

Ethiopia's Industrialization Drive under the Growth and Transformation Plan 2010/11-2014/15



Kenichi Ohno
GRIPS
May 2011



Purpose

- Discuss and assess GTP in its early stage of implementation in 2011.
- Our main focus – industrial sector.
- Perspective of international comparison of policy methods – comparator countries include Singapore, Taiwan, Korea, Malaysia and Thailand.
- Summarize our previous HLF discussions from June 2009 to present.

Ethiopia's General Policy Orientation



- Strong policy ownership—visions and strategies are homemade, not externally imposed.
- Strong state guides the private sector away from rent seeking and toward productive investment and technology acquisition.
- Internalizing skills and technology is top priority—training, technology transfer and maximum local procurement are required of industrial projects.
- Expansion of policy scope as policy learning proceeds—from simple incentives for a few export products to broader support for more sectors with more policy tools.



General Features of GTP

- Continuity and evolution—GTP is built on Ethiopia’s past policy ideas and experiences including ADLI, Industrial Development Strategy, SDPRP, PASDEP, Democratic Developmentalism, etc.
- Strong resolve of government to implement GTP is visible. GTP will not remain a paper document.
- With expanded policy scope and tools, GTP takes up the challenge of bringing national development to a higher and more difficult stage (including industry’s key role in the economy).



General Features (cont.)

- Consultative drafting under MoFED with significant revisions from first to final draft.
- Visions, objectives and strategic pillars are clearly stated (ch.2). The document is relatively lean with various parts reasonably well connected.
- While MDGs, social issues and governance remain important, strong emphasis is placed on creation of concrete sources of growth with policy support.
- Numerical targets are set for chosen sectors (chs.5-8, Policy Matrix) for monitoring and evaluation.

Risks Associated with Implementation



Three implementation risks are cited in ch.9:

1. Low implementation capacity—systems, administrative, human resources
2. Finance—low national saving and unpredictability of external financing
3. Global market fluctuations

I would like to add three more:

4. Target rigidity
5. Problems with policy procedure and organization
6. Lack of dynamic response from the private sector

GTP's Visions, Objectives and Strategic Pillars

Ethiopia's vision to guide GTP	“To become a country where democratic rule, good-governance and social justice reign, upon the involvement and free will of its peoples, and once extricating itself from poverty to reach the level of a middle-income economy as of 2020-2023.”
Vision on economic sector	“Building an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy, sustaining economic development and securing social justice and increasing per capita income of the citizens so as to reach the level of those in middle-income countries.”
Objectives	<ol style="list-style-type: none"> 1. Maintain at least 11% growth and attain MDGs 2. Education and health services for achieving social sector MDGs. 3. Nation building through a stable democratic and developmental state 4. Stable macroeconomic framework
Strategic pillars	<ol style="list-style-type: none"> 1. Rapid and equitable economic growth 2. Maintaining agriculture as major source of economic growth 3. Creating conditions for the industry to play key role in the economy 4. Infrastructure development 5. Social development 6. Capacity building and good governance 7. Gender and youth

GTP's Chapters and Policy Matrix

Volume I – Main Text

Foreword, introduction, plan preparation and approval process (5)

Ch.1 Achievements and challenges under PASDEP (18)

Ch.2 Basis, objectives and strategic pillars (7)

Ch.3 Macroeconomic framework (10)

Ch.4 Financing (7)

Ch.5 Economic sectors development plan (39)

Ch.6 Social sector development plan (10)

Ch.7 Capacity building and good governance (15)

Ch.8 Cross-cutting sectors (gender, youth, labor, culture, environment, etc. 12)

Ch.9 Opportunities, risks and challenges in implementation (2)

Ch.10 Monitoring and evaluation (4)

Volume II – Policy Matrix

Text (3)

Policy matrix (35)

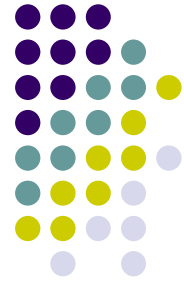
(Note: Numbers in parentheses indicate the number of pages in the English edition.)

