

**What is New in Ethiopia's New Industrial
Policy: Policy Direction and Sectoral
Priorities:**

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I. The Need for Revising Industrial Policy

- ❖ *Manufacturing sector was growing in terms, number of firms, employment, output, value addition, exports and investment.*
- ❖ *Growth figures appear to be high mainly because of the country's low industrial base. In practice, the sector has not grown as per country's growth potential and goals as stipulated in GTP I and GTP II.*
- ❖ *For instance, its share in GDP remained low (only 7.4% in 2019, well below the African average and far below the 17% envisioned in GTP II).*
- ❖ *Exports grow slowly and erratically; with still around 10% of the export proceeds of the country;*

I. The Need for Revising Industrial

- **Widespread below capacity utilization, low level of productivity and competitiveness.**
- **Fails to replace imported intermediate inputs and goods; exacerbated trade imbalance & foreign exchange scarcity.**
- ❖ **Thus, in view of the on-going Home-grown Economic Reform Agenda, the situation required to diagnose binding constraints of the sector and their root causes and accordingly revise the policy framework.**

2. Basic approaches in revising the policy

Aim is not to develop ***a totally different policy*** but revise the industrialization pathway using the following approaches.

1. Inform the policy using the diagnostic studies at sectoral and sub-sectoral level and reviews of policies to-date.

Major outcomes of the studies

- ❖ Many cross-cutting and sub-sector specific constraints are identified.
- ❖ Many policy instruments already exist but have not been effective because of
 - *Lack of information among different stakeholders (firms, civil servants); not organized in one package and frequently changes*
 - *Lack of coordination among the different government institutions;*
 - *Poor government offices' service delivery;*
- ❖ Existing policy instruments are found to be insufficient to address all the constraints; calling for additional ones.

2. Basic Approaches in revising the policy

II: Prioritize manufacturing sub-sectors *based on* current RCA and the potential to create high value-adding economic complexity in the future using ***Atlas Model of Economic Complexity*** and triangulate the result by a similar exercise using *quantifiable indicators*;

III. Considering resource potential of the country to nurture industrial growth

- **Large and youthful population** and a relatively low cost of labor
- An **abundance of natural resources**
- **Huge renewable (electricity and wind) energy** sources constituting more than its 90% of its energy needs to drive sustainable industrialization
- Ethiopia's proximity to both Asia and Europe gives it an edge in serving these markets.
- Ethiopian Airlines' and improved logistics capacity of the country;
- PTAs and African FTA creating market access if, among other things, supply side constraints are properly addressed.

2. Basic Approaches in revising the policy

IV. Considering HERA and Ten Year Perspective Plan as key enablers for industrial development; which among others intend to

- pursue inclusive & private sector-led and market-driven high economic growth;
- build a diversified middle-income economy where in manufacturing sector plays a critical role;

V. Considering policies across public institutions directly or indirectly affecting industrial development;

VI. Reorganize policy instruments in key policy pillars, maintain relevant previous policy instruments, expand in areas where there are gaps and also introduce new ones;

VII. Validate policy recommendations through discussions with stakeholders across government, industry leaders and special interest groups including researchers. [On-going].

2. Basic approaches in revising the policy

II. Overall guiding approaches

1. **Adhere to a set of economic, environmental, social and governance principles** to design visions, missions and policy instruments;
2. **Sequenced policy directions with targeted and measurable instruments** to leverage existing production capacity while addressing binding constraints for further growth;
3. **A performance-based incentives framework** to encourage a results-based culture among manufacturers and supporting public sector institutions;
4. **An improved governance framework to ensure effective policy coordination and implementation** to improve efficacy of policy implementation.

2. Basic Approaches in revising the policy

What are the guiding principles

Guiding Principles	
Economic Principles	Environmental, Social and Governance Principles
Enterprise-centric –help address firm level problems	Socially and environmentally sustainable
Globally competitive	Coordinated and accountable government
High value-add products - propelling higher skilled work opportunities	Inclusive and dignified work opportunities – equitable work for all
Diversified product categories (10 –sub-sectors)	Diversified product categories (10 –sub-sectors)
Integrated into local supply chains (forward and back-ward inter and intra linkage)	Indigenous-led agenda

3. Vision, mission and goals for manufacturing industry development

Vision	Develop highest manufacturing production capabilities across Africa capable of significantly improving the living standards of the people by 2037
Mission	Achieving an effective enabling environment and enhanced cross-cutting capabilities
	Improving firm level competitiveness within high potential sub-sectors
Strategic directions	Core: Export-promotion/development Secondary: Import-substitution in selected areas
Enablers	Subsequent investment and doing business climate reforms
	Macro economic reforms and stability (Exchange rate, inflation, foreign debt burden, etc.).
	Improve the efficiency of domestic markets for goods and services.

