

Industrial Parks as key policy instruments for Ethiopia's industrialization

Challenges and opportunities in creating
backward and forward linkages

Bruck Teshome, 3 March 2022

The Policy Landscape

National Development Plans

(PASDEP, GTP I & II, 10 Year Perspective Plan)

Industrialization Agenda (Industrial Policy, ADLI, Privatization)

FDI Policy

SME Development Strategies

Sector Specific Policies

e.g. Leather, Textile.

Investment
Promotion

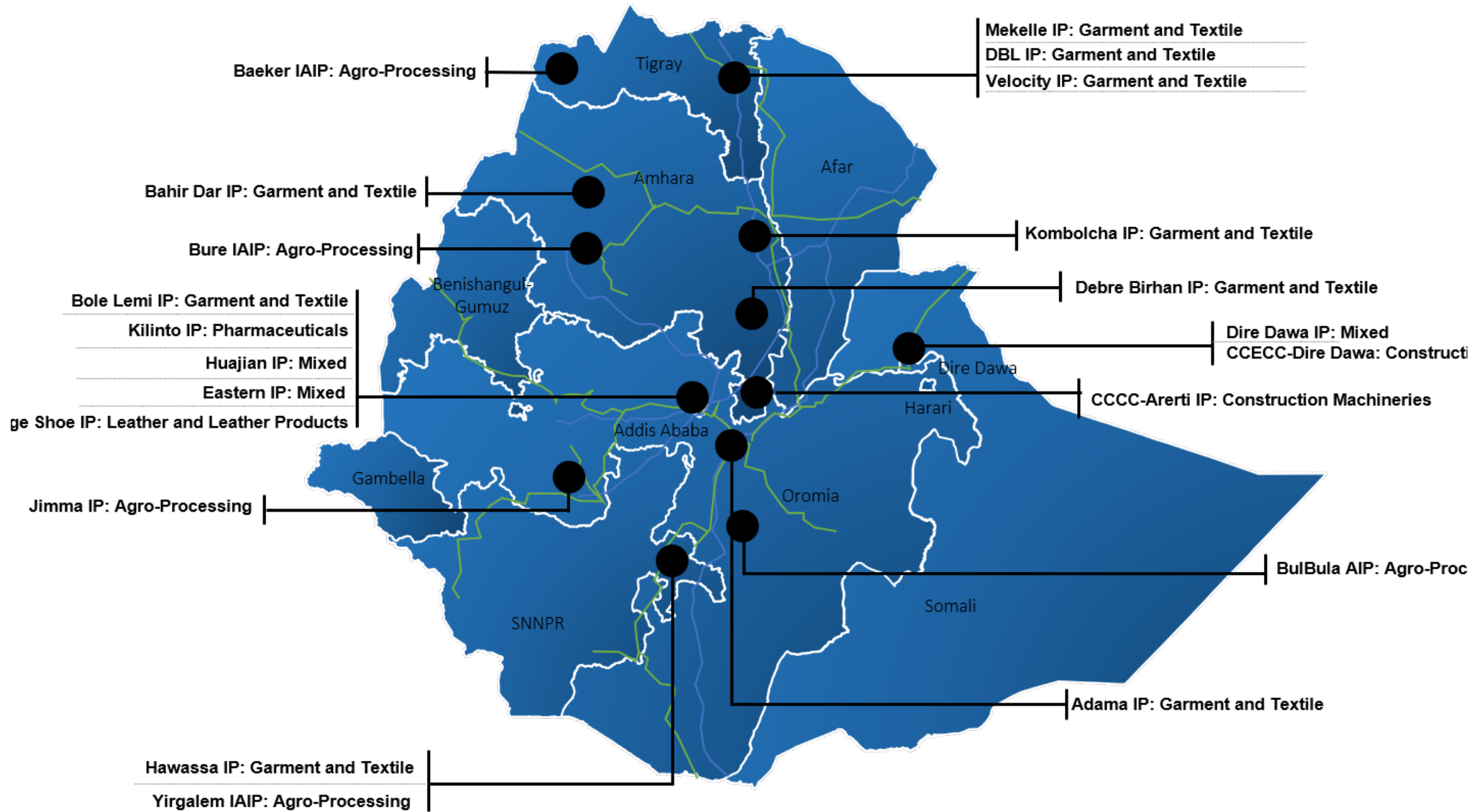
Investment
Incentives

Industrial
Parks

Exchange
Rate Policy

Export
Promotion

Industrial
Financing



Public Investment In Industrial Parks

Positives

- **Has contributed greatly to the flow of FDI to Ethiopia, coupled with other factors** (access to markets, inviting policies, incentives, and a focus on industrialization at the highest level of government)
- **Foreign Direct Investments** in Ethiopia, not only has grown in volume since the focus and public investment in Ips, it **has been focused on the Manufacturing Sector (up to 2/3 of FDI)**
- **Introduced global brands and manufacturers to the Ethiopian market**, offering opportunities of technology and skills transfer

