimes subject to political manipulation. Firms complained about land that was allotted for investment now being rented out for other purposes. Investors felt that if land was not misused in this way, the city might have more land to make available to investors.[4]

> "While land is getting scarce in the city, there are large fenced areas of land by investors that are not used for the intended purpose for more than decades. We have issued several memos and warning letters to those investors to develop the land in line with the binding lease agreement they have made with our office. But, many of them are not responsive due to systematic links with high-ranking officials. Whenever we rush to take actions as per our mandate, we face political interference and manipulation from high-ranking federal and city government officials. Unlocking the systematic chain between rent-seeking investors and government officials on land issues has created conflict of interest among city officials and frontline land bureau officers."
> —City Administration official

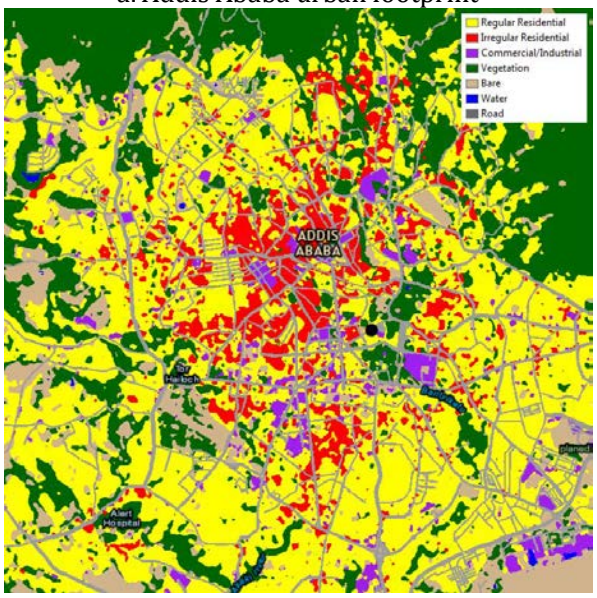
The amount of industrial and commercial land is small in Addis Ababa compared to other African cities

New neighborhoods have developed as small pockets of various types, unlike in Dar es Salaam or Nairobi, which have larger areas of industrial and commercial land use. As map 4.1 shows, commercial and industrial land-use area (purple) is small in Addis Ababa, compared with shanty residential areas (red) and nonshanty residential areas (yellow). Further agglomeration of commercial and industrial economic activities is important for improved productivity. (See box 4.1 for the benefits of mixed, well-integrated land use.)

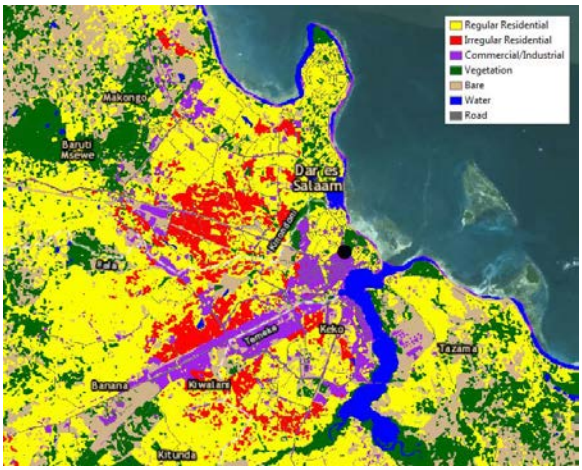
Addis Ababa has been successful at increasing density within the city, which is important for productivity, and even further densification would have economic benefits. Our spatial analysis indicates that Addis Ababa's area has both densified and expanded in recent years. The built area within Addis Ababa's boundaries doubled between 1974 and 2014. The population concentration was found to be similar to the world average and higher than the Sub-Saharan African average.[5] This density of people and structures is beneficial for (i) improving firm-level productivity (through agglomeration economies), (ii) increasing efficiency of municipal services such as water and sanitation, and (iii) freeing more land for investment within the city. The UN estimates that 75 percent of Addis Ababa's housing stock has been constructed with mud and wood, and 97 percent is single story. It was also estimated that between 70 percent and 80 percent of houses that could be considered slums were in the core of the city, limiting the availability of prime land for more productive use (Antos, Lozano-Gracia, and Lall 2016).

Map 4.1: Dar es Salaam and Nairobi Have Larger Areas of Land Than Addis Ababa for Commercial and Industrial Activities

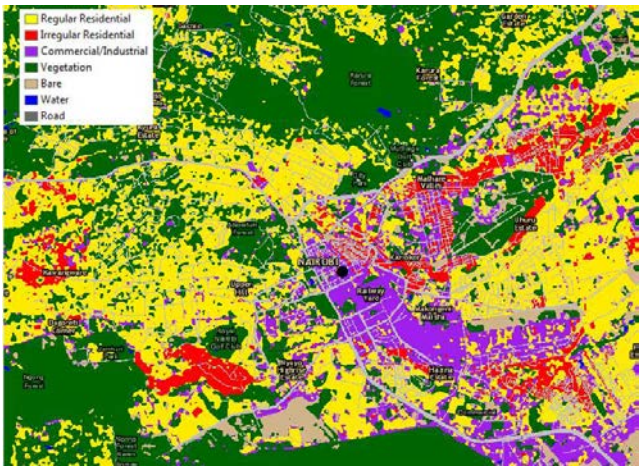
a. Addis Ababa urban footprint



b. Dar es Salam and urban footprint

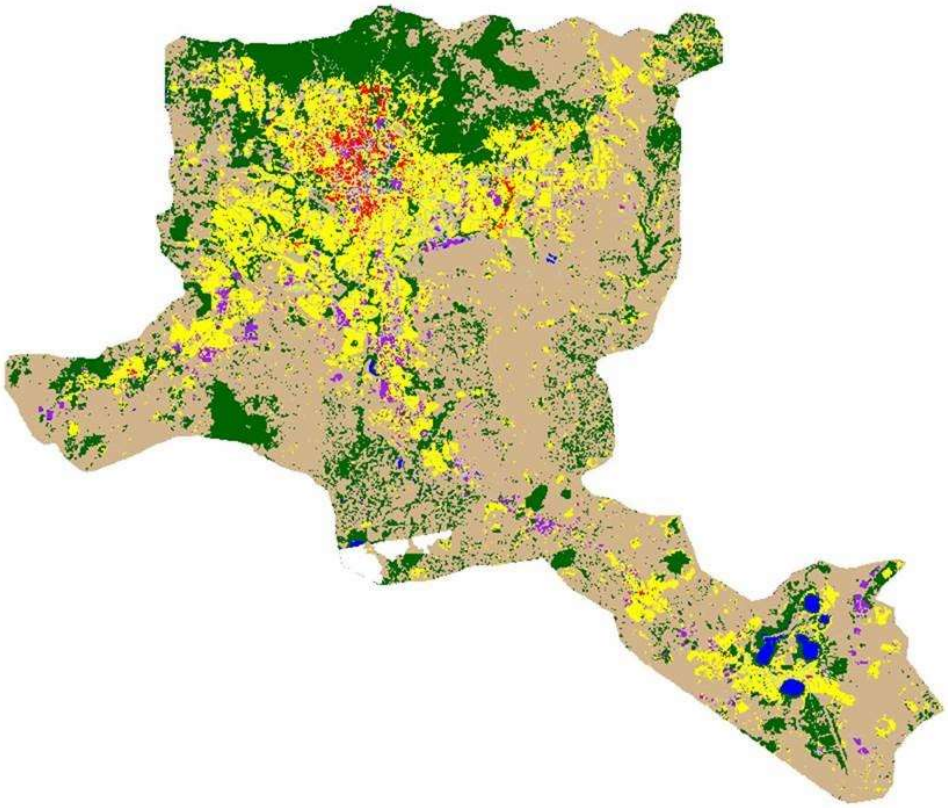


c. Nairobi urban footprint



Source: Antos, Lozano-Gracia, and Lall 2016.

Map 4.2: Expanded View of Addis Ababa and Its Surroundings



Box 4.1: International Experiences Have Highlighted the Benefits of Mixed and Well-Integrated Land Use

Separating incompatible land uses, such as polluting industries and housing, is a rational decision. However, in the early twentieth century, modern planning promoted monofunctional use separating housing from workplaces and commercial and social uses. Residential areas were also designed for homogeneous income groups, segregating residents of lower economic means and different ethnic backgrounds, hindering their access to urban amenities and reducing their opportunities for interaction. This type of design has economic opportunity costs because it prevents synergies among productive activities. It also has social opportunity costs as it separates people (particularly the poor) from job opportunities. Single-use, together with low-densities, encourages the use of individual transportation and erodes the viability of public transport networks, further reinforcing the exclusion of the less privileged.

Allowing compatible uses to coexist brings several benefits. Mixed-use development is not a new approach. It was the norm in cities before the car and before the advent of modern planning practices. The term *mixed-use* generally implies the coexistence of three or more significant revenue-producing uses.

Removing barriers to coexistence from zoning laws could produce the following benefits:
• Social benefits: Improving accessibility to services and urban amenities for a broader segment of the population and increasing housing options for diverse household types and social groups.
• Economic benefits: Increasing the business potential of transactions and trade as colocation of activities attracts more potential customers during more hours of the day. This is reflected in increased income from business taxes. Commercial uses close to residential areas are often reflected in higher property values, helping raise local tax revenue.
• Land and infrastructure benefits: Reducing the overall demand for commuter travel, shortening average trip lengths, and reducing car use. In addition to minimizing road infrastructure requirements and reducing the amount of land allocated for parking, mixed land use also provides a greater base for using public transport and walking and biking.

To support well integrated uses, at least 40 per cent of the floor area should be allocated for economic uses. Monofunctional zoning should be reduced to no more than 10–15 percent of the overall land.

Industrial policy in Delhi, for example, allows 73 different types of household industries, which need permits to operate. Businesses benefit from the availability of labor in informal areas and residents benefit from local jobs.