The Industry Section of GTP (Section 5.2)



- PASDEP 2005/06-2009/10—while real GDP growth was 11% per annum, industry grew only 10% against targets of 11-18%. Industry's share in GDP stagnated around 13%.
- Three targeted exports (leather, garment, agro-processing) did grow, but still small at \$115m (3.8% of total export) in 2009/10.
- According to GTP, industry should play a key role in the economy. Industrial growth should accelerate over time with average annual growth of 20.0%-21.3%. GDP share at end point should be 23.7%-16.9% (base case & high case).

The Industry Section: Four Strategic Directions



a) Micro and small enterprises (MSEs) development

This is expected to create jobs in urban areas and increase rural-urban and urban-to-urban functional and economic linkages.

b) Medium and large industries development, which includes

1. Textile and garment
2. Leather and leather products
3. Sugar and sugar related industries
4. Cement
5. Metal and engineering
6. Chemical
7. Pharmaceutical
8. Agro-processing

c) Industrial zone development (for medium and large manufacturing industries)

d) Public enterprises management and privatization

The Industry Section: Six Objectives



- MSE development
- Full utilization of industrial capacity
- Use of domestic raw materials and job creation (for medium and large industries)
- Increase in private sector investment
- Employment generation, import substitution and foreign exchange earnings
- Local production of machinery and spare parts



Major Targets (Selected)

Sub-sector	Unit	Base year 2009/10	Target for 2014/15	Multiples
Textile	Export earning in \$ million	21.8	1,000	45.9 times
Leather	Export earning in \$ million	75.73	496.9	6.6 times
Sugar	Production in million tons	0.314	2.25	7.2 times
Cement	Production in million tons	2.7	27	10 times
Steel & engineering	Gross value-added in million birr	6	101.4	16.9 times
Fertilizer (urea)	Production in million tons	-	300	-
Pharmaceutical	Domestic market share	15%	50%	-
Agro-processing	Export earning in \$ million	35.2	300	8.5 times



Major Targets (cont.)

Sub-sector	Unit	Base year 2009/10	Target for 2014/15	Multiples
Industry zones	Number of factories in zones	-	164	-
Public enterprises	Gross value-added in million birr	2.26	5.32	2.4 times
MSEs - job creation	Employment in thousand	-	2,970	-
MSEs - training of trainers	Number of trainees	-	10,000	-
MSEs - training of operators	Number of trainees	-	3,000	-
MSEs - manufacturing land	Hectare	-	15,000	-
MSEs - shades	Number	-	21,591	-
MSEs - buildings	Number	-	819	-

Note: a complete list of annual targets are contained in the Policy Matrix (vol.II) of the GTP.

1. Issues Discussed in Our Policy Dialogue Not Explicitly Reflected



- Shift from quantity to quality-based targets and competition—GTP targets are mainly quantities. Productivity, skills & technology are not featured in strategic direction, objective or major targets.
- Productivity tools such as *kaizen* (& benchmarking, twinning) are not mentioned in GTP. Meanwhile, TVET system and industrial zones are highlighted.
- Gap between GTP text and Ethiopia's strong belief and action in skills, technology and productivity.
- Difficult to see how and where *kaizen* institutionalization can be aligned with GTP.

(Cont.)

- Metal & engineering discussions are not reflected.
 - Metal—strengthen downstream, move upstream subsequently; re-examine feasibility of Bikilal ore
 - Identify substitutable metal products, esp. in power sector
 - Capability building in basic elemental technology using kaizen
 - Questions remain about steel demand projection and targeted import substitution ratios by sector
- Is this due to uniform way of GTP's compilation across sectors with emphasis on numerical monitoring? Is quality an issue at lower level?
- We hope points we raised will be taken up explicitly in implementation processes and documents.



2. Growth Targets

- Real GDP growth of 11.2% (base) or 14.9% (high)
- Industrial growth of 20.0% (base) or 21.3% (high)
- Sub-sector growth (from 2009/10 to 2015/16)
 - Textile export 46 times
 - Leather export 6.6 times
 - Sugar production 7.2 times
 - Cement production 10 times, etc.
- Causes of past growth performance is unknown: (policy quality) + (private effort) + (external factors)
- Productive sector—no linear relation between input (investment) and output (sales); much depends on quality, design, cost, marketing and global trends.