Negatives

- **Lack of sufficient coordination** between government agencies has become critical
- Some **infrastructural gaps** remain – and affected time from investment to production (e.g. power availability, water)
- **Policy inconsistencies** have appeared – and solutions have often failed to resolve these inconsistencies
- **Linkages between FDI and local firms** is underdeveloped and has suffered from a coordinated and concerted efforts
- **Technology and skills transfer** has been limited

Industrial Policy

Improving the Investment Climate

Investment law revision
Ease of doing business.
Addressing infrastructural gaps
(Power, roads, water)

Specific linkage policies

Strategic Attraction of FDI

Incentivizing priority Sectors
Industrial Parks
Min. capital requirement
Local content requirement
Incentives

Strengthening Absorptive Capacity of Domestic Enterprises

MSME Policy and Strategy
Sectoral development policies
Agglomeration
Support to domestic enterprises
(MSME + Large)



Addressing gaps: Linkages and Industrial Parks

Well designed linkages policy should be able to address gaps and remove impediments to realizing the opportunity that Industrial Parks offer to the country's development plans

Clarity of policy goals

Removing lack of clarity of mandate holders

Improved coordination of implementing institutions

Removing inconsistency of policy approaches

Modernizing and digitizing administration of incentives and export promotion schemes

Investing in the absorptive capacity of local firms

Collaborative approaches between FDI, Local Firms and Federal and local government

Sustainability of industrial parks strategy – financially, socially and environmentally