Source: UN Habitat. 2012. *Urban Planning for City Leaders*. Nairobi: UN Habitat.

RECOMMENDATIONS: ACCESS TO LAND

Given the analysis, the report recommends a more systematic release of land within Addis Ababa's boundaries for development of well-integrated land uses, which includes close spatial proximity of different land-use zones (for example, industrial, commercial, and residential) and direct mixed use (for example, residential, services, and household industries). Ensuring that firms have access to land on which to establish and grow is a priority if the city is to support the creation of better quality jobs and increase wages and incomes. Given the city's shifting comparative

advantages, freer land access for mixed uses will allow it to gradually change its industrial mix, as cities in Asia have successfully done. Another critical element of enabling flexible growth of production and service enterprises and more effective use of land is a substantial broadening of the range of activities that are permitted on the different types of land—whether it is industrial, commercial or mixed-use land. Diversified land allocation mechanisms with different pricing implications are recommended, including direct allocations, lotteries, various types of auctions, and requests for proposals, and no single instrument is universally applicable for all situations. Rezoning will be key to increase the share of land zoned for mixed uses. Simplifying procedures for lease transfer from tenants of land to other tenants will also contribute to better land allocation for its most productive uses, thereby increasing the economic productivity of the land.

To help firms that have been discouraged or stuck understand where they stand and operationalize their investment, it is important that the Land Development and Management Bureau *rapidly* clarify and communicate the status of applications received. Key questions that need to be answered by the City Administration in media outlets and other ways of reaching the public include: What will happen to all the applications that the City Administration had already received in the past few years and are still awaiting decisions? What is the new process for enterprises to access land in the new Small and Medium Manufacturing Industry Clusters? If only high-tech industries are being targeted under these clusters, what happens to medium-tech enterprises wishing to establish themselves in the city?

***In the short term*, the bureau could accelerate the development of an inventory of government-controlled land, in order to identify vacant and under-used land** to be zoned and released for mixed uses. In Addis Ababa, vacant land constitutes about 46 percent of the area within city boundaries (World Bank 2015b). This results from lack of market valuation of land, alongside government inefficiency in bringing land to market. The mayor's office has a key role in making this a major priority and incentivizing officials at all levels to ensure this inventory is completed and land is released.

***In the medium term*, affordable housing schemes within shanty inner-city residential areas could also help increase density of this housing, freeing up some land to be released for mixed uses**. The GoE has achieved major progress in housing construction through its Integrated Housing Development Program. Yet there is evidence that lower-income households may be finding even the smallest and most subsidized condominiums unaffordable (World Bank 2015b). Promoting a diverse range of housing delivery mechanisms—public programs, private sector investment, small-scale affordable rental housing, and assistance for upgrading informal settlements—will be key to meeting local needs. It will also be a win-win intervention if the freed-up land can be zoned for mixed used, which would include housing, service and commercial activities, and household industries.

***In the long-term*, the establishment of a modern urban land cadaster system is recommended** with priorities on land zoned for commercial, industrial, and mixed uses. Addis Ababa has already implemented a pilot toward establishing a land cadaster, but the process has faced several bottlenecks and problems. Learning lessons from the pilot and resolving these bottlenecks will be important for the success of this process.[6] Another important long-term direction is to start reshaping mono-use zones into zones of a smaller scale, better integrated with each other and allowing broader activities. A critical element is not to prohibit any of already existing activities but to allow additional ones and let the demand forces of the market sort land uses. For the new plots of land being developed as cluster zones, it is recommended that these be accessible to a wide variety of industries and firms to allow natural clustering to occur.

Regulations

Firms complain of unclear and incomplete information from the City Administration concerning the investment process for domestic and diaspora firms. Firms must pass through numerous procedures involving various institutions to progress from registration up to operation (see table 4.3 below). Both foreign and domestic firms pass through similar steps, but EIC facilitates the process for foreign firms, while Addis Ababa City Administration is responsible for domestic and diaspora firms. Domestic firms complain that none of the various institutions involved provides clear and complete information on the steps that need to be completed and the order in which they should be completed. Entrepreneurs therefore spend a significant amount of time unproductively searching and gathering information on procedures, required documents, and the order of the steps needed.

Table 4.3: Stages of Business Entry in Ethiopia: Pre-implementation to Operation

Pre-implementation to implementation: Investment phase	Implementation to operations: Operational phase
Authentication of company's documents by EIC	**Acquisition and allotment of land**
Tax registration (tax identification number and VAT certificate)	Environmental impact assessment study and EPA/REPA authorization
Commercial registration, including clearance of trade name	Permit to start construction on land
Open a bank account and minimum capital deposit	Access to water, electricity, and telecom services
Lease land application or down payment for acquisition and land title deed	Expatriates work permit
Certificate of capital importation	**Certificate of competency**
Investment permit	**Renewal (annually) of investment permit and updated status report (every three months) until operations start**
Residence permit	**Business license**

Source: Ethiopia Investment Commission as documented in the World Bank 2014a. The steps highlighted in blue and bold were the most cumbersome for firms.

The one-stop center for domestic and diaspora investors, which the Addis Ababa City Administration is mandated to serve, needs strengthening. Pursuant to Proclamation no. 769/2012, different national and subnational institutions in Ethiopia can provide one-stop center services for firms. As per the proclamation, EIC provides such service for foreign investors to facilitate firm entry, implementation, and operation phases. Services include commercial registration; issuance of construction permits, business licenses, and tax identification number; and other services. While there have been attempts to establish a one-stop center for domestic and diaspora investors at the City Administration by the Addis Ababa Investment Agency and the Land Management Bureau, firms still do not receive at once places all consolidated services they need—including licensing, access to land, and aftercare services. For example, access to land and construction permits remains in separate offices outside of the recently established One Stop Center, run by the Addis Ababa Investment Agency. One possible reason that the EIC one-stop center is more functional is that it is accountable to the prime minister's office and has higher levels of human resources and logistical capacity.

RECOMMENDATIONS: REGULATIONS

The report recommends the strengthening and modernization of the one-stop center for domestic and diaspora investors at the City Administration, making it accountable directly to the mayor. As mentioned, regulating the establishment of domestic and diaspora firms is the remit of the City Administration. As the majority of jobs continue to be created by domestic investment, making similar progress in providing efficient one stop services to domestic and diaspora investors as there has been for foreign investors is important. Given that the main constraint to establishment was related to access to land, a priority would be to rationalize and incorporate the various offices within the Land Development and Management Bureau into the city one-stop center. This service needs to have modern systems and highly skilled personnel, and all relevant agencies need to understand the importance of the service and receive incentives to participate in it.

Key steps would be:

- Rationalizing the number of bureaus involved in the investment operationalization process, including land, and bringing them all under one roof
- Clarifying and reducing the procedures that firms must follow to progress from licensing to operationalization
- Employing or training a higher capacity staff with positive customer relations
- Converting as many procedures as possible to e-governance applications

Enterprise Support

As an employment-creation measure, the GoE, including the Addis Ababa City Administration, has provided major support to MSEs for the past two decades, achieving notable results. Due to data constraints, it is difficult to estimate the number of MSEs in Addis Ababa and their share of total firms or employment,[7] but their number is significant. According to the Addis Ababa MSE Bureau, there are 25,399 MSEs supported by the City Administration alone (with an estimated total number of people engaged in them as 127,000, or 7 percent of the economically active labor force).[8] Of these MSEs, 30 percent are engaged in manufacturing, 28 percent in construction, 25 percent in trade sectors, 15 percent in services, and 2 percent in urban agriculture. Sixty-six percent are microenterprises, with five or fewer employees, while small enterprises that employ six to thirty employees account for the other 34 percent. The main barriers facing MSEs, identified in most studies, include lack of access to working premises, finance, and electricity and difficulties in managing the bureaucratic hurdles of business registration.[9] Specifically, in Addis Ababa, a study by the Ministry of Urban Development and Construction (MUDC 2013) indicated that working premises is the major problem for MSEs in the city.

The Federal Micro and Small Enterprises Development Agency was established in the late 1990s and mainly provided support to unemployed persons, particularly youth, to establish MSEs. In 2004–5, the federal government decided to establish Regional MSE Agencies to give this sector more attention. This effort includes the Addis Ababa MSE Bureau, which supports the formation and growth of MSEs by providing them working premises, loans for investment and working capital (through the Addis Ababa Credit and Saving Institution), marketing support, extension services, and technology transfer and training. In addition, specific initiatives such as engaging youth in the manufacture of cobblestones for urban and housing development projects have also been implemented. During the GTP I period, over 909,000 jobs were created through Addis Ababa's MSE program, 1.1 million square meters of working premises were provided to enterprises, and small businesses were able to save 3.7 billion birr and access 5.3 billion birr in loans. MSE one-stop centers (OSCs)[10] were established at the *kebele* (neighborhood) level to provide MSEs with services including business registration, access to savings and credit, training, and so forth. A recent survey indicates that, out of all the services provided by MSE OSCs, business plan

preparation and business registration were the ones most widely used (Ethiopia Canada Cooperation Office 2015).

Despite these achievements, MSEs face major sustainability challenges, as the programs did not focus on genuine entrepreneurs. Out of all enterprises created under GTP I in Addis Ababa, only 1,000 were able to graduate to become emerging middle-scale entrepreneurs, according to the Addis Ababa GTP II. This result might stem from the fact that the MSE program targeted people based on their welfare and unemployment status rather than based on their entrepreneurship potential (De Nunzio 2012; Gebre-Egziahber and Ayenew 2010). MSEs that become established tend to make very little income—nearly 89 percent made less than 600 birr a month (US$36), while only 12 percent made over 1,500 birr. Most studies also indicated that these MSEs are highly dependent on the government to find markets for them (for example, cobblestones for government construction work) rather than trying to look for their own markets. This is perhaps unsurprising, given that people were not selected for support based on the viability of their business idea or their entrepreneurship traits but based on their unemployment status. The requirement of group formation to access loans also meant that people were not coming together out of genuine business partnership, and the groups often did not function well, with some members free-riding on others' efforts, causing conflict, and so forth.