Numerical Sub-sector Targets



- GTP is a plan document that incorporates visions, strategies and action plans in one. Sectoral and sub-sectoral targets are specified for ministries to implement (annual targets in Policy Matrix).
- Merit—easy to allocate works and monitor progress at ministerial and directorate levels.
- Demerit—rigid pre-set targets may bind policy implementers (too high, too detailed, not adjustable...)
 - Seeing trees but not forest; achieving numbers but missing productivity and competitiveness.
 - Worry, blame and buck-passing over unmet targets.
 - Underachievement may be due to unrealistic targets, negative shocks or weak private response to policy.

Caution with Targets



- Numerical targets are common in plan documents, but their scope and levels must be chosen properly.
- Targets should be indicative, not state orders that must be attained by any means. Flexibility and adjustments are needed.
- Plan documents should set key sectoral targets only. Initiative should be given to ministries and agencies to decide sub-sectoral details in close consultation with producers (cf. Malaysia, Thailand).
- At high income level, countries do away with plan documents (cf. Japan, Korea, Taiwan, Singapore).

3. Issues in Policy Capability



In Ethiopia, policy making procedure and organization are still on the way to development. This seriously affects implementability.

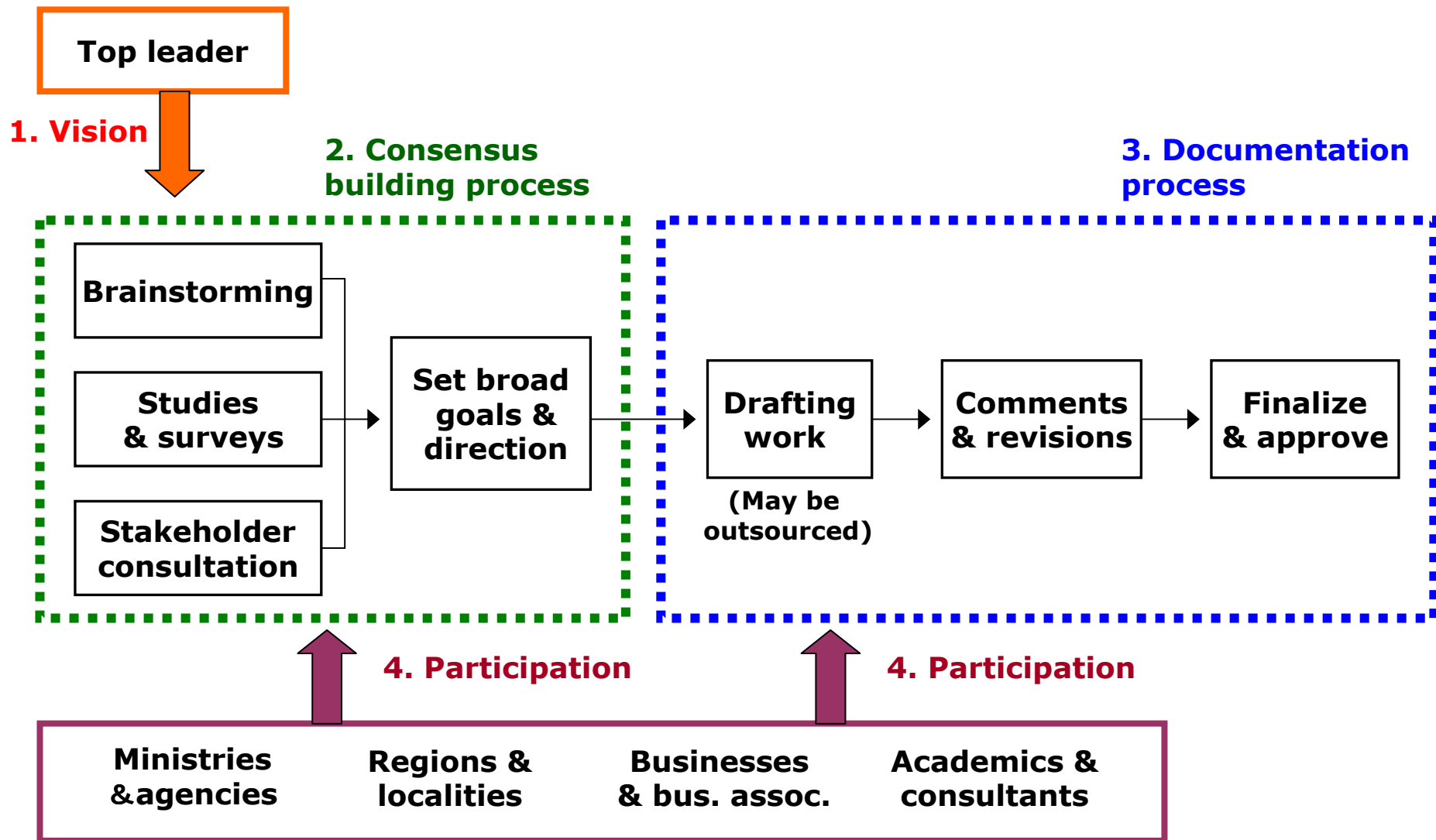
1. Speed over quality – proper steps and knowledge are missing in making policies.
2. Policies are drafted by a few key persons without systematic prior consultation with businesses and relevant ministries. Receiving comments on already drafted documents is not enough (cf. consensus building in Taiwan, Singapore, Thailand...)