Strategies to Access the Global Economy

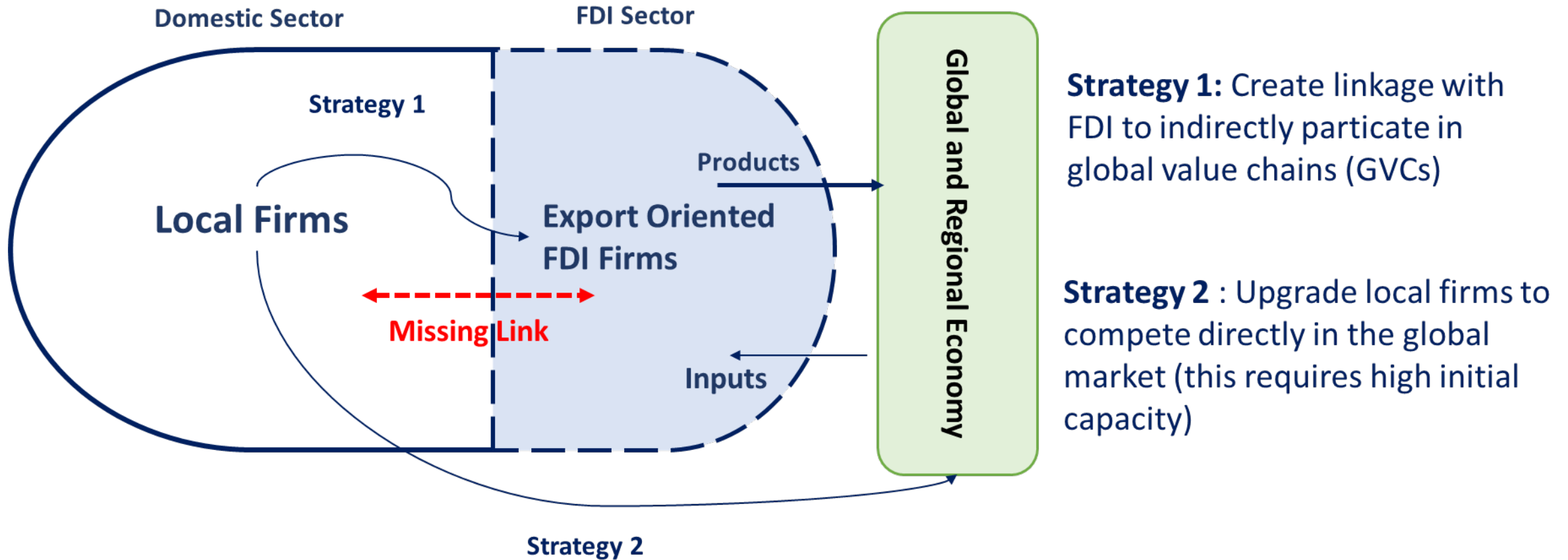
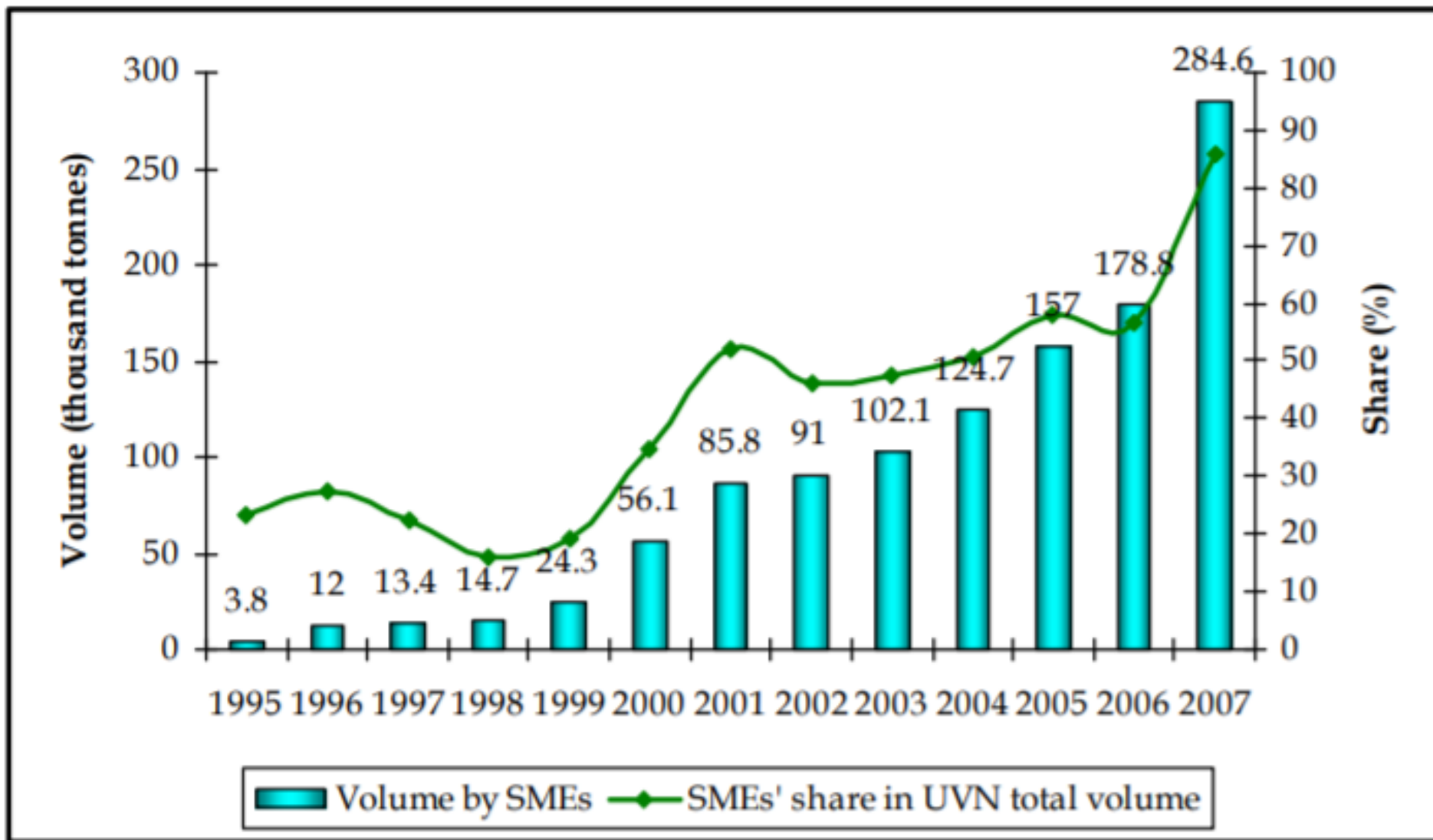


Figure 2 Export Oriented FDI firms in LDCs and Strategies to access global markets (Reproduced, from: Ohno, 2022)