Implementation deficiencies in the MSE program also lowered the impact on business survival and growth. While MSE OSCs were to be provided at the *kebele* level, this is not operational in practice. Six government offices are expected to come together in each OSC to provide a complete service to MSEs, including licensing, finance, training, tax, and other services (see figure 4.3). Interviews and field visits undertaken for this study, however, indicated that this OSC service is not functional.[11] For example, during the team's visit to Arada subcity, only two officers were providing services. The relevant institutions often do not send their staff, perhaps due to the lack of conducive working conditions (the Arada center had no office furniture, computers, stationery materials, toilets, or cafeteria). Key informants also indicated that the MSEs themselves are not aware of the OSC services available and therefore do not often come to the office. In addition, a lack of support for graduating enterprises also dis-incentivizes firms from growing their businesses. According to the MSE strategy, MSEs must graduate to "medium level" upon registering capital of 1.5 million birr and, at that time, they have to give up their working sheds (premises) and other support provided by the MSE Bureau. Theoretically, they should then come under the auspices of the Addis Ababa Industry Bureau, which can provide further support. However, according to key informants, this support has not been provided, and there is poor coordination between the two bureaus. This has resulted in fewer numbers of MSEs graduating to a medium level for fear of losing their working sheds and other support.

Figure 4.3: Government Agencies Meant to Provide Services to SMEs at Kebele-Level One-Stop Centers

Source: District OSC Center, Arada Subcity, Addis Ababa.

More recently, the GoE has mounted a major response to support unemployed youth in the wake of recent protests. At the Addis Ababa level, all sectors and bureaus in the City Administration came together and identified 65 sectors that youth could engage in to create jobs. Data from the Addis Ababa Youth and Sports Bureau indicates that 65,000 youth were registered and trained to take part in the "revolving fund" initiative, which will be administered by the Addis Ababa Credit and Savings Institution. These efforts are likely to struggle with similar issues of sustainability, however, if youth are not targeted in a more competitive manner to identify entrepreneurs with potential.

RECOMMENDATIONS: ENTERPRISE SUPPORT

There is an opportunity to target at least a proportion of MSEs to be supported in a more competitive manner. Introducing more competitive targeting mechanisms to identify entrepreneurs with genuine potential could improve sustainability and graduation rates of the MSE program. For the Bureau to target genuine entrepreneurs with more potential to grow and create employment for others, at least a proportion of entrepreneurs to be supported could be targeted through an open business plan competition, for example.

The program could also facilitate linkages between enterprises supported by the program and outsourcing opportunities in larger scale firms located in the industrial parks and cluster zones. The MSE Bureau could, for example, establish a business-to-business register where large firms and government agencies can advertise procurements and MSEs can register their services and bid. MSEs could also be provided with better market information on the outsourcing needs of large firms. For example, in the textiles and garments subsector, inputs such as chemicals, dyes, and quality accessories (needles, zippers, tags, and so forth) as well as yarn and fabrics are dominated by imports due to lack of quality local suppliers. Further development of these industrial inputs would provide opportunities for local outsourcing and more input-output linkages. Finally, OSCs at the Kebele level have lacked the capacity to provide an effective service to MSEs, and further efforts are therefore needed to improve their functionality—such as ensuring they have the staff and equipment required and that staff are adequately trained.[12]

Improving Capacity of City Administration

An institutional analysis was undertaken as part of this study to determine the institutional root causes of the problems faced by firms and the lack of public responses to these challenges. Both primary and secondary data were collected (Gebre-Egziabher et al. 2017). Primary data was obtained through key informant interviews within government institutions mandated with the delivery of the various services to the private sector in the city. These institutions were at both the federal and city level, with emphasis on the latter. A semi-structured qualitative questionnaire was used to guide the discussions with the key informants.

The main institutional barriers to effective implementation at the Addis Ababa City Administration were highlighted to be overlapping mandates and a lack of coordination among the various agencies, lack of computerized systems, human skills shortages and high staff turnover, and corruption and political interference.

For example, there are eight different departments involved in land preparation and transfer, sometimes with overlapping mandates. The Land Bank and Transfer Office is mandated to ensure that construction is in accordance with the lease contract. However, the Building Permit and Control Authority, which is mandated with issuing construction permits, also has the responsibility to ensure that construction is in accordance with the approved design and issued building permits. Similarly, almost all the agencies and offices under the Land Development and Management Bureau have a mandate to study land-related issues in the city. The Land Bank and Transfer Office is mandated to conduct studies on urban land grade and initial lease prices. The Building Permit and Control Authority is mandated to conduct research on strengthening coordination of construction in the city. There is also an Urban Planning Institute, which is responsible for conducting comprehensive studies and research in the city on land-related issues. Similarly, there are various city and federal entities providing product quality upgrading and other sectoral enterprise support to the textiles, leather, metal industries in Addis Ababa (including the Leather Industry Development Institute, the EIC, Addis Ababa Industry Bureau, and so forth).

A key issue mentioned by staff of the Addis Ababa City Administration is that they are not able to provide speedy services due to the predominantly manual and paper-based workflow system. Tasks end up in long queues, documents disappear, and so forth. Various efforts are already under way to digitalize services,[13] but there is some way to go.

> "The lack of system automation in the city investment agency is a serious problem. To take the simplest case, investors are unable to register online and check if their chosen trade names for their businesses are already claimed and registered by other businesses. Hence, firms are forced to come up with several trials for acceptable trade names."
> —staff member, Addis Ababa City Investment Agency

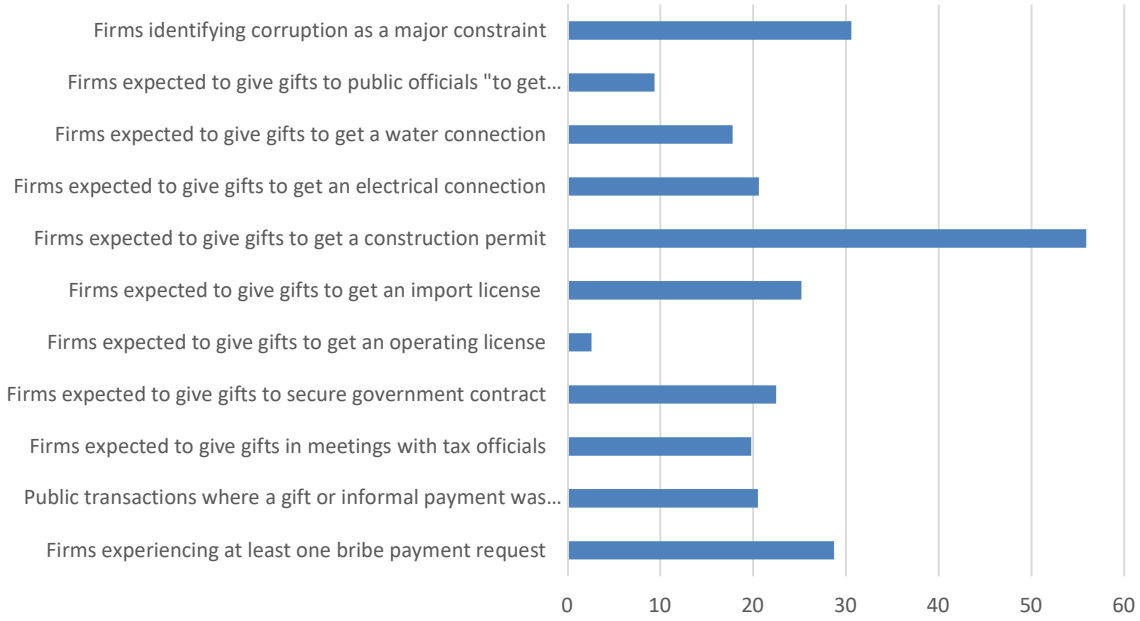
> "The problem of land bank system automation is a serious problem, in which the bureau comes up with incorrect land measurements that are under/over reported. There is inconsistency in the land bank process to the extent that bids are sometimes floated over a land where construction has been started and title deeds are transferred to another property holder."
> —staff member, Addis Ababa Land Preparation and City Renewal Office

Other long-term institutional deficiencies include high staff turnover, low skill levels, corruption, and political interference. As experienced in other government agencies, staff and key informants at the Addis Ababa City Administration also reported these problems as being major root causes of institutional inefficiency and poor service delivery. It is well known that poor staff remuneration is a key factor behind the high staff turnover and the government's lack of ability to attract staff with good levels

of skills and capacities. Moreover, officials interviewed acknowledged the prevalence of systemic and at times crippling problems of corruption within their institutions (petty corruption as well as systemic and higher-level corruption involving higher officials). Political interference and manipulation was also reported in the provision of services such as land, public procurement, registration, and others.

Complex procedures provide a conducive environment for corruption. Firms interviewed as part of the qualitative research on barriers to establishment, complained that decisions that need to be made quickly are artificially delayed, to open doors for corruption, particularly in land related processes. Firms reported that artificial delays were used by civil servants at the City Administration to seek bribes from the private sector. To pass the bureaucratic hurdle, investors are also prepared to corrupt officials to get their permits processed faster. As Figure 4.4 shows, while firms face corruption across multiple government institutions, the highest levels of corruption seem to be in obtaining a construction permit, which is within the remit of the City Administration. Over 55% of firms indicated they were expected to give a bribe to obtain a construction permit.

Figure 4.4: Percentage of Firms reporting incidence of corruption in Addis Ababa



Source: World Bank Enterprise Survey Data 2015

> *"Delay in appointments and frequent meetings have already become the culture for many of Addis Ababa city administration's public offices. In addition to this, corruption has become the normal way of executing services in government offices."* (Domestic Investor, Addis Ababa)

Box 4.2 Strategies for combatting corruption, from international experience

A compendium of possible strategies to combat corruption (Lopez-Claros 2014) identified the following six actions:

1. *Paying civil servants better*. If public sector wages are too low, employees may find themselves under pressure to supplement their incomes in "unofficial" ways.

