

# Productivity Enhancing Measures in Sri Lanka and Ethiopia: A Bilateral Comparison



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- 1. Comparing Sri Lanka and Ethiopia**—general features, apparel sector and policy
- 2. Sri Lanka**—achievements, issues and lessons for Ethiopia
- 3. Ethiopia**—assessment of kaizen, city kaizen, benchmarking and twinning

This presentation is based on (i) the policy research mission to Sri Lanka (Oct.2017), (ii) IPE Global, “Reviewing Productivity Enhancing Measures Adopted in Ethiopia: Kaizen, Benchmarking and Twinning” (GRIPS, Oct.2017), and (iii) Daniel Kitaw, “Assessment of Kaizen Cities Mobilization in Ethiopia” (GRIPS, Oct.2017). The analyses and conclusions of these studies are selectively used for this presentation.

# General Features

	Sri Lanka	Ethiopia
<b>Population (2016)</b>	21 million	102 million (WB data)
<b>Past internal problem</b>	Civil war (Sinhalese-Tamil), 1983-2009	Derg regime, 1974-91; war with Eritrea 1998-2000
<b>Income per head (2016)</b>	\$3,780 (lower middle income)	\$660 (low income)
<b>Real growth (2010-15)</b>	6.5% (slowing down to 4-5%)	10.5%
<b>WB Doing Business 2016</b>	110th (targeting 70th by 2020)	159th (working to improve)
<b>Labor quality</b>	Highly educated and skillful; English proficiency	Maybe potentially high, but still undisciplined and untrained
<b>Labor market</b>	Labor shortage especially in Colombo; migration to M.East, Australia, NZ, etc.	Early stage of industrial labor; rural- urban migration about to occur
<b>Main export items</b>	Apparel (40-50%), tea, rubber, spices	Coffee, spices, oil seeds, flowers, gems, gold; garment & footwear by FDI
<b>Private dynamism</b>	Apparel is very dynamic and leads government; other sectors lag behind	Generally weak; few internationally competitive firms
<b>Policy orientation</b>	Politics and policies are unstable and inconsistent; visions only	Strong will to industrialize; learning from Asia; implementation still weak
<b>Infrastructure</b>	Roads & railroads outdated; new port construction; electricity is expensive	Backward but rapidly building; power will be exported in future
<b>FDI inflow</b>	Relatively few and declining; 12 EPZs are available to receive FDI	Light industry and other FDI just started several years ago; industrial parks

Sources: World Bank, JETRO and the policy mission to Sri Lanka (October 2017).

# Apparel Sector

	Sri Lanka	Ethiopia
<b>Number of firms</b>	About 300 (half are SMEs)	40+ (of which 17 are large)
<b>Apparel export (2016)</b>	\$4.9 billion	\$0.1 billion (\$30 bil. targeted by 2025)
<b>Domestic vs. FDI</b>	Domestic firms dominate	Both domestic & FDI, but FDI firms are more competitive
<b>Top firms</b>	MAS, Brandix, Star Garment, Hirdaramani (all domestic)	Ayka, PVH & suppliers, Arvind, Shints ETP, Jay Jay Mills (FDI); MAA Garment
<b>Main market</b>	US and EU (need to diversify); no Japanese OEM	US and EU; no Japanese buyer yet
<b>Trade privileges</b>	GSP Plus (zero tariff to EU), EBA, GSP; but these may end as income rises	AGOA (US) and EBA (EU)
<b>Main products</b>	High-end garments incl. ladies' underwear; knitted products	Variety of relatively simple products; fabric, knitted, denim, etc.
<b>Product quality</b>	Sufficiently high for US & EU market	FDI brings US & EU quality; Ethiopian firms lag behind
<b>Ethical production</b>	Strict and world-leading standards for labor & environment correctness	Western buyers & donors are introducing labor & environ. standards
<b>Vertical integration</b>	Mainly downstream; cotton yarn & fabric imported	Mainly downstream; cotton available but supply & quality insufficient
<b>Main attraction</b>	Quality garments with no guilt	Low wage, trainable labor, policy stability and support, (power supply)
<b>Problems</b>	Labor shortage & overseas migration; high cost; risk of losing trade privileges	Low labor skills & FDI domination; local apparel makers are uncompetitive

Sources: Ethiopia-Japan Industrial Policy Dialogue and the policy mission to Sri Lanka (October 2017).

