



Institutional coordination and policy framework for industrialization in Ethiopia: Challenges, Opportunities and Prospects for Building Productive Capacities and Economic Diversification

**Dr Hadgu Hailekiros,
Deputy Director-General, Manufacturing
Industry Development Institute of Ethiopia**

March 3-4, 2022, Addis Ababa, Ethiopia

The country has set the vision to become the leading manufacturing hub of Africa and a preferred destination for FDI by 2025



KEY GOVERNMENT STRATEGIES TO ATTAIN VISION

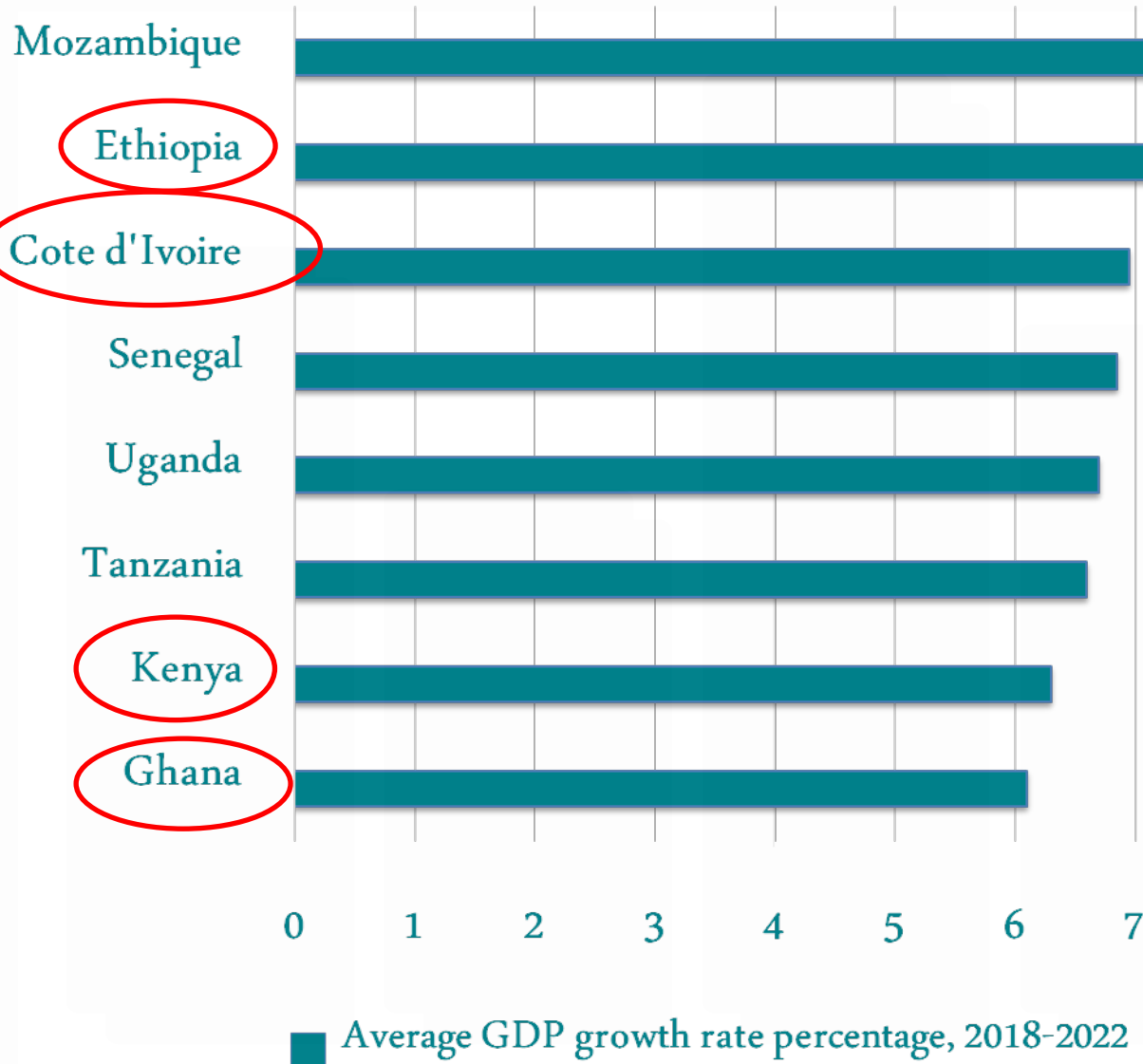
- 1 Targeted investment in priority areas**