2. *Creating transparency and openness in government spending*.
Subsidies, tax exemptions, public procurement of goods and services, soft credits, extra-budgetary funds under the control of politicians—all are elements of the various ways in

which governments manage public resources. The more open and transparent the process, the less opportunity it will provide for abuse. Places where citizens can scrutinize government activities and debate the merits of various public policies have achieved some success. Whether the country has an active civil society, with a culture of participation could be an important ingredient supporting various strategies aimed at reducing corruption.

3. *Cutting red tape*. The high correlation between the incidence of corruption and the extent of bureaucratic red tape as captured, for instance, by the *Doing Business* indicators suggests the desirability of eliminating as many needless regulations while safeguarding the essential regulatory functions of the state.

4. *Replacing regressive and distorting subsidies with targeted cash transfers*. Subsidies often lead to smuggling, shortages, the emergence of black markets and can often put the government at the center of corruption-generating schemes. Replacing expensive, regressive subsidies with cash transfers targeted specifically at the poor is a good alternative.

5. *Deploying smart technology.* Frequent, direct contact between government officials and citizens can open the way for illicit transactions. One way to address this problem is to use readily available technologies to encourage more of an arms-length relationship between officials and society; in this respect the Internet has proved to be an effective tool to reduce corruption. In some countries the use of online platforms to facilitate the government's interactions with society and the business community has been particularly successful in the areas of tax collection, public procurement, and red tape. Perhaps one of the most fertile sources of corruption in the world is associated with the purchasing activities of the state.

RECOMMENDATIONS: CITY ADMINISTRATION CAPACITY

The report recommends that the Office of the Mayor lead a capacity-strengthening initiative, starting with the Land Development and Management and the Industry Bureaus. These two bureaus have the biggest impact on the environment for business for local firms and suffer from some of the major institutional inefficiencies, making them a priority. This process will need to focus on areas including the following:

- Reducing overlapping mandates between offices (for example, in the eight different offices involved in land preparation and transfer)
- Improving coordination between city level bureaus and federal government structures—in particular, we recommend establishing a land and infrastructure coordinating board to facilitate interagency coordination between the Land Development and Management Bureau and the various agencies in charge of utilities and infrastructure, to ensure that serviced land is provided to the private sector in a timely manner
- Building capacity in key bureaus with computerized and modern management information systems to improve processing-time efficiency

While finding solutions to the seemingly intractable problems of high staff turnover, low skill levels, corruption, and political interference is not easy, it is also the responsibility of higher officials to act to improve this inefficient working environment.

For example, one initiative that could be piloted to reduce avenues for corruption could be converting as many regulatory procedures as possible to e-governance platforms. Another possible pilot measure could be instituting a grievance redress desk within the City Administration One Stop Shop for firms to be able to report instances of corruption and mismanagement.

Notes

[1] Collected for the study by Ethiopian Development Research Institute (EDRI 2017).
[2] According to the latest information from the city administration (provided during a workshop held in May 2017), government, social services institutions, public residential housing, embassies, religious houses, and so forth are the main categories that can still access land through allotment. However, the mayor can allow exceptions for projects that have special national significance. Information from the Investment Agency, however, suggests that 16 private investors and 12 small enterprises who graduated to medium enterprises did receive land through allotment during the past two years. <Best to give the range of years>
[3] Of 50, 100, and 250 hectares, respectively.
[4] These findings were also corroborated by City Administration officials at the workshop to validate the report held in May 2017.
[5] World Bank staff calculation based on Landscan population data and Henderson, Vernon, and Dzhamilya Nigmatulina (2016). "The Fabric of African Cities: How to Think about Density and Land Use." Draft, April 20, London School of Economics.
[6] The World Bank's Programmatic Non Lending Technical Assistance on Urban Land Management and Housing has also just completed a major study on establishing a modern land cadaster in Ethiopia and has reviewed the Addis Ababa pilot, making numerous useful recommendations for the way forward.
[7] The main firm level survey available is the Large and Medium-scale Manufacturing Industry Survey, which does not include micro and small enterprises. Also, the Urban Employment and Unemployment Survey does not include information on employment by firm size.
[8] If we consider five employees are usually employed in each MSE.
[9] See, for example, Ethiopia Canada Cooperation Office 2015; EDRI 2014; and MUDC 2013.
[10] Not to be confused with the EIC OSC or the Addis Ababa Investment Agency OSC, which are more in line with the international concept of one-stop shops, one office providing various services to medium and large investors. The MSE OSCs are more of a local level coaching and support service for MSEs.
[11] See the background paper Gebre-Egziabher et al. 2017.
[12] For example, 46% of MSEs surveyed think that OSC services could be improved by providing advisory services highlighting the strengths and weaknesses of their firms. (Ethiopia Canada Cooperation Office (2015). Survey of Urban Micro & Small Enterprises in Ethiopia. With support from the Department for Foreign Affairs, Trade and Development, Canada).
[13] For example, the Investment Agency has digitalized investor data for 40,000 investors.

5. National-Level Reforms and Actions

Some of the critical barriers to firm entry and growth in Addis Ababa are outside the remit of the City Administration and, therefore, require action at the federal level. Out of the major constraints highlighted by firms in Addis Ababa, four main areas require federal-level action: (i) urban land policy reform; (ii) access to finance; (iii) skills; and (iv) ICT.

Urban Land Policy Reforms

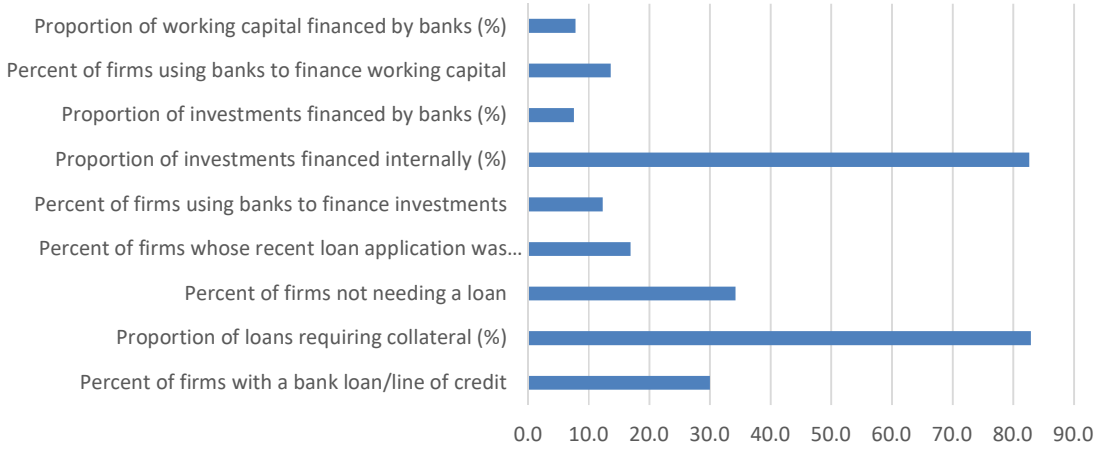
If there is one thing that the federal government should prioritize to alleviate the constraints to job creation in the city, it is urban land policy reform. Given the major constraints that local firms face, arising from the prevailing government land-leasing system in urban areas and insufficiently flexible permitted land uses, this requires urgent attention from the Ministry of Urban Development and Housing. However, improving only the procedures involved in land management will not resolve the major issues. A thorough review of the relevant policies governing access to land is therefore critical, both in terms of allocation from government to land users and subsequent transactions between land users. Within the land-tenure principles set out in Ethiopia's Constitution, reforms in the urban land lease system can concentrate on meeting growing demand for urban land. Simultaneously, more flexible land uses need to be allowed, along with a substantial increase of land zoned for mixed uses that would allow coexistence of housing, services, and small-scale production. The World Bank's Programmatic Non-Lending Technical Assistance on Urban Land and Housing is in the process of undertaking such a review for the Ministry of Urban Development and Housing, which will come up with useful recommendations in this regard.

Access to Finance

Firms that were stuck in the process of operationalizing their investments highlighted lack of access to finance as the second most important constraint obstructing their establishment, after land issues. Commercial banks cater mostly to the demands of established businesses, rather than new firms, and offer short-term loans mainly for trading purposes. Long-term project financing is extremely limited in commercial banks and has prohibitively high interest rates and significant collateral requirements.[1] Evidence indicates that new firms face difficulties in accessing finance, with 56 percent of young firms getting rejected in their loan applications compared to 33 percent for established firms (World Bank 2015c). The Development Bank of Ethiopia (DBE) is the main source of financing for new investors, providing long-term loans and project-based financing, with lower interest rates and collateral requirements. However, given DBE's limited resources, it prioritizes GTP II priority sectors, large investments, and foreign direct investment (FDI).

While large firms have been targeted for financing by DBE, small and medium-size firms face challenges in accessing finance. As indicated in previous research studies, Ethiopia is characterized by a "missing middle" phenomenon, whereby small enterprises are more credit constrained than either micro or medium-to-large enterprises (World Bank 2015c). Microfinance institutions are designed to serve small firms, but they struggle to keep up with the level of unmet demand. Small and medium-scale enterprises currently do not have many options to access financing. Many firms interviewed in our research indicated that they finance their businesses from retained earnings or other internal sources. As figure 5.1 shows, the percentage of capital financed by banks is low, whereas 82.6 percent of firms' total investment is financed from internal sources and/or retained earnings.

Figure 5.1: Firms Largely Rely on Their Own Sources of Finance



Source: World Bank Enterprise Survey Data, 2015.