# Policy

	Sri Lanka	Ethiopia
<b>Top leader commitment</b>	Weak	Strong
<b>Capacity &amp; mandate of industrial ministry</b>	Relatively narrow & weak (Ministry of Industry & Trade)	Relatively narrow & weak (Ministry of Industry)
<b>Elite Technocrats</b>	Not visible	Ministers & state ministers are busy; few technocrats to support them
<b>Private vs. government leadership</b>	Private sector leads (apparel only)	Government leads
<b>Key documents</b>	Vision 2025 & Prime Minister Statements; no implementation details	GTP II & ministerial plans
<b>Export promotion</b>	Export Development Board (EDB)	Scattered authority
<b>FDI attraction</b>	Board of Investment (BOI)	Ethiopian Investment Commission (EIC)
<b>5S &amp; kaizen</b>	Japan-Sri Lanka Technical & Cultural Association (JASTECA); SLITA	EKI
<b>Textile institute</b>	Sri Lanka Institute of Textile & Apparel (SLITA), est. 1984, 100 staff, 4ha, offers training, testing & consultation; regional TVET hub for India & Southeast Asia	Ethiopian TIDI
<b>Leather institute</b>		LIDI
<b>Metal &amp; engineering institute</b>	German Tech, est. 1959, 11 training courses; 5ha; no lab or firm consultation	MIDI
<b>Incentives</b>	Moving to simplified tax structure; eliminating EPZ tax holidays	Manufacturing & IPs prioritized; tax holiday & import duty exemption

Sources: Ethiopia-Japan Industrial Policy Dialogue and the policy mission to Sri Lanka (October 2017).



# COLOMBO



Arcade Independence Square



The t Lounge by Dilmah

Road traffic is heavy



Construction boom



Train service is a bit outdated



Colombo Port



City skyline & Indian Ocean

# Positive Aspects of Sri Lanka

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1. Private dynamism is strong (mainly apparel). The private sector leads the government to draft and implement policies.
2. Top apparel makers are competitive; they achieve high ethical standards (labor & environment). EU/US buyers are happy with Sri Lankan apparel.
3. Training institutes for apparel/leather (SLITA) and metal & engineering (German Tech) are successful and have produced many skilled workers.
4. 12 EPZs under the Board of Investment (BOI) offer one stop service, helping tenant firms solve problems and achieve high labor & environmental standards.

# Negative Aspects of Sri Lanka

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1. At middle income, growth is slowing down, FDI inflow is small and declining, and manufacturing is narrow-based.
2. Apparel is the only shining sector; no dynamic transformation to higher & broader industrial structure through FDI and technology transfer.
3. Government is unstable and policy is inconsistent; ministries are frequently split and merged. Capacity for policy implementation is low.
4. GSP Plus (zero-tariff privilege for EU) will disappear soon. New FTAs must be negotiated with other nations to secure future markets.



# The Strong Apparel Sector

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1. In 1977, Sri Lanka liberalized economy and created EPZs to receive FDI. Foreign best practices were combined with strict Sri Lankan labor codes.
2. Sri Lanka specializes high-end, niche, downstream and knitted garments including ladies' underwear. Upstream cotton & textile are not prioritized.
3. MFA (textile trade quotas) ended in 2004. Private firms drafted strategy to cope with this crisis, and doubled export within five years.
4. MAS, the top firm, has 90,000 employees in 17 countries, and develops own training & marketing systems. It is strengthening R&D and innovation.
5. MAS leads Joint Apparel Association Forum Sri Lanka (JAAFSL), a strong industrial organization.

# Outbound FDI of Sri Lankan Apparel

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1. Sri Lankan apparel invests in Bangladesh, India, Pakistan, Vietnam, etc. They now come to Ethiopia.
2. The main reasons for exodus are (i) labor shortage at home; (ii) future risk of losing EU trade privilege. Wage (\$165/mo. for worker) is not a big problem.
3. Domestic production is shifting to mechanization while overseas production is more labor-intensive.
4. Ethiopia's attraction includes (i) trainable worker; (ii) AGOA & EBA; (iii) policy support; (iv) cheap electricity (4 cents/kWh vs. Colombo's 16 cents)
5. Ethiopia's largest problem: unreliable logistics to/from Djibouti.
6. Mr. H. Perera, Isabella's MD, is assisting other Sri Lankan firms to invest in Ethiopia (Mekelle IP, etc.)