3. Vision, mission and goals for manufacturing industry development

Structural Reforms	Institutional and public sector reforms within the ministry and across other public organs
	Responsive, adaptive and inclusive public-private policy making mechanism
Context dependence	Peaceful country and political stability to build investors confidence and thriving productivity

3. Ethiopia's vision, mission and goals for manufacturing industry development

Overall goals	Output contribution to the economy ...
	Value added sector share to GDP
	Share of export ...
	Import substitution capabilities by ... %
	Geographic areas under-represented in manufacturing establishments
	100% Ethiopian environmental and social standard compliance
	Gender pay gap in hourly wages narrows to 10%
High potential sub-sectors goals:	<p>Develop capabilities in high potential subsectors to export and ensure competitive import-substitution activities through:</p> <ul style="list-style-type: none"> ✓ Revising available incentives to be performance-based, ✓ Strengthen linkages across the value chains in primary and intermediary industrial inputs producing sectors

4. Sectoral Priorities based on revealed and potential competitiveness

Competitiveness by Product Categories at HS2 Level

Rank	Sub-sector	Product category within sub-sector	Highest Potential Market Opportunities				
			Global (with Africa)	Global (without Africa)	Africa	IGAD	Ethiopia
1	Textile & Apparel	Apparel, knit & not knit	■			■	
		Footwear	■			■	
2	Leather & Leather products	Articles of leather		■		■	
		Leather and skins			■	■	
3	Food and Beverage	Essential oils	■			■	
		Lac and other vegetable extracts	■			■	
		Preparations of cereals, flour, starch or milk		■			
		Beverages		■			
		Preparations of vegetables, fruit, or nuts		■			
		Sugar and candy			■	■	
4	Wood, Paper & Furniture	Paper and paperboard				■	
5	Cement	Cement					■

4. Sectoral Priorities based on revealed and potential competitiveness

Overall Competitiveness by Product Categories at HS2 Level

	Sub-sector	Product category within sub-sector	Highest Potential Market Opportunities				
			Global (with Africa)	Global (without Africa)	Africa	IGAD	Ethiopia
6	Chemicals & chemical products	Pharmaceutical products					
7	Motor Vehicles, Trailers & Semi-Trailers	Motor Vehicles, Trailers & Semi-Trailers					
8	Basic Iron, Steel & Fabricated Metals	Iron and steel					
		Articles of iron and steel					
9	Machinery & Equipment	Electrical machinery and equipment					
		Industrial machinery					
10	Rubber & plastics	Plastics					

4. Sectoral Priorities based on revealed and potential competitiveness

We have broadly categorize products/sectors in view of export and production diversification growth pathways

1. *Competitive products* – expanding sectors with high Revealed Competitive Advantage (RCA),
2. *Adjacent products* – exploiting accessible opportunities to diversify existing local capability (now have limited share in the country's export basket but exhibiting large global market opportunity)
3. *Complexity-enhancing products* – promising opportunities for market diversification and longer-run improvements in economic sophistication, but now limited home capabilities.

4. Sectoral Priorities based on revealed and potential competitiveness

Sequencing of interventions to get the most out of the low hanging fruits in the short term, whilst developing capabilities.

Priority sub-sectors by complexity type

Manufacturing complexity grows over time

Competitive	Adjacent	Complexity-enhancing
<ul style="list-style-type: none">• Textile & Apparel• Leather & Leather Goods• Food Products and Beverage	<ul style="list-style-type: none">• Chemicals (excluding pharmaceuticals)• Wood Paper & Furniture• Cement	<ul style="list-style-type: none">• Motor vehicles, Trailers & Semi-trailers• Basic Iron & Steel• Machinery• Plastic & Rubber• Pharmaceuticals

5. What is new in cross-cutting policy pillars?

- **The draft white paper provides a policy direction on major policy pillars: Labour, capital, land, technology, backward and forward linkages (inputs), power transmission, customs, environmental sustainability, gender mainstreaming, governance and coordination.**
- **In each policy pillar, comprehensiveness, both ongoing and revised/new policy directions are indicated.**
- **The following discussion deals with some of new elements in each policy pillar.**

5. What is new in cross-cutting policy pillars?

Labour-Human Capital

Constraint: The shortage of skilled labor leading to low labor productivity

Root cause: poor skills-to-industry linkage because of

- Non-existence of a skills development and retention grant to support the recruitment and training of low-skilled workers.
 - Outdated curriculums and ill-equipped institutions for practical training, low/no involvement of beneficiaries in curriculum development and apprentices .
 - A lack of financing and incentives for TVETs and other institutions producing critical skill for industry based on performance
 - No policy that includes an outlined curriculum on soft skills.