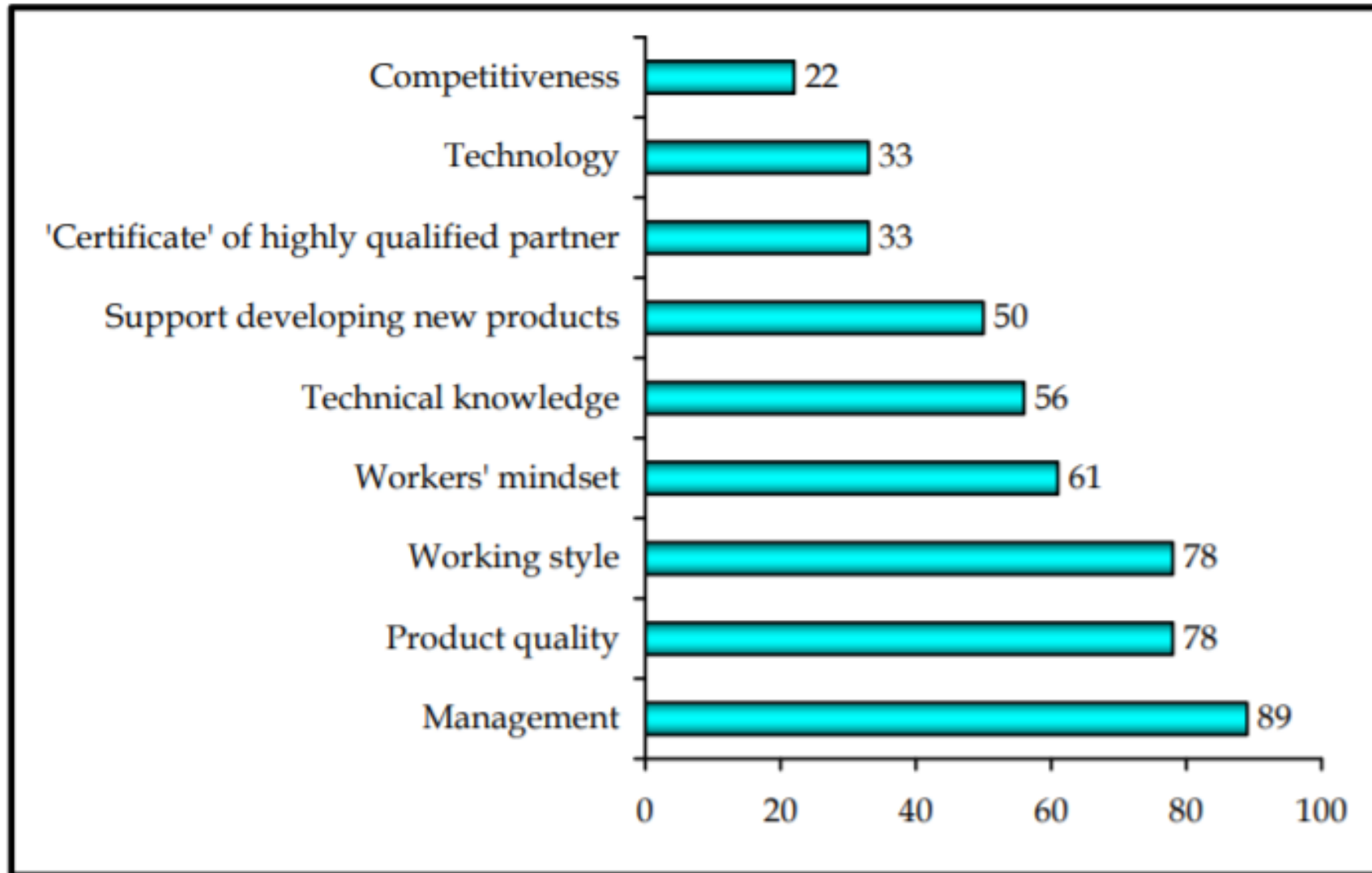
Unilever in Vietnam 1/2



Source: UVN data.

Production Volume Manufactured by 3rd party SMEs (1995-2007) Ministry of Planning & Investment, Vietnam, 2009

Unilever in Vietnam 2/2



Experience and benefits gained from the partnerships with Unilever Vietnam, Survey, Ministry of Planning & Investment, Vietnam, 2009

Source: Survey and interviews conducted by the Research Team in 2007.

END

Challenges

– through a Productive Capacity Lens

Productive Capacity Index components

Energy,

Human Capital,

ICT,

Institutions,

Natural Capital,

Private Sector

Structural Transformation,

and Transport

- **Energy** made readily available in most parks, at a much better rate than outside of parks
- **Human Capital** – efforts have been made to improving productivity
- **ICT**, very limited FDI in the sector and limited value added through introduction of ICT
- **Structural Transformation**: have not resulted in transformation of sectors due to poor linkages; existing structural limitations
- **Institutions**: Numerous institutions operate around industrial parks – EIC, IPDC, MiNT, Sectoral Development Institutions – but have clarity of mandate issues on some key policy areas
- **Natural capital**: limited impact due to limited availability of raw materials and inputs
- **Transport**: public investment has improved transport gaps – but challenges remain
- the **Private Sector**: has been relatively de-linked from Industrial Park investors and linkages with FDIs have been marginal – leading to perception of IPs as ‘Islands’