- 2 Development of world-class industrial parks fitted with sustainable infrastructure**

- 3 Tailored incentives**

- 4 Conducive enabling environment**

Continental Perspective – GDP Growth Rates



- 6 of World's 15 Fastest Growing Economies are in Africa (Ethiopia, Rwanda, Cote d'Ivoire, Tanzania, Senegal, Ghana)
- Of the eight (8) countries in Africa with the fastest growing economies, 62.5% are LDCs
- For most, economic growth driven by significant infrastructure investments
- Rising entrepreneurship levels amid high youth population and unemployment
- Low industrialisation
- Rising services industries

Continental Perspective – Economic Growth Outlook

A promising growth outlook across the continent



East Africa Leading the way

- Best performing region, led by Ethiopia, Djibouti, Rwanda, Uganda and Kenya, fueled by agriculture and industry sectors
- Encouraging projections for 2018 and 2019



North Africa The second best performer

- Egypt, Libya, Morocco and Algeria contributed substantially to regional growth, driven by economic and fiscal reforms
- Positive outlook for 2018 and 2019



West Africa Progress in a contrasting panorama

- Performance dependent on commodities, hence vulnerable to price changes
- Growth acceleration expected in 2018 and 2019 as Nigeria consolidate gains, and Cote d'Ivoire, Ghana and Senegal contribute to regional growth expansion



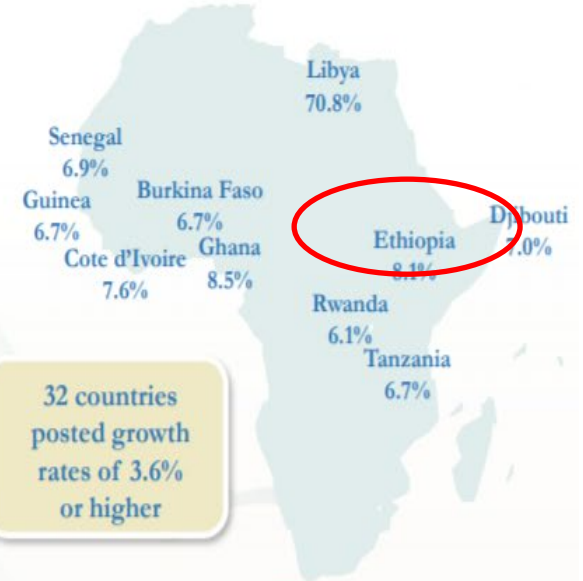
Southern Africa Growth below potential

- Botswana, Madagascar, Mozambique and Zambia lead growth, but South Africa, the region's economic powerhouse, performed below potential: services and industry sector's contribution increased, agriculture contracted due to drought
- Projections for 2018 and 2019: higher growth rates required for poverty reduction



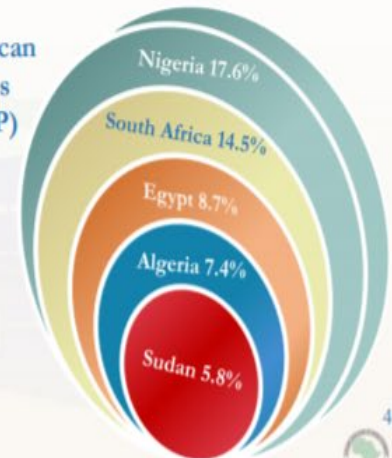
Central Africa A modest performance

- Underperformance as output contracted sharply in Republic of Congo and Equatorial Guinea
- Resilient regional economies to pave the way to improvement in 2018 and 2019



32 countries posted growth rates of 3.6% or higher

Largest African economies (% of GDP)