Policy Capability (cont.)



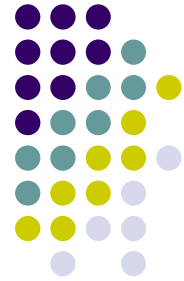
3. MOI should be given central authority and capability (staffing, budget, etc.) to lead and coordinate industry-related issues (trade, MSEs, productivity, etc.) Splitting such functions across many ministries is not advisable. Parallel mechanisms and forced competition among them may cause delay and scattered knowledge (cf. central policy authority in Taiwan, Malaysia, Thailand...)
4. MOI's internal organization may be re-examined.
 - Planning function should be concentrated in one directorate (cf. IDB/Taiwan's MoEA; SPD/Malaysia's MITI; DIP/Thai MOI).
 - Avoid internal functional overlaps between directorates and institutes.

Standard Policy Making Procedure



5. The entire process must be managed and coordinated by a lead ministry or agency.

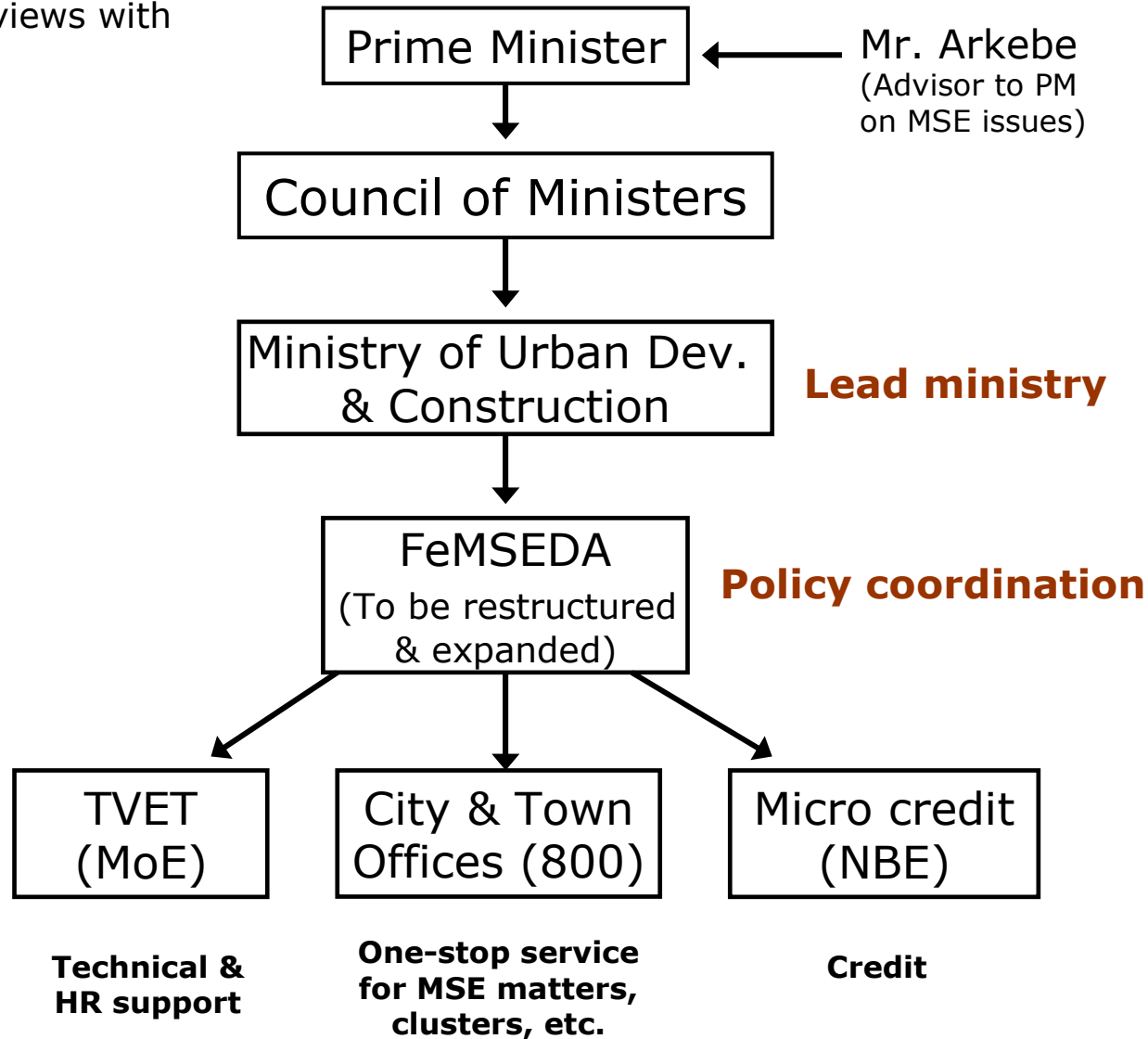
Institutionalization of Kaizen



- We regard kaizen as the principal tool for raising productivity and attaining GTP's industrial targets. It will be upgraded from project to movement.
- MOI is designated as the lead ministry for kaizen.
- Kaizen Pilot Project (phase 1) is completed.
- Ethiopian Kaizen Institute (EKI) will be established as core organization. JICA is assisting its design.
- Remaining issues:
 - (i) kaizen's role and status in GTP
 - (ii) concrete coordination mechanism with related policies and programs (MSE strategy, TVET system, urban extension service, etc.) is under discussion

Ethiopia: MSE Policy Organization

Source: Drawn by K. Ohno based on interviews with policy makers.



Malaysia: National SME Dev. Council

National SME Development Council

Est. 2004,
chaired by PM

14 Other
Ministries

**Ministry of Int'l Trade and Industry
(MITI, lead ministry for SMEs)**

MITI's key departments

Strategic Planning

Entrepreneurship
Development

Sectoral Policy &
Industrial Service

Investment Policy &
Trade Facilitation

Services Sector
Development

Implementing agencies under MITI

**-SME Corp. Malaysia (lead agency for SMEs
and secretariat to National SME Dev. Council)**

-Malaysian Ind. Dev. Authority (investment)
-Malaysia Productivity Corp (research,
training, consultation)

-SME Bank (finance)