5. What is new in cross-cutting policy pillars?

Policy proposal

- ❑ Performance-based funding model for TVETs and universities based on employer satisfaction to address skills gaps.
- ❑ Employers contribute to funding vocational training.
- ❑ Training institutions design a curriculum that allows specialization beyond broader fields by identifying skill needs at sub-sector level.
- ❑ Every firm should institute a Skills Development Plan as mandatory training initiatives of workers
- ❑ Reviewing and expanding the current skills matching grant to be result-based: 1) have a cascaded **export growth** (40% on the first year, 60% on the second year and 80% on the third year of production, 2) have an annual **increase in labor productivity**

5. What is new in cross-cutting policy pillars?

Labor market dynamism

- ❖ **Constraint:** Low cost – low productive workforce
- ❖ **Policy proposal:** Shift from low-cost labor to a competitive labor through:
 - Time-bound binding contracts \to support up-skilling/reskilling of employees through employer-based support.
 - Ease burden of low-income earners, through for instance increasing earned income tax credits (EITC).
 - Provisions for low cost housing options in accessible proximity to manufacturing sites.

5. What is new in cross-cutting policy pillars?

Access to Capital

Access to Foreign Exchange

Constraint: Foreign currency shortages and restrictions restrain manufacturing growth, worse for local firms:

Root cause

- Banks tend to favor high-rent sectors as opposed to manufacturing
- Franco Valuta privileges are exclusively available for foreign investors, gives a financial upper-hand over domestic manufacturers

Policy Response

- Enforce a strong accountability mechanisms for commercial banks that disproportionately extend forex to high-rent sectors and periodically report
- Allow domestic manufacturers equal access for foreign exchange.
- In medium- to long-term, establish an international financial center to attract foreign currency from offshore clients to relieve the country's current forex crunch.

5. What is new in cross-cutting policy pillars?

Access to Capital

Constraint: Improved but still finance does not meet the demands of the sector.

Root cause:

- ❑ Manufacturing is less attractive than high rent sectors due to high risks and long repayment horizons.
- ❑ Misalignment between firms production cycles and lending periods.

Policy Response

- ❑ Demand-driven technical assistance to financial institutions to promote innovative financial products to increase lending to manufacturing.
- ❑ A dedicated branch/department in DBE dealing for manufacturing and establishment of Manufacturing Development Bank in the long-run;

5. What is new in cross-cutting policy pillars?

Access to Land

Constraint: Access to land for new and expansion purposes still a problem

Root cause:

- Lack of coordination between federal and regional governments on land allocation; .
- Lack of harmonized standard operating procedures including (land tenure and transfer systems)

Policy response:

- Industrial development roadmaps for land use that coordinate federal and regional government agencies.
- Institutionalizing Blockchain technology to store a history of transactions (chains of titles) and improve efficiency and transparency .
- Adopt an Eviction Impact Assessment tool to address conflicts over land rights.

5. What is new in cross-cutting policy pillars?

Technology

Constraint: Weak technology adoption and innovation practice and use of outdated imported technologies.

Root causes:

- Limited policy coverage and incentives to govern technology transfer and R&D and weak coordination amongst ecosystem actors

Policy Response

- A manufacturing-focused incubator (engineers and computer scientists either develop greenfield technologies or re-engineer existing innovations) to drive innovation, finance technological development, and connect industrial employers to high-skilled talent and technologies.
- Bringing together local and foreign businesses, investors, and innovators to identify opportunities for technological solutions to improve products or processes.

5. What is new in cross-cutting policy pillars?

Backward and Forward Linkages

Constraint: Little backward linkage to primary and intermediate input producers.