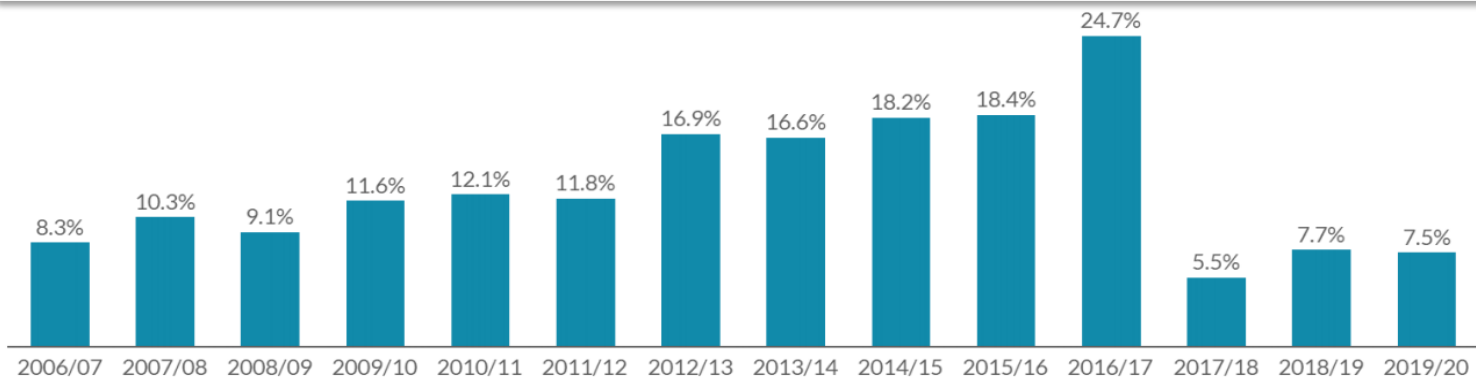


Most economies operating below full growth potential

Ethiopia growth paradox

- High growth associated with low growth per capita income, low employment outcome, and led by few sectors.
- Ethiopia has achieved a remarkable economic growth rate of 11 per cent per annum in the last 12 years, underpinning of which is the expansion in the agriculture and service sectors.
- Manufacturing's value added as a share of GDP stood at 7.4% in 2019 GC, below the African average and almost 10% less than the 17% contribution to GDP envisioned in Ethiopia's GTP-II.

Growth rate of Ethiopian manufacturing sector, 2006/07–2019/20 GC



Manufacturing industry white paper, 2020-2030.

Ethiopia's new Industrial Policy Orientation

Vision: Leading manufacturing hub in Africa by 2030.

❑ Current policy outlines a roadmap for the development of a manufacturing sector worth USD 50 billion by 2030 and 22% contribution to GDP.

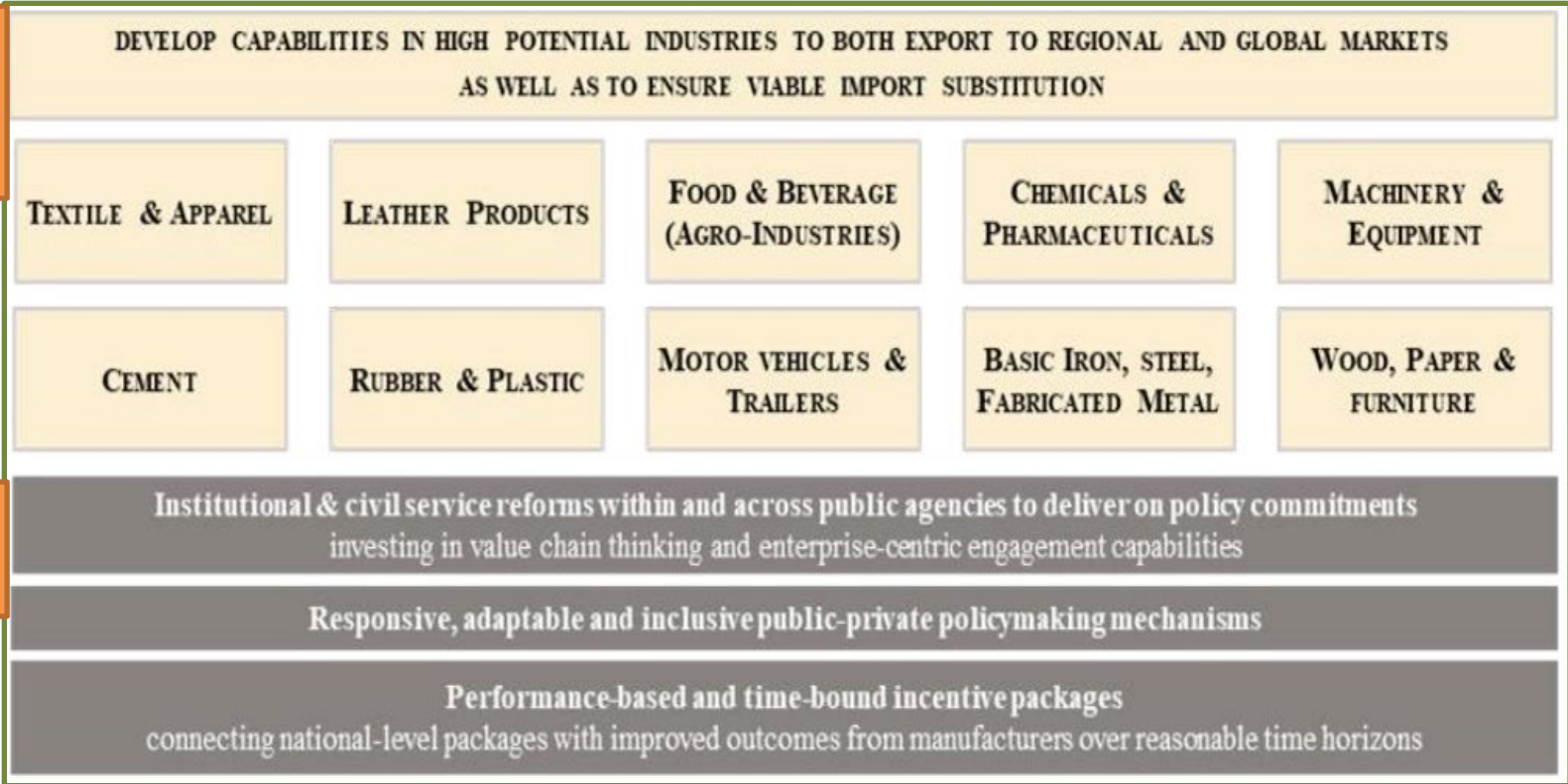
Considered the following new principles.