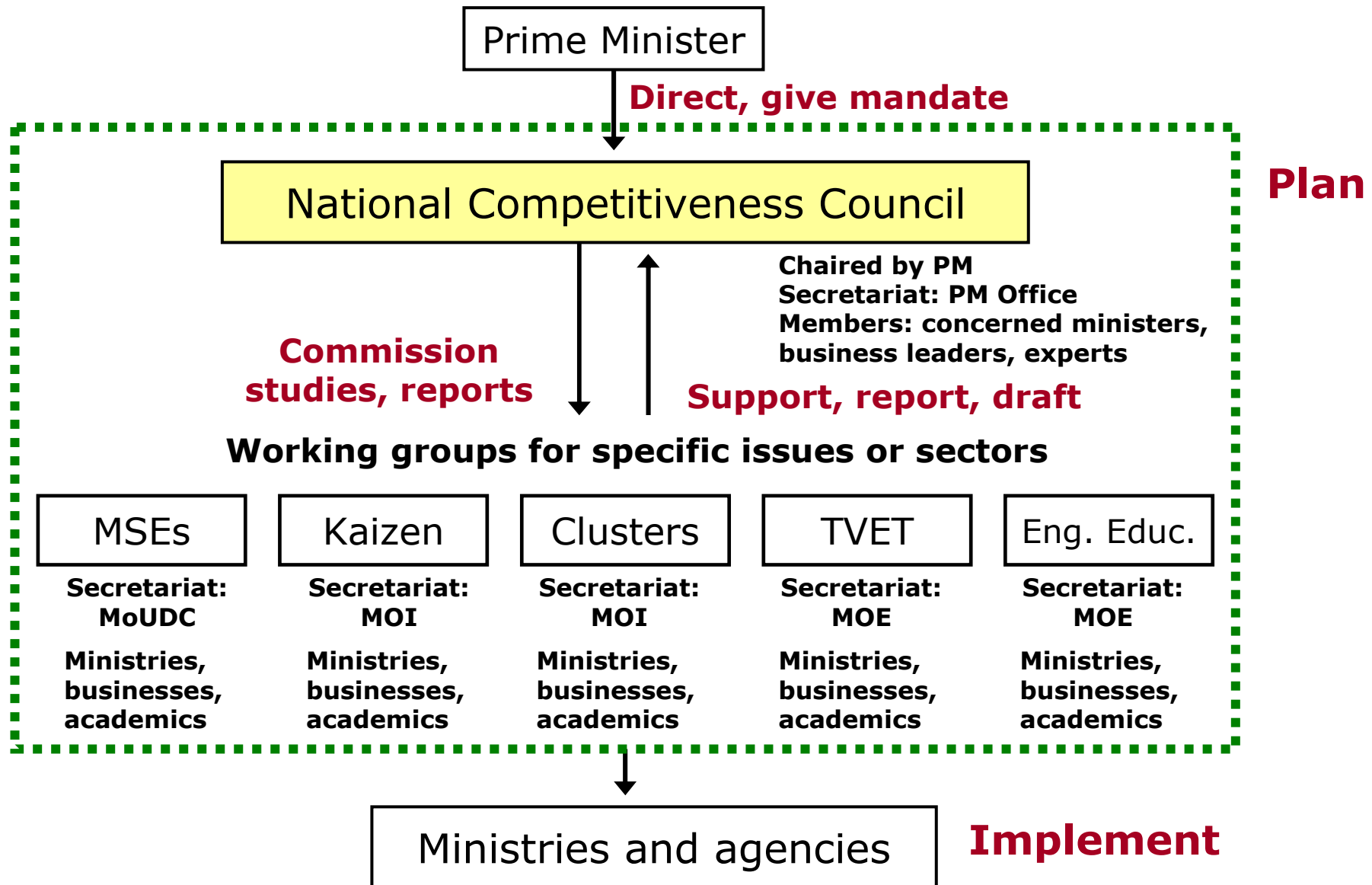
-Malaysian Ind. Dev. Finance (finance)

-MATRADE (trade)

Private sector partners

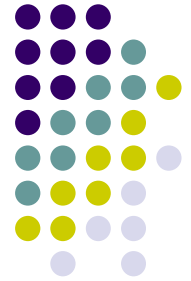
Service & training providers (private
consultants & companies)

Ethiopia: “Tatakidai” Proposal for NCC



Note: This is a preliminary idea of K. Ohno to initiate discussion; listed issues and ministries are suggestions only; everything is subject to addition, deletion or change.