Root cause:

- AES services and other support mechanisms focus largely on food crops with little work on manufacturing inputs (like cotton).
- **Lack of domestic supply chain development schemes and inability to convert comparative advantages to competitive advantage force Ethiopia to import (example leather and leather products-Ethiopia importing from Vietnam)**
- **Ongoing heavy dependency on imported inputs reinforces the local supply chain weakness.**

5. What is new in cross-cutting policy pillars?

Policy responses

- **Establish Development of Supporting Industries (DSI)’ program** anchoring on R&D and local content requirements based on Vietnamese experience.
- Vietnamese phased approach to encouraging ‘supporting industries’ to manufacture inputs for large producers including
 - (i) identifying supporting industries,
 - (ii) mapping out a list of products for each industry eligible for the program and incentives and,
 - (iii) design policy instruments for each product identified.

5. What is new in cross-cutting policy pillars?

Policy response...

- ❖ **Establishing cautiously a local content requirements in selected sub-sectors:**
 - ❖ Use a ‘stick’ alongside investment incentives to serve as ‘carrots’;
 - ❖ Instead of imposing it, work with manufacturers and IPs to create strategic plans for gradually enforce of local sourcing standards.
 - ❖ Consider AfCFTA and WTO accession requirements and
 - ❖ Follow phased-out approach to avoid risks of making Ethiopian production to continue uncompetitive due to low-quality and high cost inputs.

5. What is new in cross-cutting policy pillars?

Power

Constraint: Frequent power interruption and (ii) new industries – struggle to secure grid access.

Root-cause: Insufficient transmission and demand forecasting, not mainly generation capacity.

Proposed responses

- ❖ Reliable power to high-potential sub-sectors particularly sensitive activities (example pharmaceuticals).
- ❖ Dispersing sub-stations and enhancing power allocation capabilities.
- ❖ Public-private partnership (PPP) to facilitate renewable energy procurement from independent power producers.

5. What is new in cross-cutting policy pillars?

Customs

Constraints: Customer services are improved yet there are some constraints-causing delays and unintended cost implications.

Root causes:

- Erroneous valuations of imported inputs because of incorrect classification of goods by some agents.
- ❑ Some incentives can be counterproductive. Example, in the pharmaceutical sub-sector, the import of finished goods gets priority access to FOREX; however, imported inputs does not.

Policy responses

- ❑ Up skilling the customs clearing and customs officers.
- ❑ Differentiate import traders from manufacturers and accordingly give priority.

5. What is new in cross-cutting policy pillars?

Environmental sustainability

5. What is new in cross-cutting policy pillars?

Gender mainstreaming

5. What is new in cross-cutting policy pillars?

Civil Services and Policy Effectiveness

Constraint: Poor government services that lead to ineffective policy implementation