Lack of access to land or working premises also delays establishing firms' abilities to access financing. For example, even firms that qualified for access to DBE loans need a lease agreement for industrial land or a five-year contract for work premises as collateral for the loan. Given the difficulties and delays in getting access to land, firms often miss out on financing opportunities. Moreover, land can be used as collateral only if it has been "developed"—that is, if something has been built on the land. Firms explained that this often puts them in a vicious cycle, where they cannot finance construction on the land because they lack access to finance, and they cannot obtain finance because they have not built on the land.

> "It is not encouraging. Collateral requirements are strict. Even machinery cannot be used as collateral. I have no fixed asset to use for collateral. Hence, I haven't even tried taking a loan. Machines should be used for collateral. It is also good if they look into business contracts to offer loans. Business contractual agreements should be used as a guarantee."
> —Domestic investor, Addis Ababa

Supply as well as demand side barriers result in this limited access to finance for new firms and long-term investments. On the supply side, the current regulatory framework has restricted liquidity in private banks and led to high credit rationing for new entrants. Firms highlighted that the restricted supply is leading to delays in loan processing times across the various banks and corruption in the loan application processes. On the demand side, firms are often self-excluding themselves from the banking sector as they expect to be rejected; they also lack the necessary collateral and awareness of how to be bankable and how to prepare good business plans (Amatova 2017). Small and medium enterprises have scant asset accumulation to collateralize, and the added requirement that domestic borrowers provide personal unlimited guarantees is a disincentive.

At the national level, improving access to financial services for local enterprises is a priority. In particular, to alleviate the large unmet demand of small and medium enterprises (the "missing middle") for accessing finance for productive long-term investments the government could work towards:

- Helping financial intermediaries to deploy novel lending techniques targeting these types of firms
- Building the necessary financial infrastructure for small and medium enterprise finance
- In a liquidity-constrained environment like Ethiopia, offer to financial intermediaries the possibility to access sustainable sources of liquidity coupled with the necessary technical assistance to serve small and medium enterprises

Skills

While skills were not highlighted by the majority of firms as a binding constraint, large firms in higher value-added sectors did see it as a barrier. Only 2.2 percent of firms in Addis Ababa identified an inadequately educated workforce as a major constraint, compared with 42.7 percent in Dar es Salaam or 28.8 percent in Kigali.[2] On the other hand, for those involved in more modern manufacturing, skill gaps in managerial and mechanical skills were an issue. Vacancies for skilled production and managerial positions remain open for relatively long periods of time (up to four weeks for skilled production workers and more than six weeks for managerial positions) and 57 percent of the firms surveyed identified the lack of appropriate applications as the primary obstacle to filling vacancies. Due to the shortage of adequately trained employees in these skills, firms indicated that they had to invest in training their own employees. Improving labor skills will be important for industrialization and economic development. Evidence indicates that a one-year increase in the average education of a production worker in Ethiopia is associated with an increase of 33.3–41.0 percent in various measures of labor productivity (World Bank 2016a).

Despite the government's best efforts to invest heavily in the TVET system, there is still evidence of a mismatch between the skills the system produces and the needs of the private sector. While manufacturing firms struggle to fill open vacancies due to lack of skilled individuals, TVET graduates (who are meant to possess relevant vocational skills) experience the highest levels of unemployment.[3] Firms reportedly train workers on the job rather than employ TVET graduates due to a dissatisfaction with their productivity. The government has tried to better align the TVET curriculum with the requirements of the market and introduce a cooperative training model through which students spend 70 percent of their time in on-the-job training and 30 percent in the classroom. Despite these efforts, firms are reluctant to take on TVET trainees because they feel they do not contribute to their productivity (unlike university students who are more welcome) and do not prefer TVET graduates when hiring. Only a quarter of firms in Addis Ababa employed graduates trained by a TVET institution, while 56 percent conducted in-house training, 36 percent employed the services of a non-TVET external institution, and only 6 percent hired through an accredited TVET institution. The private sector is still not involved in designing the TVET curriculum, which could improve the relevance and performance of TVET. While the ministries of industry, mining, and agriculture have been key participants in the process, mechanisms to consult the private sector have not been established (World Bank 2016a).

Increasing private sector participation in the design of the TVET curriculum could lead to improved matching of graduate skills to the needs of higher value-added sectors. The Ministry of Education has an opportunity to improve the relevance of TVET training that it currently offers, by involving the private sector. Allowing external representatives on TVET management boards, including local private sector as well as international representatives from TVET education in other countries, would be an important step. Establishing partnerships with private sector training providers for business skills training rather than solely relying on TVET institutions is another possible measure.

ICT

If Addis Ababa is to become the hub for high-tech manufacturing and tradable services that it aspires to be, investments need to be made to improve the cost and reliability of ICT. Investments in 4G have allowed for some recent reductions in tariffs, but the cost of connectivity is still high. High costs and limited investment may be due in part to the fact that Ethio Telecom is a state-owned monopoly that has limited access to finance, and FDI in the sector is restricted. The government could consider gradual liberalization measures and/or structure public-private partnerships that allow investment in high-speed broadband infrastructure to accelerate improvements. Further, permit requirements make it difficult for small firms to connect to broadband, creating a barrier to entry, which discourages innovation in the technology sector. The World Bank (2014) provides further detail of possible strategies for developing an IT-based surveys industry in Ethiopia.

Notes

[1] Availability of "long money" is one of the critical issues in the banking system in Ethiopia, as the large part of savings and time deposits are concentrated in the Commercial Bank of Ethiopia (CBE). For example, in 2015, the CBE alone mobilized 66.1 percent of the total deposits, diverting resources from the private banks. This is mainly due to the national housing program that has encouraged customers to withdraw funds from private banks and deposit them in the CBE for long-term housing plans.

[2] World Bank Enterprise Survey data for latest available year.

[3] The rates are 23–24 percent compared to 15 percent for people with no education at all (World Bank 2016a).

6. Action Plan: Summary of Major Recommendations

For the City Administration to meet its economic development objectives, there is a need for a policy transition, from government as *provider* of jobs for the unemployed to an *enabler* of private sector growth and job creation. While the GoE takes its responsibility for poverty reduction seriously and must be commended for its focus on job creation through MSE and infrastructure programs, government alone cannot solve the unemployment problem and create the number of jobs needed. The private sector creates most jobs in Addis Ababa and yet faces major constraints against entry, establishment, and growth, as outlined in this study. Government's major role could therefore be refocused to alleviate these constraints and enable private sector success and further job creation.

While the federal government has a major influence on the enabling environment for growth and job creation, the city government can also have a big impact. As the analysis on the major constraints facing local firms in Addis Ababa has shown, federal government action is required on issues relating to urban land policy reform, access to finance, skills, and ICT readiness. The policies and practices of the Addis Ababa City Administration have a big impact particularly with regard to access to land on which commercial and industrial activities can establish themselves. The complex regulatory environment, characterized by institutional inefficiency and, often, corruption, also exerts major transaction costs on local firms. The extensive support that the City Administration provides to MSEs could also be significantly enhanced to achieve more impact. Finally, the City Administration requires significant capacity improvements if it is to play a more positive role in improving Addis Ababa's economic performance and job creation prospects. The case of Kigali, Rwanda, in box 6.1 offers interesting examples from a similar country context of important actions that city governments can take.

Box 6.1: Learning from Kigali: How to Improve Competitiveness

Kigali has achieved outstanding economic performance in recent years, with annual gross domestic product and job growth averaging 9.7 percent and 6.12 percent, respectively between 2007 and 2012. Undoubtedly, this was due to conducive national level policies. For example, Rwanda prioritized the improvement of the business environment and was a top reformer according to the World Bank's Doing Business survey. Improvements included land reform (through the Land Tenure Regularization Program), which encouraged private land ownership and freed up land markets, and the centralization of investment promotion activities within one agency, the Rwanda Development Board (RDB).

However, city-level interventions led by the Mayor of Kigali were also a major contributory factor in this success. Critical areas of focus included the following:

- *Improving the city's business environment*: The City of Kigali proactively undertook an assessment of the enabling environment according to the World Bank's Doing Business survey (adopting this "best practice" from the national level). This assessment included feedback from the private sector, through the newly established Kigali Investors Forum, and concluded with the implementation of specific reforms to address constraints. Most notably, a Kigali One Stop Shop was instituted in 2010 where firms can deal with all local government procedures in one place.

- *Addressing bottlenecks and constraints for the private sector*: The city engaged regularly with the private sector to better understand constraints to doing business. Through these engagements, the city identified access to finance and land ownership as two key constraints for local firms. The city then addressed these by helping firms organize as

cooperatives and co-locate operations, providing groups with land titles for the new properties. Further, the city worked with financial institutions to provide these same land titles as collateral and subsequently helped increase access to finance.

- *Marketing the city to investors and key actors to attract new investment*: The Kigali Conceptual Master Plan (and later the Kigali City Master Plan- KCMP) was used as a promotional tool to demonstrate viable opportunities for investment in the city. Paired with a good investment climate and government commitment (signaled by the completion of infrastructure projects in line with the long-term vision), the plan has successfully attracted numerous new investments by foreign and domestic investors.

Source: World Bank. 2015. *Competitive Cities Knowledge Base: Six Case Studies of Economically Successful Cities*. Washington, DC: World Bank.

A first step will be to establish a forum or mechanism for regular public-private consultation. Currently, the city does not have such a mechanism but has already made a commitment to instituting one, under the leadership of the Trade Bureau. Fortunately, the Addis Ababa Chamber of Commerce and Sectoral Associations are strong institutions capable of partnering with the City Administration on a city economic development agenda. International examples of public-private consultation and dialogue in other competitive cities might provide good examples of effective mechanisms. The World Bank's technical assistance project has also committed to supporting the City Administration in initiating such a mechanism if there is interest.

Table 6.1 provides a quick summary of the key recommendations and detailed actions that the report recommends be taken by the Addis Ababa City Administration in the short and medium-long terms. We concentrate on local level actions within the remit of the Addis Ababa City Administration, given that this was the main focus of the report.