- **A market-driven approach** led by the private sector.
- **Enhanced macroeconomic lens** to develop a minimum viable ecosystem (MVE)
- **Prioritization** of manufacturing subsectors by their current competitiveness and potential.
- **Targeted, measurable, and sequenced policy implementation guidance.**
- **Performance-based** policy and incentives framework.
- Approach that leverages existing **production capacity** and **market opportunities**

Manufacturing industry white paper, 2020-2030.

Con't

High potential subsectors



Priority subsectors by complexity type

GoE is committed to growing its manufacturing complexity over time

Competitive	Adjacent	Complexity-enhancing
<ul style="list-style-type: none"> Textile Leather Food & beverage 	<ul style="list-style-type: none"> Chemicals & pharmaceuticals Wood, paper & furniture Cement 	<ul style="list-style-type: none"> Motor vehicles Basic steel Machinery Plastics & rubber

Manufacturing industry white paper, 2020-2030.

Survey conducted to identify challenges of six manufacturing subsectors



Possible solutions forwarded

1	2	3	4	5	6
Textile and garment	Leather and leather products	Agro processing	Chemical and construction	Metal and metal engineering	Pharmaceutical industry

5+

20+

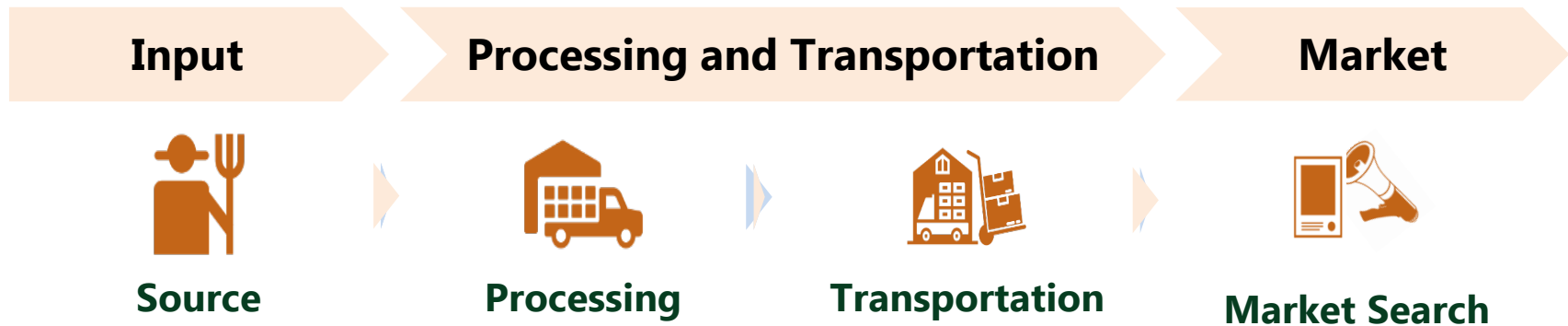
30+

In all six subsectors market chain were analyzed and challenges were identified



Solutions suggested

Products chain



Frequently raised convenient circumstances (ተደጋጋሚ የሚነሱ አስቸኳይ ሁኔታዎች)