Root cause

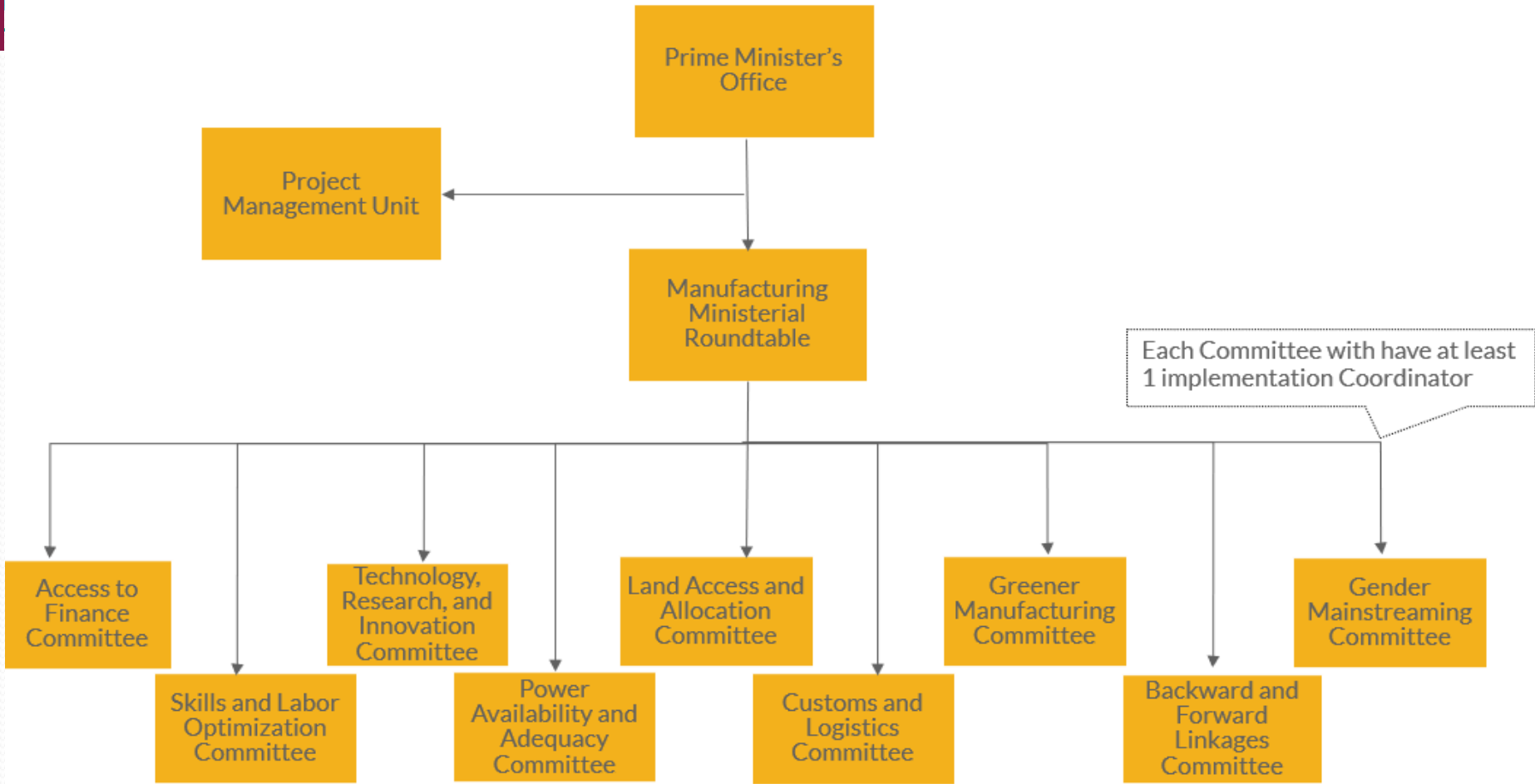
- Long and inefficient bureaucratic processes for businesses to realize policy incentives, and civil servants' unawareness of existing policies and incentives
- Public-private dialogue enables only certain entities to participate, limiting the voice and impact of the large private sector.
- Policy environment is often unpredictable, frequent changes not well discussed with and communicated or understood to the business community.
- Incentives are often fragmented, not always aligned to the binding constraints

5. What is new in cross-cutting policy pillars?

Policy action

- **Develop the necessary institutional arrangements across skills, structure, and systems** to ensure public sector offices at all administrative levels are well organized and equipped to fully embrace and deliver the commitment of policies and reforms
- **Revise current PPD policy to be more inclusive and ensure private sector involvement across the policy-setting process to ensure effective policy design in content and implementation**
- **Develop certification program at PM office to recognize industry 'national champions' based on clear performance based criteria to motivate other manufacturers and delegate in PPD;**
- **Establish an Incentives Advisory unit** under MoI that reports directly to the Ministerial Roundtable Committee on periodic assessment of the effectiveness of incentives based on KPIs and suggest ways of revising their effectiveness.

6. Implementation, coordination, and accountability framework



6. Implementation, coordination, and accountability framework

Roles and responsibilities of different organs

- ❑ **The Prime Minister chairs meetings of the Manufacturing Ministerial Roundtable.**
- ❑ **PMO:** Sets the overall direction of the industrialization process and establishes the operational mandate of the Roundtable.
- ❑ **PMU (Ministry of Industry)** is an operational arm of the PMO with two distinct responsibilities:
 - **Oversight:** Setting strategy, developing a dashboard to oversee progress of industrial policy implementation, provide guidance and coordinate different entities on the policy implementation and ensure accountability by following using KPIs.
 - **Delivery:** Developing agendas for the committees, engaging different actors (both public and private) and liaising with the Committee Coordinators.

6. Implementation, coordination, and accountability framework

Roles and responsibilities of different organs

- ❑ **Manufacturing Ministerial Roundtable:** Approves the industrial policy interventions to mitigate challenges identified by the committees and various actors in policy implementation.
- ❑ **Committees:** Drive industrial policy implementation by leveraging existing structures for their respective portfolios by enhancing PPP, monitoring the industrialization work plans, as well as collating feedbacks and sharing that input with the PMU.

6. Cross-cutting enablers...

Composition of the Manufacturing Ministerial Roundtable



6. Cross-cutting lever