# Katunayake EPZ

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1. Established in 1978 to receive FDI (nation's first EPZ, 122ha).
2. Any sector is welcome. Current tenants are 87 firms (Germany 9, Hong Kong 7, Japan 6, UK 6).
3. Hirdaramani & Isabella (local) are here. They also invest in Hawassa IP, Ethiopia.
4. BOI office at KEPZ offers one stop service and guidance on labor & environment compliance.
5. Each firm treats waste water before discharging to KEPZ waste water plant for secondary treatment.
6. Tax & customs support, bank, insurance, hospital, logistics, mechanical maintenance, 24-hour medical & security services are available.



# Sri Lanka Institute of Textile & Apparel (SLITA)

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1. Two training centers, founded in 1984, were merged to become SLITA in 2009. It offers training, lab service & firm consultation.
2. SLITA has 100 staff (MSc 15-25, bachelor 30-40, support 45), owns 4ha land and 20-25 classrooms.
3. Two-year Diploma courses, customized courses, short-term training & instructor dispatch are offered.
4. As a regional apparel hub, SLITA teaches design, quality, ethical production in India, Bangladesh, Vietnam, Philippines, etc. Foreign trainees also come to SLITA.
5. SLITA also teaches 5S, lean production, Toyota Production System, etc. R&D include automation and creation of new banana stem fabric.

# Ceylon-German Technical Training Institute (CGTTI or German Tech)

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1. Established in 1959 to maintain Mercedes municipal bus fleet with West German assistance. It is the leading institute for metal & mechanical training.
2. Full-time student size grew from 60 to 600 in 11 courses. Tuition is free (all Sri Lanka). Part-time, customized and short-term courses are also offered.
3. Basic metalworking (first year), specialized study in theory & practice (1-2 years), firm OJT (final year).
4. There are many instructors and basic equipment for practical training. Advanced machines are few.
5. There is high domestic & foreign demand for graduating students. More than half go to Middle East, Australia, New Zealand, etc. to work.



# SLITA (Textile)



# German Tech (Metal & engineering)



# Ethiopia's Productivity Tools: Remaining Problems

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**Benchmarking** is setting concrete targets for firms. How to achieve them is left open.

**Kaizen** is an endless philosophy and method that can improve mindset, teamwork & efficiency. It has broad application for all types of organization.

**Twinning** is a method of strengthening institutions (not individual firms).

1. Ethiopia has adopted these (and others incl. BSC, BPR, etc.) but manufacturing remains small and export is not booming.
2. This must be partly due to ineffective productivity tools and partly due to other factors (world recession, foreign currency, lack of materials, logistics, power...)

# General Remarks on Three Tools

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1. Many feel forced to adopt these tools. Mindset and incentive issues must be solved so everyone sees benefit and becomes willing to sustain.
2. **Mindset transformation** is a universal issue. Cross-country learning should be useful (Cf. Dr. Minh's "Tam The" research & practice in Vietnam).
3. **Incentives** for all stakeholders—profit for firms, higher salary for workers, career development for experts, and budget & institutional growth for EKI, TIDI, LIDI, MIDI & others.
4. How to keep trained officials (avoid job hopping)—high salary, promotion & attractive career track, nonfinancial benefits (pride, job satisfaction, awards & certificates, academic degree, patriotism...)

## General Remarks (cont.)

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- 5. Time management problem**—TIDI, LIDI, (MIDI), etc. seem overburdened with productivity tools, export-reporting, investment facilitation, etc. They must go back to core duties. EKI is more focused on core duty (kaizen).
- 6. Donor/foreign expert problem**—just writing reports without practical action, producing many similar studies and recommendations superficially.

# About Benchmarking

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1. Benchmarking compares best practices and sets goals for Ethiopian firms. It is not a self-standing productivity tool; it must be combined with proper action strategies & mechanism.



# About Kaizen

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1. Among three measures, kaizen has attained largest impact. It must be spread and upgraded until it becomes Ethiopian philosophy for all.
2. Ethiopia has begun to teach other Africa (Tanzania, Zambia...), NEPAD, AU, etc.—this is good!
3. **Mindset and incentive issues** are particularly critical for sustaining kaizen. Firms must be driven by internal will & action even without EKI/JICA experts.
4. Ethiopian kaizen is initiated by government. At some future point, private experts must be brought in and promoted.

# Kaizen City Mobilization

Bahar Dar, Dire Dawa, