

# Policy Dialogue for Industrial Policy Formulation in Ethiopia

**National Graduate Institute for Policy Studies (GRIPS)**

**Addis Ababa, July 2010**

This presentation explains the draft interim report of the Ethiopia-Japan industrial policy dialogue from mid 2009 to early 2010. The dialogue is expected to continue for another year. Industrial policy dialogue with Ethiopia is conducted jointly by GRIPS and JICA. This material was prepared by the GRIPS Development Forum. Views expressed here are not necessarily those of the Ethiopian government or the Japanese government.

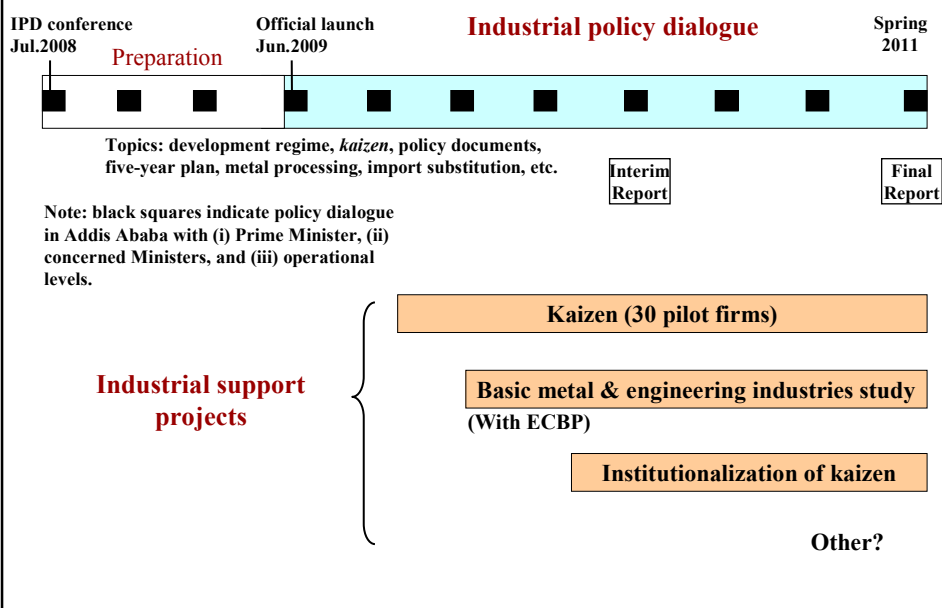
## Initiation of Bilateral Policy Dialogue

- **May 2008:** the 4th Tokyo International Conference on African Development (TICAD IV): Japanese commitment to increase cooperation in Africa.
- **July 2008:** PM Meles' request for two-part cooperation: (i) *kaizen* (factory improvement) by JICA; and (ii) policy dialogue with GRIPS. Actually, two components are implemented jointly by GRIPS and JICA.
- **July 2008-:** Preparation
- **June 2009:** Official launch of the 2-year project.

## Purposes of Bilateral Industrial Policy Dialogue

- ❑ Transferring *mindset* and *methodology* of East Asian policy making through concrete issues and projects.
- ❑ Establishing linkage between policy dialogue and Japan's industrial projects in Ethiopia.
- ❑ Cooperation and networking with other projects, donors, and academic institutions.
- ❑ Create pilot projects which should be scaled up by Ethiopian effort.
- ❑ Promoting industrial policy dialogue in the rest of Africa (if successful).
- ❑ Providing specific information upon request (Japanese TVET system, *kaizen*, metals, rural life improvement movement, etc).

### GRIPS-JICA Industrial Policy Dialogue with Ethiopia (2009-2011)



## Participants of Industrial Policy Dialogue

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### Ethiopian side (3 levels)

- PM Meles
- High-level policy makers headed by Ato Newai (Senior Economic Advisor to PM) and Ato Tadesse (State Minister of Industry, MOTI)
- Operational levels

### Japanese side

- GRIPS researchers
  - JICA officials and experts
- Supported by Ambassador Komano and Japanese Embassy in Addis Ababa

Note: the Japanese team visits Ethiopia every three months for policy dialogue. Additional visits by Japanese experts and project teams. Ethiopian visits to Japan and other countries as needed.

## Topics of Policy Dialogue in the First Year

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- Democratic Developmentalism (DD) and ADLI, with PM.
- Possibilities of agricultural breakthrough and rural life improvement movement, with PM.
- Desirable structure of policy documents and policy organization from East Asian perspective.
- Advice on the industrial chapter of PASDEP II.
- Pitfalls of import substitution.
- Differences and complementarity between *kaizen* and benchmarking; institutionalization of *kaizen*.
- Basic metal and engineering industries from international perspective.

## Issues Discussed at High Level Forums

	Japanese side	Ethiopian side
1st HLF (Jun. 2009)	(1) "JICA's plan to policy dialogue and development study" (Masafumi Kuroki) (2) "ADLI and future directions for industrial development" (Kenichi Ohno)	(1) "Evaluation of current PASDEP focusing on industrial development and related sectors" (HE Tadesse Haile)
2nd HLF (Sep. 2009)	(1) "Cross-cutting issues on industrialization and policy menu under the age of globalization: examples from East Asia" (Kenichi Ohno) (2) "Organizational arrangements for industrial policy formulation and implementation: examples from East Asia" (Izumi Ohno) (3) "Planning and decision-making process for SME policies in Japan" (Go Shimada)	(1) "Comments and feedback by the Policy Dialogue Steering Committee on the presentations by GRIPS and JICA" (HE Tadesse Haile)
3rd HLF (Nov. 2009)	(1) "Designing industrial master plans: international comparison of content and structure" (Kenichi Ohno) (2) "Industrial policy direction of Ethiopia: suggestions for PASDEP II and the next five years" (Izumi Ohno)	(1) "Concept for the industrial chapter of PASDEP II and the formulation plan" (HE Tadesse Haile)
4th HLF (Mar. 2010)	(1) "Basic metals and engineering industries: international comparison of policy framework and Ethiopia's approach" (Toru Homma)	(1) "Draft plan of industry sector for PASDEP II" (HE Tadesse Haile) (2) "Overview, contents of PASDEP II draft of chemical subsector" (Shimelis Wolde)
5th HLF (Jul. 2010, proposed)	(1) "Result of basic metal and engineering industries firm-level study – parts conducted by MPDC and JICA" (Toru Homma)	(1) "Concept of kaizen institutionalization and establishment of Ethiopian Kaizen Institute" (Getahun Tadesse) (2) "Report of kaizen training for capacity building of Kaizen Unit and Pilot Project companies in Japan"

## Learning from East Asia

- ❑ NOT copying some specific policies adopted in some East Asian country to Africa.
- ❑ Learning *mindset* and *methodology* of designing and implementing industrial strategies.
- ❑ There is a standard industrial policy menu, but selectivity and adjustment are needed to adapt to unique conditions of each country.
- ❑ The Eastern approach should be complementary to the Western approach.

## Enhancing Industrial Human and Enterprise Capability: Standard Menu

Main objectives	Sub items
(1) Legal and policy frameworks	Laws and regulations
	Ministries/agencies for promoting SMEs, FDI, etc. with sufficient capability and authority
	Inter-ministerial coordination mechanisms
	Effective public private partnership (PPP)
	Mechanism for business-government-academia linkage
	Policy system consisting of visions, roadmaps, action plans, and monitoring
	Standards for quality, safety, skills, environment, etc.
	Mechanisms for protecting and utilizing Intellectual property rights
	Strengthening of industrial statistics
	Strategic mobilization of international cooperation
	(2) Local capacity building (industrial human resource and local enterprises)
Short-term courses for entrepreneurs	
Technical support on specialized skills for engineers	
Technical and vocational training for new or current workers	
Skill certification, competition, and awards	
Subsidies and incentives for targeted activities (worker training, technology transfer, die and mold, marketing, ITC, etc)	
Management or technical advisory service (by visiting consultants, short-term)	
Enterprise evaluation and advice system (institutionalized shindan system or technical extension services) - also related to SME finance	
Local enterprise networks	

### (Cont.)

(3) Finance	Development financial institutions
	Subsidized commercial bank loans for targeted firms (two-step loans)
	Credit guarantee system
	Equipment leasing
	Venture capital
	Enterprise credit information system
	Enterprise evaluation and advice system (same as in (2))
(4) FDI marketing	List of priority products and activities and a system of investment incentives
	Investment promotion seminars and missions
	Effective investor information package and website
	Investment promotion offices abroad
	One-stop services and enterprise support (before and after investment)
	Upgrading infrastructure service quality (power, transport, water, etc)
	Environmental control and facilities (incl. waste water treatment)
	Industrial estates with sufficient infrastructure services and administrative services (incl. specialized industrial parks)
	Labor support (training, recruiting & matching, housing/dormitories, commuting, health care, etc.)
	Prioritized and targeted FDI marketing
Inviting individual target company ("anchor firm") and provision of required conditions	
(5) Linkage (learning by working with global standard firms; market development)	Trade fairs and reverse trade fairs
	Enterprise databases (SMEs, supporting industries, sectoral)
	Official intermediation/promotion of subcontracting
	Incentives/subsidies for FDI-local firm linkage
	Domestic and export market development support
Establishment and enhancement of industry associations	

## Features of Japanese Approach to Development

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### Pragmatism and concern with specific industries:

- **Target orientation**—striving for concrete vision, targets, roadmaps, and actions instead of general capability improvements.
- **Field (*gemba*) orientation**—working on factory floor or crop field to solve concrete problems.
- **Joint work**—transferring skills and knowledge to developing countries by working together (OJT); no parallel mechanisms.
- **Dynamic capacity development**—policy learning and expectation of graduation from aid.

## Entry Points for Japan's Industrial Cooperation in Africa

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Japan, a small investor and donor in Africa, but with East Asian experience, can offer the following:

1. For a country with reasonable visions and plans, **standard policy tools** (training, quality control, *kaizen*, SME promotion, etc.) can be provided.
2. **Policy dialogue** for making and strengthening visions and strategies.
3. **Comprehensive regional development** with core infrastructure, supported by HRD, regional planning, industrial support, rural development, etc.
4. Creating **enabling environment for Japanese investment** under the principle of open access and non-excludability.

## Features of Ethiopian Industrial Strategy

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- Unique development strategy based on DD and ADLI: strong state guiding private sector, interest in East Asia.
- Linkage between policy learning and expansion of policy scope
  - **Around 2003-now:** promoting a few export sectors with incentives and donor support; learning BPR, benchmarking, policy documents, scaling up of pilots, twinning, public-private dialogue, *kaizen*...
  - **PASDEP II:** addition of import substitution, *kaizen* institutionalization, etc. as policy capability has risen.

## Expanding Policy Scope

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- The need for broadening the policy scope was also suggested by Dani Rodrik (2008) and World Bank:
  - Move from 1st to 2nd generation industrial policies.
  - Support investors beyond current priority industries.
  - Broaden the list of policy instruments.
- Our approach
  - Emphasis on policy evolution—matching the speed of policy learning with policy expansion.
  - Supporting policy expansion with concrete, hands-on information, studies, and technical cooperation to avoid *policy mistakes* and *political capture*.

## **Draft Interim Report (June 2010)**

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A collection of documents prepared by GRIPS Development Forum for bilateral policy dialogue.