Textile and garment industry

Challenges	Suggested solution	Implementer
Inadequate supply of cotton, domestic quality and competitive prices;	<ul style="list-style-type: none"> - Full implementation of the 15-year cotton development strategy - To take the necessary steps against the investors who have been involved in the cotton sector and borrowed from the bank. - Research and make available varieties that can improve production and productivity, and provide additional inputs; 	<ul style="list-style-type: none"> - MoA - Mol
High cost of transport and logistics	<ul style="list-style-type: none"> - 30% inland transport subsidy is recommended and a clear process is in place to implement this; 	<ul style="list-style-type: none"> - MoT - Mol
Challenge to compete in international market on producers and exporters due to the narrow profit margins	<ul style="list-style-type: none"> - Export incentive package proclamation 	<ul style="list-style-type: none"> - Mol



Textile and garment industry

Challenges	Suggested solution	Implementer
<p>Illegal business activities</p> <ul style="list-style-type: none"> ❑ Smuggling accounts for 53% of the market ❑ Under Invoice and Over Invoice, ❑ Non-receipt transactions, especially in the Eastern Industrial Zone; ❑ Increasing number of foreign investors engaged in domestic market but yet benefit from export incentives; 	<ul style="list-style-type: none"> - Develop, implement and monitor and evaluate a regulatory framework involving the Sector Manufacturers Association, the Sector Development Institute and the Ministry of Industry; - Implement government incentives based on performance; 	<ul style="list-style-type: none"> - MoI - Customs and Revenue
<p>Increased mandatory certification costs to enter the global market</p>	<ul style="list-style-type: none"> - Export incentives proclamation 	<ul style="list-style-type: none"> - MoI
<p>Lack of supply of foreign exchange for industrial inputs import</p>	<ul style="list-style-type: none"> - Strict monitoring of the performance of producers in accordance with the revised National Bank Guidelines. 	<ul style="list-style-type: none"> - National Bank - MoI
<p>Manufacturers in the sector have stopped production or forced to work less (due to the debt crisis, many)</p>	<ul style="list-style-type: none"> - After bank reform will then be resolved 	<ul style="list-style-type: none"> - CBE - National Bank - Dev't Bank - MoI



Textile and garment Industry

Challenges	Suggested solution	Implementer
Taxation on spare parts and accessories	- Monitor and verify the full implementation of the national tax reform through the Ministry of Finance;	- MoF - MoI
Excise tax on textiles and clothing;	- Implement the necessary tax reforms (amend the proclamation)	- MoF - MoI
Profit tax rate is applied equally to the manufactures and merchants in the sectors	- Study the process, conduct survey and implement possible solutions	- MoF - MoI
Pricing and product placement on imported inputs and products through the Customs Commission	- Implementing the Customs Commission in accordance with Proclamation 859 and Directive 158/2011, - Monitor and assist implementation as per agreement	- Customs and Revenue
According to the amended Customs Proclamation, the 10/15 day temporary storage period does not apply to the manufacturing sector.	- Joint study and give immediate response	- Customs and Revenue - MoI
Lack of adequate financial support for manufacturers to promote their products;	- Export incentive package	- MoI



Leather and Leather Products Industry

Challenges	Suggested solution	Implementer
Insufficient supply and quality of raw hides and skins	- Identify the regions and areas where the raw materials are produced more and facilitate the creation of new suppliers ;	- Mol - Regional Bol - LIDI
	- Implement Standard Operating Procedures (SOP) to ensure proper handling of raw hides and skins during slaughter and post-slaughter processes;	- MoA - LIDI
	- Awareness raising and promotion using various media outlets during holidays and festivals .	- MoA. - Mol
	- Identify areas for large-scale slaughter and provide the necessary training for butchers .	- MoA - Mol
	- Provide the necessary training for new comers to the profession;	- MoA - Mol
	- Identify trained and certified slaughter houses to provide continuous training and carry out ongoing monitoring and support activities;	- MoA - Mol
	- Determining an area of high-quality leather production and adequate supply of plastic sinking tanks	- MoA - Mol
	- Awareness raising, design and implementation of projects, and monitoring and support for local investors to engage in modern ranch ;	- MoA - Mol