Table 6.1: Summarized City-Level Recommendations

Issue	Quick wins (1–3 years)	Medium term (3–5 years)
1. Work with federal agencies on *promotion* of higher value-added sectors	**Office of the Mayor to:** • Partner with Ethiopian Investment Commission to implement investment attraction efforts such as city branding • Delineate responsibilities between the relevant bureaus of City Administration and federal agencies relating to promotion and quality upgrading of sectors including tourism, high-tech industry, and others	• Significant capacity development will be needed for the Industry Bureau to provide useful sectoral value chain development support.
2. Better regulate access to *land* for industrial, commercial, and mixed uses	• **Land Development and Management Bureau to:** • Rapidly communicate the status of land applications already received from firms • Develop an inventory identifying vacant or underused land to be zoned and released for mixed uses or small-size mono-use zones close to each other • Broaden ranges of permitted activities in existing industrial, commercial, and other zones	**Land Development and Management Bureau to:** • Expedite establishment of modern urban land cadaster, with priorities on land zoned for mixed uses
3. Clarify and simplify *procedures* for investor	• Establish a modern and functional one-stop center for domestic and diaspora	• Rationalize and incorporate the various offices within the Land Development and

licensing and establishment	investors, accountable directly to the mayor	Management Bureau and Investment Agency into the city one-stop center • Convert as many procedures as possible to e-governance applications
4. Focus *enterprise support* for more growth-oriented entrepreneurs	**Micro and Small Enterprise Bureau to:** • Identify at least a proportion of MSEs to be supported in a more competitive manner (e.g., through business plan competitions, targeting individuals as well as groups) • Establish business-to-business register where large firms and government agencies can advertise procurements and small businesses can register and bid	**Industry Bureau to:** • Provide support to graduating MSEs including simplified regulations, facilitating market linkages, and supporting firms to improve business management and technical skills
5. Increase efficiency and *capacity* within the City Administration offices that interact with the private sector.	**Office of the Mayor to:** • Ensure the one-stop center has modern systems and that offices providing services are incentivized to provide good customer service **City Administration to:** • Hold quarterly meetings with representatives of the private sector in Addis Ababa (Chamber of Commerce, sectoral associations, microenterprise associations, and diaspora businessmen associations)	**Office of the Mayor to:** • Lead a capacity-strengthening initiative, starting with the Land Development and Management and Industry Bureaus • Focus on (i) reducing overlapping mandates, (ii) improving coordination and partnership with federal government agencies, (iii) supporting key bureaus with computerized and modern management information systems, and (iv) piloting innovative solutions to the long-term problems of high staff turnover, low skill levels, corruption, and political interference – such as establishing a grievance redress mechanism to address instances of corruption

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Appendix A: Research Methodologies Used in the Report

In line with the Project Concept Note for the Economic Performance of African Cities Technical Assistance Project (P158599), the research culminating in this report relied on various quantitative and qualitative methodologies in order to present the most comprehensive picture possible of Addis Ababa's economic performance, potentials, and constraints.

These methodologies included the following:

1. Desk-based data analysis by World Bank staff and prominent research institutes, using existing data, to provide information on Addis Ababa's recent economic performance, sectoral structure, sectoral job multipliers, and firm-level constraints
2. Qualitative, semistructured interviews with firms, particularly those that failed in operationalizing their investment in Addis Ababa, to shed light on constraints faced and make recommendations to policy makers on what could be done to alleviate them
3. Value-chain scans of prominent economic sectors in the city and the key constraints they face—sectors reviewed included those with the largest shares of output and employment as well as some of those that present new opportunities for moving into higher value-added and tradable sectors
4. Institutional analysis into the division of powers and responsibilities related to economic development between Addis Ababa (as a Charter City in Ethiopia) and the federal government, and subsequent recommendations for institutional strengthening
5. Review of secondary sources in areas relevant to the policy questions covered by the report, where sufficient research had already been completed by other World Bank teams or external organizations

The methodologies were used by prominent local research institutions as well as World Bank staff to produce the following background papers, which underlay this overall policy report:

1. Ethiopian Development Research Institute. 2017. *Alleviating the Barriers to Domestic Investment in Addis Ababa*. Addis Ababa, Ethiopia
2. Precise Consult International. 2017. *The Development and Promotion of Competitive Value Chains in Addis Ababa*. Addis Ababa, Ethiopia.
3. Gebre-Egziabher et al. 2017. *Institutional Barriers to Private Sector Development in Addis Ababa*. Addis Ababa, Ethiopia.
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6. Winterfeld, K. 2017. *Enhancing Domestic Investment Conversion: Regulatory Market Entry Barriers in Addis Ababa*. Department of Geography and Environment, London School of Economics and Political Science.
7. Background analyses by Tristan Reed (Consultant, GSURR), Bisrat Teshome (Consultant, GSURR), Olivia D'Aoust (Economist, GSURR), Juni, T. Zhu (Private Sector Development Specialist, GTC), and Angus Kathage (Consultant, GSURR).

The following subsections provide more details on each of the five methodologies used, including data sources.

Desk-Based Data Analysis by World Bank staff and prominent research institutes

First, the desk-based analysis looked at economic performance and sectoral specialization of Addis Ababa, using available data. Data from the Ethiopia Central Statistical Agency (CSA) as well as the Oxford Economics Global Cities Database (which draws its data from the CSA as well as other national statistical agencies for a total of 750 cities worldwide) were used. The main CSA data sources used were the Employment Unemployment Survey (UEUS several years) and the Large and Medium Scale Manufacturing Industries Survey (LMMIS several years).

World Bank staff analyzed Addis Ababa's economic sector specialization as well as the recent performance of these sectors using location quotient and shift-share analyses, among others. This involved the following
:

- Identifying the relative regional concentration of sectors in Addis Ababa by computing location quotients, which compare an industry's share of regional employment with its share of national employment. The location quotient helps determine which industries make the regional (Addis Ababa) economy unique but at the same time could erode the region's competitiveness, if in decline.
- Analyzing the performance of the sectors in which Addis Ababa is specialized by using shift-share analysis. The analysis helps understand the recent performance of economic sectors within a region, by decomposing regional growth in employment and calculating how much can be attributed to national, industry, and regional factors. Each regional change is decomposed into three components. (i) The national growth effect is the portion of the change attributed to the total growth of the national economy. It equals the theoretical change in the regional variable had it increased by the same percentage as the national economy. (ii) The industry mix effect is the portion of the change attributed to the performance of the specific economic industry. It equals the theoretical change in the regional variable had it increased by the same percentage as the industry nationwide, minus the national growth effect. (iii) The local share effect is the portion of the change attributed to regional influences and is the component of primary concern to regional analysts. It equals the actual change in the regional variable, minus the previous two effects. This is based on United Nation's Statistics Division International Standard Industrial Classification (ISIC Level 4) of All Economic Activities, 3.1 revision.
- Given policymakers' interest in whether Addis Ababa could increasingly specialize in higher tech industries and services, we undertook a desk-based analysis of recent trends in employment and export growth of these industries using data from the LMMIS, UEUS, as well as Ethiopia's export data in the UN's Commodity Statistics (COMTRADE) Database.

Second, a background paper by the International Food Policy Research Institute (IFPRI) analyzed the job multiplier effects of Addis Ababa's economic sectors using the 2011 Social Accounting Matrix (SAM) (EPAU/IFPRI 2016). As a contribution to a better understanding of the economic subsectors most important to generating more and/or better-quality jobs, we commissioned IFPRI to undertake this sectoral job multiplier analysis for Addis Ababa. The SAM model used data from the 2010 Household Consumption and Expenditure Survey (CSA 2012); 2013 National Labor Force Survey (CSA 2013); 2009/10 Large and Medium Scale Manufacturing Industries Survey (CSA 2011a); 2011 Urban Employment and Unemployment Survey (CSA 2011b); 2011 national statistics (CSA 2015). The analysis estimates the size and economic structure of Addis Ababa's economy and develops an economic model for Addis Ababa that captures the structural links between sectors and households within the local economy and between the city and the rest of the country. The model was then used to estimate the economywide impact of investing in each of Addis Ababa's economic sectors, including industries and services, given the structural characteristics of the local economy.

This static economywide model separates Ethiopia into two economic regions: Addis Ababa and the rest of the country. We divide regional economies into 58 sectors: 22 sectors in agriculture, 25 in industry, and 11 in services. Each sector in each region employs labor, land, and capital, and substitutes between these factors of production based on their *relative* factor prices. For example, if capital becomes less expensive relative to labor, then producers will substitute labor for capital in order to minimize production costs or maximize profits. Producers also combine intermediate inputs with factors in order to generate output. Labor is separated into four education-based categories: uncompleted primary, completed primary, completed secondary, and completed tertiary. Each sector's unique combination of factors and intermediate inputs per unit of output is called its "production technology." These technologies are drawn from the Input Output Table/SAM and define the intersectoral production links in the model. Production links form part of a sector's "growth multiplier effect," that is, the spillovers to the rest of the economy that are generated when a sector expands production and, in so doing, demands inputs from and supplies output to other sectors. Our economywide model captures both production (sectoral) and consumption (household) links when evaluating the impact of sectoral investments. The model also includes the government, private investors, and the rest of the world. The model's macroeconomy adjusts to ensure that the level of investment equals the total level of savings—the latter is driven by changes in the level and distribution of domestic incomes, fixed marginal propensities to save, and foreign capital inflows. Finally, the model's real exchange rate is flexible, and its current account balance is fixed. This means that if an expanding sector demands more imported machinery, then this and other sectors will need to raise exports to generate the foreign exchange needed to pay for imports. This deviates from standard multiplier analysis, which assumes that there are unconstrained supplies of both factors and foreign exchange.