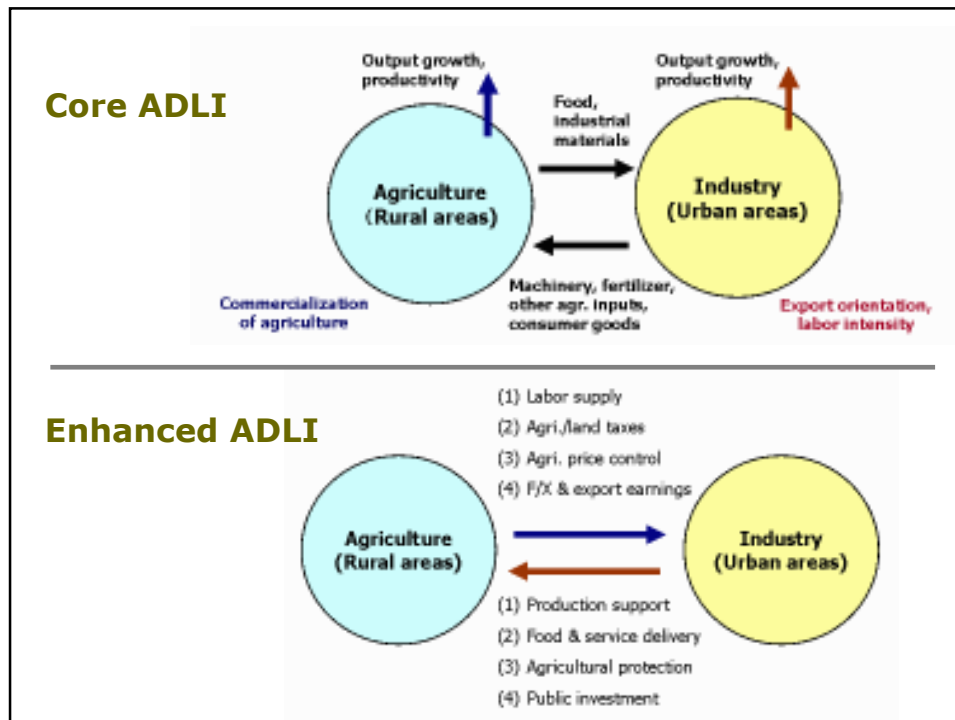
- Ch.1 – Introduction
- Ch.2 – DD and ADLI
- Ch.3 – Broadening the policy scope: cross-cutting issues
- Ch.4 – Broadening the policy scope: organizational arrangements
- Ch.5 – Policy direction for the next five years
- Ch.6 – An international comparison of industrial master plans

## **Ch.2 – DD and ADLI**

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- Review of Ethiopia's steps toward a developmental state since the 1990s, and early results.
- Democratic Developmentalism—definition, issues, comparison with East Asian developmental states.
- Agricultural Development Led Industrialization—core ADLI, enhanced ADLI, further expansion of policy scope and measures.





### Ch.3 – Cross-cutting Issues

Critical review of Ethiopian industrial policies:

- ❑ Policy framework and structure
- ❑ Past review and future evaluation
- ❑ Time dimension of industrial promotion
- ❑ Import substitution
- ❑ Industrial clusters and corridors
- ❑ SME promotion

## **Ch.4 – Organizational Arrangements**

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Introducing East Asian experiences on:

- Leadership and a technocrat team
- Mechanisms for inter-ministerial coordination and stakeholder involvement
- Mechanisms for executing high priority policies
- Implications for Ethiopia

## **Ch.5 – Policy Direction for the Next Five Years**

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Based on current PASDEP and discussion with MOTI, advice was given on:

- Recent performance
- Proactive industrial policy
- Expansion of policy scope and measures
- Internalizing skills and technology
- Priority sectors
- Priority issues
- Numerical targets
- Policy documents and organization

## **Proactive Industrial Policy: Seven Required Features**

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1. Strong commitment to global integration and private sector driven growth
2. A wise and strong government guiding private sector
3. Securing sufficient policy tools for latecomer industrialization
4. Constant policy learning through concrete projects and programs
5. Internalization of knowledge, skills and technology as a national goal
6. Effective public private partnership
7. Collection and sharing of sufficient industrial information between government and businesses

## **Ch.6 – An International Comparison of Industrial Master Plans**

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Upon PM's request, a quick study was conducted on industrial policy documents in Asia:

- Master plan types
- Chapter components
- Required features
- Relative scope of government vs. market
- Concrete examples from Asian policy documents: Thailand, Malaysia, etc.
- Recommendations for Ethiopia

### Standard Ingredients of an Industrial Master Plan

<b>Vision</b>	Importance, role, orientation, and positioning of industry in national development
<b>Targets</b>	Long- and medium-term numerical and/or qualitative targets
<b>Situation analysis</b>	Current status, potentials and obstacles of the domestic industry in the national, regional and global context; tables and graphics for data, surveys, international comparisons, etc.
<b>Policy issues</b>	A small number of selected issues should be identified, prioritized, and analyzed in preparation for designing policy action
<b>Action plan or action mechanism</b>	<p>A large matrix that pre-specifies actions, sub-actions, expected output, success criteria, deadlines, and responsible organizations; procedure for monitoring and reporting should also be specified.</p> <p>Alternatively, a monthly high-level committee chaired by top leader, or a well-focused and well-coordinated budgeting and project approval process may substitute the action plan matrix.</p>