Leather and Leather Products Industry

Challenges	Suggested solution	Implementer
Insufficient supply and quality of raw hides and skins	Establish an information center and promote radio, television, which can change the perception of the community by making information available to woreda.	- MoA - Mol
	Provide action-oriented training to veterinarians on skin-related diseases and establish strong systems to prevent and control external dependence at kebele level	- MoA. - Mol
	Priority should be given to local pharmaceutical companies to register their medicines as soon as possible and to ensure the quality and safety of imported medicines as soon as possible.	- MoA - Mol
	In addition to Derba Cement Factory, Dire Dawa and Senkele Cement Factories to product lime and supply to market	- Mol



Leather and Leather Products Industry

Challenges	Suggested solution	Implementer
Lack of coordinated efforts to increase productivity and diversity in the foreign exchange market;	Carry out product promotion and marketing activities in collaboration with the Ministry of Foreign Affairs.	- MoFA - MoI
	Value-added incentive system	- MoI - LIDI - MoF
Lack of financial system and supply for the sub-sector;	Collaborate to make the system effective by identifying and analyzing the conditions for improving the supply chain and supply system ;	- LIDI - MOI - Inv. board
	Conducting a Credit Supply Study for at least 50% of domestic raw material suppliers;	- MoF - MoI
	Conducting Export Rebate Scheme that Encourages Manufacturing Manufacturers	- National N=Bank - MoI



Leather and Leather Products Industry

Challenges	Suggested solutions	Implementer
<p>Limited technical knowledge of professionals and industries to facilitate production and productivity improvement activities;</p>	<p>- Support three leather factories to obtain certification from Leather Working Group (LWG) worldwide.</p>	- LIDI
	<p>- Identify the Global Compliance Requirement in detail and provide support to local shoe manufacturers who want to meet the requirements;</p>	- LIDI
	<p>- Collaborate to develop and implement an incentive system to promote the expansion of research and dissemination as well as technical laboratory centers organized at the company level;</p>	<p>- MoI - LIDI - MOF</p>



Chemical and Construction Input Dev't Industry

Challenges	Suggested Solutions	Implementer
Proclamation No. 1160/2011 Article 13 Sub-Articles 1 and 2 of the Customs Proclamation Amendment Proclamation	- Amend the Proclamation by increasing the interest rate on the government by more than 30 days and by increasing the warehouse rent by 25% if the 15 days are extended by 1 month or if there is no good reason.	- Customs - MoF
imported spare parts and small sample products can only be cleared through customs clearance.	- Allow manufacturers to clear themselves	- Customs
Price adjustments by the Customs Commission on suspicion of under-invoice;	- Establish a series of discussions and awareness forums to close the gap between the Customs Commission and the manufacturing industries ; Punishment on Suspected and Convicted Industries by Customs Commission, Institute and Production Associations	- Customs - MoI - Manufacturing Associations
Limitation of domestic input supply	- Carry out the necessary development by completing the infrastructure of the mining areas ;	- MoI - Ministry of Mines and Energy - Industries



Chemical and Construction Input Dev't Industry

Challenges	Suggested Solutions	Implementer
Lack of linkages to strengthen manufacturing associations (chemical, furniture, cement, ceramic).	<ul style="list-style-type: none"> - Amend 341/91 Proclamation and establish a strong national manufacturing association federation or confederation association - Facilitate conditions for government industry associations to carry out government-controlled oversight and assistance to the government; Provide support for this type of work in the future, as well as provide technical support such as the construction of a laboratory for testing and quality assurance. 	<ul style="list-style-type: none"> - MoI - Industry - Sector Associations
The sub-sector does not benefit from second-class tariffs	<ul style="list-style-type: none"> - Enabling wood products, plastics, paper and packaging companies to benefit second-class tariffs 	<ul style="list-style-type: none"> - MoF - MoI - Institutes



Chemical and construction inputs dev't industry

Challenges	Suggested solutions	Implementer
Strict product quality control has not been implemented	<ul style="list-style-type: none"> - Evaluate the quality of all products and ensure that they are presented in the correct order. Forcing Manufacturers to Have Quality Testing Laboratories Working with regulatory agencies to ensure the quality of imported products. Working to increase public awareness of quality; 	<ul style="list-style-type: none"> - Compatibility Assessment b. - Standard A. - Consumer rights protector - Consumer rights groups
Lack of market linkages and contract performance;	<ul style="list-style-type: none"> - Implement solutions by conducting collaborative research to expand industry cluster with a focus on past and future linkages; - Establish a system that encourages direct foreign investment to use certain inputs from local producers; - Implement a regulation on trade bonding and contract implementation; 	<ul style="list-style-type: none"> - MoI - Industries - Purchase Agency - MoFA
Failure to supply the products that the domestic market needs;	<ul style="list-style-type: none"> - Carry out market research and produce quality products that the market needs; Establish a system that does not allow imports of imported products similar to domestic products; Increase the domestic protection of buyers from 15% to 30% in international bidding 	<ul style="list-style-type: none"> - MoI - Industries - Purchase Agency