The model is then used to compare the impact of a US$1 million investment targeted at different sectors in Addis Ababa's economy. We do not consider investments in agriculture, mining, and the public sector, because these are unlikely to be the focus on an urban investment plan. Instead, we focus on manufacturing, construction, and private services. The model estimates the impact of these investments on both economywide and local employment and household incomes. As with standard multiplier analysis, we initially assume that there is an unlimited supply of labor and capital in Addis Ababa and the rest of the country, which implies that rural and urban labor is underemployed and can migrate to the capital city if local labor demand increases. This assumption overestimates the likely employment and income effects from new investments. We therefore conduct further analysis that increasingly constrains the supply of labor to gauge the implications of local human capital scarcity, particularly the supply of better, more educated workers. Labor can still move between sectors, but the total supply is fixed. Under these conditions, investing in one sector may come at the expense of another, because producers must compete for scarce resources. Our final assessment is based on these more realistic assumptions about resource availability and trade-offs.

Third, we provided quantitative data on the constraints that firms face in Addis Ababa and benchmarked them against those firms face in African and international comparator cities. Staff used World Bank Enterprise Survey Data. Responses are representative of all nonagricultural firms in the private sector in Addis Ababa and comparator cities.

Fourth, World Bank staff undertook spatial analysis of the main land uses in Addis Ababa. These included residential shanty, residential non-shanty and industrial or commercial land, based on Landscan data, Henderson and Nigmatulina (2016), and Antos, Lozano-Gracia, and Lall (2016). Land cover in Addis Ababa and the other African cities was analyzed using satellite imagery and a semiautomated texture-based land cover classification that identifies neighborhoods that appear more regularly or irregularly planned. Last, for the higher resolution images, this work studies the changes in the land cover classes as one moves from the city core to the periphery.

Qualitative Semi-structured Interviews with Firms in Addis Ababa

We commissioned the Ethiopian Development Research Institute (EDRI) to undertake qualitative semi-structured interviews to shed more light on the low investment conversion rates of domestic firms in Addis Ababa. This low conversion rate pointed to the existence of obstacles that firms face between obtaining an investment license (at the beginning of the process for establishing a business) and obtaining a business license (at the end of the process). This was of relevance to policy makers at the Addis Ababa City Administration, given that facilitating domestic investment is within the direct remit of its Investment Office.

The sampling and selection of firms relied on the Addis Ababa City Administration Investment Office's database of firms. Firms that had failed to operationalize were those that had been issued an investment license but were currently in the pre-operation stage. Operational firms were those who had successfully obtained a business license. The questionnaire focused on finding the factors that led to either businesses' success or failure in operationalizing their investment idea. Semi-structured interviews with key informants were also undertaken, including with interviewees in the City Government Investment Office, the Ethiopian Investment Commission, and other relevant government agencies to verify and triangulate the information mentioned by firms. A total of 42 firms were interviewed, including firms in the manufacturing, services, and construction sectors.

Value-Chain Scan of Prominent Economic Sectors in the City and the Key Constraints They Face

We commissioned Precise Consult International (PCI) to conduct a sector, value chain scan of existing studies at the national level to identify Addis Ababa's key potentials and constraints in these sectors. PCI commenced with a wide scan of available value chain studies on the nine sectors prioritized in the Addis Ababa Growth and Transformation Plan II and discussions with policymakers at the City Administration. Given the current dynamic context of industrialization in Ethiopia, documents that were older than five years were not used in this study. The review of these studies was complemented by additional primary data-collection methods. Key informant interviews with principal stakeholders were conducted to gather primary information pertinent to the sector at the city level. Value chain experts and key stakeholders were approached to help identify intervention points for sector development and current restrictive policies that hinder competitiveness. In addition, focus group discussions were organized to explore the full dynamics within each chain. The groups discussed sector challenges, economic constraints, market opportunities, and firm-level recommendations for local policy makers.

Institutional Analysis of the Addis Ababa City Administration

We commissioned Professor Tegegne Gebre-Egziabher and research assistants at the Addis Ababa University to produce an institutional analysis of the Addis Ababa City Administration's mandates, functions, and capacities relating to economic development. Three main steps were undertaken to accomplish this analysis: (i) conducting a literature review on constraints that firms face in Addis Ababa (including the EDRI background paper), (ii) undertaking institutional mapping of the roles and functions of the City Administration vis-à-vis federal agencies for each of the main areas of constraints, and (iii) identifying institutional barriers and potential solutions.

Both primary and secondary data were collected. Primary data was obtained through key informant interviews within government institutions mandated with the delivery of the various services to the private sector in the city. These institutions were at both the federal and city level, with emphasis on the latter. A semi-structured qualitative questionnaire was used to guide the discussions with the key informants.

Review of Secondary Sources

A review of secondary studies and extracting pertinent information was used for areas of analyses that were relevant to policymakers at the Addis Ababa City Administration but where sufficient research had already been undertaken. Rather than duplicating these analyses, we therefore extracted relevant information and policy recommendations. In addition, the information was triangulated directly with key informants in relevant Bureaus of the City Administration and federal government before inclusion in the report.

This method was particularly used for the following areas of findings and recommendations:

- *MSE challenges and the performance of related GoE policies*: The analysis on this relied heavily on a number of secondary research studies, including the World Bank (2015a), *Ethiopia Urbanization Review*; Ethiopia Canada Cooperation Office (2015), *Survey of Urban Micro and Small Enterprises in Ethiopia*; EDRI (2014), *Identifying Key Success Factors and Constraints in Ethiopia's MSE Development: An Exploratory Research*; Ministry of Urban Development and Construction (MUDC 2013), *Survey on Micro and Small Enterprises (MSEs) in Selected Major Cities of Ethiopia*; Di Nunzio (2012), *We Are Good at Surviving: Street Hustling in Addis Ababa's Inner City*; Gebre-Egziahber and Ayenew (2010), *Micro and Small Enterprises as Vehicles for Poverty Reduction, Employment Creation and Business Development: The Ethiopian Experience*.
- *Labor skills and the performance of the GoE's TVET program*: This section, referring to actions needed by the federal government, heavily relied on World Bank (2016), *Skills for Competitiveness and Growth in the Manufacturing Sector: Human Development, Education*.
- Access to finance challenges for SMEs in Ethiopia. Again, this section, referring to actions needed at the Federal level, heavily relied on World Bank (2015b). *SME Finance in Ethiopia: Addressing the Missing Middle Challenge*. Washington, DC.

Appendix B: Examples of Practical Actions That Local Governments Internationally Undertake to Promote Economic Development

While it is impossible to list here all the policy reform and investment possibilities that could be undertaken, various toolkits have documented the wide variety of interventions that can and have been implemented by cities to improve their economic competitiveness. The following are illustrative examples.

Institutions and Regulations

- Improving the regulatory environment for businesses and investors by reducing the time it takes to process business registration applications; reducing business costs for micro and small enterprises (MSEs) by lowering municipal taxes and local charges; reducing the complexity of legislation imposed on businesses and investors; introducing e-governance, one-stop shops, and other means for providing information and simplifying procedures
- Encouraging cluster development through tax incentives and zoning regulations
- Marketing and promoting the locality as a good place to start a business, to make an investment, to come for tourism, and so forth through actions such as city or local area brochures and economic profiles; information packages for potential investors; direct mailing to potential investors; promotion via media outlets; local festivals, exhibitions, and community events to promote the area and its products; and participation in international fairs and exhibitions
- Provision of land, utilities, investment facilitation, and after-care services targeted at new or higher value-added sectors

Infrastructure

- Improving transport infrastructures such as roads and multimodal public transport (road, rail, sea port, and airports)
- Improving infrastructure necessary for economic production, including gas, electricity, telecommunications, and water supply
- Enhancing town centers or undertaking beautification schemes using local labor
- Ensuring there is enough land for business needs—for example, by supporting the clearing and preparation of sites for economic activity, putting together a land and property database, and so forth
- Establishing industrial, business parks or incubators in partnership with the private sector
- Investing in infrastructure that supports certain economic sectors—for example, renovation of sites that could attract tourists or creation of a market area for informal firms

Skills and Innovation

- Establishing local skill development partnerships between local industries, businesses, and training providers, to improve information on the type of skills needed and the design of skill development courses
- Setting up schemes for internship, apprenticeship, and training in the workplace by partnering with local businesses

- Implementing diaspora attraction initiatives
- Encouraging partnerships between research institutions and businesses toward better research and development for business needs

Enterprise Support and Finance

- Increasing access to finance, by providing information to local firms on credit availability, or providing incentives to finance providers to better serve certain types of firms, including credit guarantee schemes
- Increasing access to business development services (BDS) and knowledge on financial management, business plan development, export product standards, and so forth in partnership with private BDS providers
- Establishing incubators for startups in new sectors, in partnership with the private sector, and supporting enterprises with office space at below market rents, MSE financing, BDS, support in navigating registration and licensing and so on to help companies through the first years of their operation
- Making awards to innovative and diversifying companies through annual prize ceremonies for successful companies and individuals, in cooperation with local Chambers of Commerce

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Appendix C: Shift Share and Location Quotient Analysis (2003–2014)