4. Private Sector Mindset and Lack of Dynamism



- To level up skills and technology, good policy and strong private response are both needed.
- Is the local private sector dynamic enough to respond strongly to GTP? There may be less-than-expected industrial performance due to weak private response.
- PM Meles' questions in our policy dialogue:
 - Why do my people invest in urban properties instead of building factories?
 - How did East Asian governments steer private sector away from speculation and rent seeking and toward investment in manufacturing and technology?
 - How did Japan and Korea absorb technology so quickly from foreign-assisted industrial projects?

Malay Dilemma



- Malaysia feels that its indigenous Malay people are less economically dynamic than Chinese or Indian immigrants (Mahathir: 1970). The problem continues to persist even after four decades of affirmative actions toward Malay.
- Despite reasonable policy quality, Malaysia is trapped in middle income. In 2010, PM Najib launched New Economic Model to energize local SMEs toward value creation and innovation.

National Movement for Mindset Change



- Apart from improving industrial policy, additional policy to energize private actors is needed.
- East Asian examples:
 - Japan's quality and productivity (kaizen) movement (1950s-)
 - Korea's Saemaul Movement (1970s-)
 - Singapore's Productivity Movement (1980s-)
- In Ethiopia, kaizen institutionalization holds the key.
- Capability to create a policy package suitable for Ethiopia should be strengthened.
- Experiences of other countries should be studied to extract key success factors.

Factors for Successful Productivity Movement



National movement is not just a few projects; it is a comprehensive drive with strong passion and deep commitment, involving everyone from top to bottom and taking a decade or more to accomplish.

- Strong personal commitment of top leader
- Establishment of core organization(s) responsible for productivity improvement
- Massive campaign (for **mindset change**)
- Supporting institutions and mechanisms at central and local levels
- Authorized and standardized training programs and materials for those concerned
- Developing private sector capability, esp. fostering private, productivity management consultants

Country-Specific Factors



- Drivers of Quality and Productivity Movement
 - Political drive is absolutely necessary, but economic incentives are crucial to sustain the movement
 - Examples: domestically-driven (e.g., export drive of resource-poor countries), externally-driven (e.g., FDI demanding local companies for high-quality production capability)
- Degree of private sector dynamism
 - Private sector capability in initiating, scaling-up, and sustaining the movement
 - Absorptive capacity of new technologies, incl. educational and training levels of general workforce
- Level of technologies (depend on stages of development)
 - Basics (5S, QC Circles, etc.)
 - R&D, technological innovation

Overview of Quality and Productivity Movement (1): Factors for Success

	Japan	Singapore	Burkina Faso	Botswana
Leadership	○	○	△	△
Core organization(s)	○ (private)	○ (public)	△ / × (public → private)	△ (public)
Supporting institutions (central and local levels)	○	○	△ (fragmented)	△
Massive campaign	○ (national movement)	○ (national movement)	△ (partial)	△
Training programs and materials	○	○	△ (not updated)	△
Fostering private sector capability (productivity mgt. consultant)	○	○	×	×

Overview of Quality and Productivity Movement (2): Country-Specific Factors

	Japan	Singapore	Burkina Faso	Botswana
Drivers of productivity movement	<p>Strong</p> <ul style="list-style-type: none"> • Domestic • Need for export drive (resource-poor country) 	<p>Strong</p> <ul style="list-style-type: none"> • Domestic + External • Perceived poor work ethics • Need for FDI attraction (resource-poor country) 	<p>Moderate</p> <ul style="list-style-type: none"> • Domestic + External • Need to enhance supply-side response during SAP 	<p>Moderate</p> <ul style="list-style-type: none"> • Domestic • Perceived poor work ethics • Need for economic diversification (resource-rich country)
Degree of private sector dynamism	<p>Strong</p> <ul style="list-style-type: none"> • Private sector-led national movement 	<p>Moderate</p> <ul style="list-style-type: none"> • Govt.-led national movement 	<p>Weak</p> <ul style="list-style-type: none"> • Govt.-initiated movement 	<p>Weak</p> <ul style="list-style-type: none"> • Govt.-initiated movement
External support	US & Europe	Japan	WB/Japan	Singapore

SAP: Structural Adjustment Program