Chemical and construction inputs Dev't industry

Challenges	Suggested solution	Implementer
<p>Lack of technology infrastructure and a system that produces and encourages skilled manpower</p>	<ul style="list-style-type: none"> - Facilitate conditions for duplication by copying imported technologies - Implement a technology-acquisition policy; - Formulate the technology transfer policy and strategy; - Develop a system to produce specialists and experts in the field of technology by mobilizing talented professionals and providing special support and better management; - Build a chemical industry research center in accordance to support the development of technology works and technology development and laboratory testing services. - Strengthen university-industry linkages with policy-based work on technology transfer and human resource development. 	<ul style="list-style-type: none"> - MoI - Institutes - MoE - MoFA - MoIT



Metal and Metal Engineering

Challenges	Suggested solutions	implementer
Optional supply of inputs, especially the lack of access to scrap metal and the lack of operational resources to manage the limited resources available;	- Assessing the state and public enterprises where the stockpile of scrap metal is located.	- MoI - MoF - Purchase and property Administration Agency - Institute
Engineering manufacturing industries sell domestic imports such as flat, round, rectangular, thick section steel, etc., for 14-20 birr per kilogram, while importing inputs cost 50-70 birr. ;	- Establish a supply chain for EGLD to provide raw materials for engineering production; Collaborate on joint procurement (IgGD and Industries) to provide the necessary foreign exchange supply for inputs;	- MoI - National Bank - Institute



Metal and Metal Engineering

Challenges	Suggested solution	implementer
Supply of inputs to the sub-sector is not based on domestic capacity and is dependent on imported inputs;	- Completion and implementation of the study of potential domestic iron ore development National identification and data mining;	- MoI - MoFA - Ministry of Mines and Petroleum. - Small and Medium Enterprises Development Authority
	- Finishing the feasibility study by seeking financing; Introduce metallurgical development by attracting foreign investors together with local investors.	- MoI - Ministry of Mines and Petroleum. - Small and Medium Enterprises Development Authority - Inv Commission
	- Carry out identification and data collection of cobalt and tantalum potential at the national level	- MoI - Ministry of Mines and Petroleum. - Small and Medium Enterprises Development Authority - Inv Commission



Metal and Metal Engineering

Challenges	Suggested solutions	Implementer
<p>Government procurement Policy and Law gap.</p> <ul style="list-style-type: none"> • Purchasing Fund and Purchasing framework • Non-standard requirements set by the purchaser • Buying finished goods from the world market • Inability to integrate large government projects into manufacturing industries; 	<ul style="list-style-type: none"> - maintaining the quality of the sub-sector products in collaboration with the relevant bodies; Maintain sub-sector products standards and product quality certification; 	<ul style="list-style-type: none"> - MoI - MoF - Industry Associations - Quality Infrastructure Institutions
<ul style="list-style-type: none"> - The proliferation of contraband in electronics, concrete and steel 	<ul style="list-style-type: none"> - Equipment Identification Registration - Reform with Information Technology and Ethio Telecom without harm to other users; - Punishment in coordination with stakeholders to reduce the spread of smuggling; 	<ul style="list-style-type: none"> - Ethio telecom - Electronics and Information Technology Manufacturers Association and Institute - Customs Co.



Metal and Metal Engineering

Challenges	Suggested solution	Implementer
Limited access to foreign exchange for the manufacturing industry	- Navigate the Pre-Foreign Exchange Supply Guide, Application of the policy and foreign exchange supply assessment; Identify gaps in monitoring and control Save suggestions,	- National Bank
Due to the high capital of the metal and engineering industry, there are many bank challenges to fill the financial gap.	- Enabling qualified and advanced loan applications for the sector, both new and expanded; Assisting mining participants as the sector requires a large amount of foreign exchange;	- Development Bank
High interest rates from banks;	- Assessing the interest rate of the sector bank loan - Exploring the experiences of other countries, Ensuring the fairness of bank loan interest payments;	- National Bank