Subsector	Share of labor	National share	Industrial mix	Regional share	Shift share	Location quotient
Manufacture of furniture; manufacturing n.e.c.	7%	2566	-726	-411	1429	1.63
Manufacture of passenger cars, commercial vehicles, and busses	0%	106	-101	0	5	3.35
Manufacture of machinery for food and beverage processing	0%	68	47	-15	100	3.04
Manufacture of other fabricated metal products	0%	1388	-2091	-76	-779	2.21
Manufacture of cutlery, hand tools, and general hardware	0%	754	-1227	-26	-499	1.09
Treatment and coating of metals; general mechanical engineering on a fee or contract basis	0%	258	-421	-12	-175	0.00
Manufacture of structural metal products, tanks, reservoirs, and containers of metal	9%	526	2850	425	3801	1.47
Manufacture of basic iron and steel	1%	1839	-920	-1531	-612	0.90
Manufacture of articles of concrete, cement, and plaster	3%	794	3331	-3278	847	0.50
Manufacture of glass and glass products	1%	410	-339	0	71	3.35
Manufacture of plastic products	10%	2292	6330	-5192	3431	1.29
Manufacture of rubber products	1%	1492	-1682	-106	-296	2.92
Manufacture of chemical products n.e.c	1%	1034	-934	-60	40	2.91
Manufacture of soap and detergents cleaning and polishing, perfumes, and toilet preparations	4%	927	2336	-1817	1446	1.25
Manufacture of pharmaceuticals, medicinal chemicals, and botanical products	1%	765	-108	-644	12	1.23
Manufacture of paints, varnishes, and mastics	1%	545	196	-580	161	1.60
Manufacture of basic chemicals, except fertilizers, and nitrogen compounds	2%	28	-14	788	802	1.91
Publishing and printing services	7%	4546	-3495	-748	303	2.53
Manufacture of wood and of products of wood and cork, except furniture	0%	812	1004	-2294	-478	0.03
Manufacture of footwear	6%	3128	1689	-4070	747	1.29

Tanning and dressing of leather, luggage, and handbags	6%	2446	-711	-256	1478	1.63
Manufacture of wearing apparel except fur apparel	8%	3272	-722	-868	1682	1.92
Knitting mills	1%	143	32	-25	150	3.04
Manufacture of cordage, rope, twine, and netting	2%	3335	-1957	-2811	-1433	0.76
Cotton Ginning	5%	9719	-5759	-8072	-4112	0.34
Manufacture of tobacco products	2%	854	-642	0	212	3.35
Manufacture of soft drinks and production of mineral waters	0%	1034	600	-2089	-455	0.10
Manufacture of wines	6%	506	2197	-187	2516	3.15
Distilling, rectifying and blending of spirits	0%	192	173	-349	16	0.52
Manufacture of bakery products	5%	1833	774	-1254	1353	1.50
Manufacture of grain mill products	2%	1858	703	-2856	-295	0.36
Manufacture of vegetable and animal oils and fats	1%	252	-207	232	277	1.82
Production, processing and preserving of meat, fruit, and vegetables	3%	106	-94	1145	1157	3.92

Source: World Bank staff calculation using data from the CSA *Large and Medium Scale Manufacturing Industries Survey* (several years).

Appendix D: Sectoral Specialization of Addis Ababa and Other Big Secondary Cities

Manufacturing Industry	Cities per Industry	Addis Ababa		Adama		Bahir Dar		Dire Dawa		Hawassa		Mekele	
		Location Quotient	*Share of Employment*	*Location Quotient*	*Share of Employment*	*Location Quotient*	*Share of Employment*	*Location Quotient*	*Share of Employment*	*Location Quotient*	*Share of Employment*	*Location Quotient*	*Share of Employment*
Furniture	3	1.6	7%			3.0	12%			2.6	11%		
Grain mill products	3			1.6	9%			1.3	7%	2.3	13%		
Other non-metallic	3					2.7	6%			2.1	5%	2.2	5%
Spinning, weaving and finishing	3					3.5	53%	2.9	45%			1.8	27%
Articles of concrete, cement	2					1.5	9%	4.8	27%				
Bakery	2	1.5	5%	4.4	16%								
Pasta	2							5.0	3%			4.4	3%
Plastics	2	1.3	10%	4.9	39%								
Publishing and printing	2	2.5	7%							1.8	5%		
Soap detergents, perfumes	2	1.2	4%	1.1	4%								
Wearing apparel except fur	2	1.9	8%	5.3	22%								
Basic iron and steel	1											5.3	8%
Bodies for motor vehiles	1			3.2	5%								
Cement, lime and plaster	1											15.6	33%
Cordage rope and twine	1									14.5	33%		
Footwear	1	1.3	6%										
Rubber	1									6.1	4%		
Soft drinks	1							1.7	4%				
Spirit	1											5.3	3%
Structural clay products	1									34.3	12%		
Structural metal products	1	1.5	9%										
Tanning and dressing of leather	1	1.6	6%										
Wine	1	3.2	6%										
Wood products	1									8.7	10%		
AVERAGE Location Quotient		1.8		3.4		2.7		3.1		9.1		5.7	
TOTAL Share of Employment			69%		95%		80%		87%		92%		79%

Source: World Bank staff calculations using the CSA *Survey of Large and Medium Scale Manufacturing Industries, 2014*. All industries with a location quotient greater than 1 and a share of employment of at least 2.5% in at least one city are shown.

Appendix E: Addis Ababa Production and Employment, 2011

	Share of national GDP (%)	Addis Ababa GDP share (%)	Addis Ababa employment share (%)	Ratio to average GDP per worker	Relative labor-to-capital ratio
All sectors	**6.4**	**100.0**	**100.0**	**1.00**	**1.00**
Agriculture	**0.1**	**0.8**	**1.5**	**0.52**	**1.81**
Industry	**17.1**	**30.3**	**24.2**	**1.25**	**0.57**
Mining	1.3	0.3	0.2	1.46	0.84
Manufacturing	29.2	17.0	11.1	1.53	0.36
Food processing	17.7	4.2	1.9	2.20	0.24
Beverages and tobacco	10.5	1.3	1.3	0.99	0.54
Textiles and leather	66.3	2.6	2.9	0.91	0.65
Wood and paper	89.5	1.8	0.8	2.16	0.29
Chemicals	18.3	1.0	0.5	1.91	0.28
Non-metallic minerals	33.8	1.8	1.1	1.72	0.30
Metals and products	79.9	3.4	1.2	2.75	0.19
Machinery and vehicles	51.6	0.3	0.5	0.73	0.86
Other manufacturing	81.5	0.6	0.9	0.64	0.96
Electricity and water	5.9	1.1	0.9	1.22	0.92
Construction	15.8	11.9	12.0	0.99	1.18
Services	**9.4**	**68.9**	**74.3**	**0.93**	**1.30**
Wholesale and retail trade	3.9	9.6	22.0	0.43	2.36
Transport and storage	21.4	8.1	8.5	0.95	1.52
Hotels and catering	6.5	4.8	6.3	0.75	1.20
Communication	1.5	0.7	0.8	0.93	0.97
Finance	19.9	3.7	1.5	2.50	0.38
Real estate activities	7.4	12.7	1.0	12.71	0.07
Businesses	33.9	4.1	4.8	0.86	1.84
Public administration	10.3	5.8	3.8	1.51	0.87
Education	14.4	5.0	4.7	1.07	1.93
Health and social work	24.1	2.7	1.2	2.19	2.05
Other services	41.3	11.9	19.6	0.60	2.62

Source: IFPRI background paper using the 2011 Social Accounting Matrix (SAM) (EPAU/IFPRI 2016); 2010 HCES (CSA 2012); 2013 NLFS (CSA 2013); 2009/10 LMMIS (CSA 2011a); 2011 UEUS (CSA 2011b); 2011 national statistics (CSA 2015). See appendix A for full references.
Note: Labor productivity ratio is the sectoral average GDP per worker divided by the average Addis Ababa-wide GDP per worker. Labor-to-capital ratio is the number of workers per value unit of capital and crop land in each sector relative to the Addis Ababa weighted average labor-to-capital ratio.

Appendix F: More Detailed Addis Ababa Employment Patterns, 2011

	Employed workers (1000s)	Share of sectoral employment by workers' education group (%)				
		Incomplete primary schooling	Incomplete secondary schooling	Completed secondary schooling	Completed tertiary education	All workers
All sectors	**1,082**	**47.0**	**22.8**	**20.4**	**9.9**	**100.0**
Agriculture	**16**	**80.9**	**14.6**	**3.1**	**1.4**	**100.0**
Industry	**262**	**47.3**	**35.1**	**11.5**	**6.0**	**100.0**
Mining	2	40.7	15.9	35.6	7.8	100.0
Manufacturing	120	56.0	26.3	13.1	4.6	100.0
Food processing	20	69.6	21.4	6.0	3.0	100.0
Beverages and tobacco	14	61.6	24.7	9.6	4.1	100.0
Textiles and leather	31	55.8	25.0	13.9	5.3	100.0
Wood and paper	9	31.2	26.4	36.8	5.5	100.0
Chemicals	5	54.2	25.7	13.2	7.0	100.0
Non-metallic minerals	11	60.2	29.5	6.6	3.7	100.0
Metals and products	13	55.3	20.7	17.6	6.4	100.0
Machinery and vehicles	5	58.5	22.4	13.7	5.4	100.0
Other manufacturing	10	40.2	48.7	8.8	2.3	100.0
Electricity and water	10	31.5	17.5	26.5	24.5	100.0
Construction	129	40.5	45.0	8.5	6.0	100.0
Services	**804**	**46.2**	**18.9**	**23.6**	**11.3**	**100.0**
Wholesale and retail trade	238	71.5	17.7	8.7	2.1	100.0
Transport and storage	92	36.8	30.4	24.0	8.8	100.0
Hotels and catering	69	11.4	14.4	62.2	12.0	100.0
Communication	9	40.3	30.1	21.2	8.4	100.0
Finance	16	6.0	12.9	41.0	40.0	100.0
Real estate activities	11	17.2	10.9	32.9	39.0	100.0
Businesses	52	13.2	9.1	40.8	36.9	100.0
Public administration	41	14.3	17.0	43.3	25.4	100.0
Education	51	7.5	8.9	54.3	29.3	100.0
Health and social work	13	17.3	13.3	35.5	33.9	100.0
Other services	212	63.0	22.5	10.0	4.5	100.0

Source: IFPRI background paper.

Note: Education based on highest level of attainment: "Not finished primary" is no education, literacy, adult education programs, or grades 1–6; "Not finished secondary" is grades 7–11 (old and new curriculum); "Finished secondary" is grade 12, teacher training certificates, grade 10 plus vocational schooling, and unfinished diploma or degree programs; and "Finished Tertiary" is completed at least one university degree.