Metal and Metal Engineering

Challenges	Suggested solutions	Implementer
Suppliers credit is not allowed to local manufacturers	<ul style="list-style-type: none"> - Evaluating the existing suppliers credit guide - Performance assessment of the policy, - Examine the relevance of the directive to the sector, - Exploring the experiences of other countries, 	<ul style="list-style-type: none"> - MoF - National Bank
Imported metal products as raw material imported as production inputs and metal products used for production purpose have same tariff	<ul style="list-style-type: none"> - Carry out identification of finished products and raw materials in the tariff book reform; - Complete withdrawal of sur tax for the manufacturer - Introduce a special tax deduction system for the manufacturing industry; 	<ul style="list-style-type: none"> - MoI - MoF - Institute
Finished machinery is allowed to be imported duty-free and the input is levied for manufacturing industry;	<ul style="list-style-type: none"> - Assessing the interest rate of the sector bank loan. - Ensuring the fairness of bank loan interest payments 	<ul style="list-style-type: none"> - MoI - MoF - Development Bank - Institute



Metal and Metal Engineering

Challenges	Suggested solutions	Implementer
<p>Customs system</p> <ul style="list-style-type: none"> - Rejection of manufacturer's receipts. - Price estimation is based on the market price of finished products. 	<ul style="list-style-type: none"> - According to Proclamation 859 and Directive 158/2011, the transaction value of the tax must be the same as the value of the invoice. - Discuss pricing and awareness raising issues with sub-sector associations through Customs Commission Identify problems related to pricing and provide appropriate solutions in accordance with the proclamation. 	<ul style="list-style-type: none"> - Industry associations - Customs - Institute - Industry Associations



Metal and Metal Engineering

Challenges	Suggested solutions	Implementer
High cost of transport and logistics puts pressure on manufacturers' competitiveness	<ul style="list-style-type: none"> - It requires research to adjust the price and provide direction for the next step. 	<ul style="list-style-type: none"> - MoT
Electrical power supply with intermittent and frequent power outages	<ul style="list-style-type: none"> - Assign 24 hr maintenance team. - Establish a special line to industrial parks that produce. - In case of urgent and timeless power supply requests, the manufacturers should be allowed to purchase their own inputs in accordance with the design and specifications of the government - More than 35 substations need capacity building work to empower customers who are paying the required fees and reduce power outages. 	<ul style="list-style-type: none"> - Mol - Electric Power Service - Institute

Ethiopia's Opportunity for Manufacturing Sector

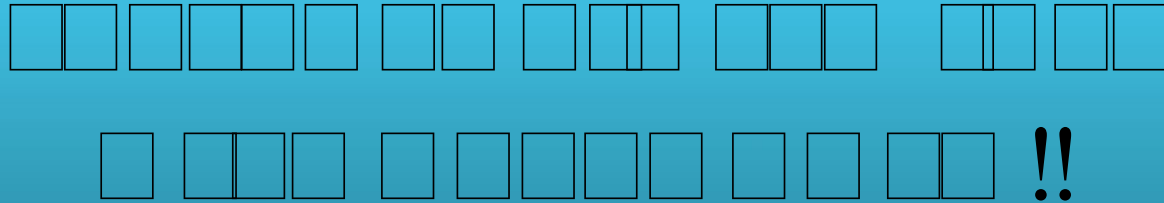
1. Large, youthful population and a relatively low cost of labor.
2. Abundance of natural resources.
3. Proximity to both Asia and Europe gives the country an edge in serving these markets.
4. Ethiopian Airlines' world-class logistics capacity.
5. Rapidly increasing number of trained employees.
6. Access to wide market which include large domestic market, COMESA, EBA opportunities and China market.
7. Preferential policies and investment performance based incentives.
8. Integrated Agro-Industrial parks which facilitate one stop shopping for all the services, to gain economies of scale, for bulk purchasing and selling, extension services, and development of common infrastructure.
9. Current electricity rate at 3 US cents/kwh: one of the lowest in the world.
10. More than 40 universities with ½ million student population and >1,300 technical & vocational education and training schools with annual intake of 1 million students.

Questions

Questions

- ❑ How do other countries **undertake policy coordination**?
- ❑ What is the role of federal government in **harmonizing national policy and strategies**?
- ❑ What are the main challenges **affecting effective policy coordination**? What are the solutions?
- ❑ Why policy coordination matters?

Let Ethiopia manufacture in an
integrated and sustained support
framework!!



Thank You!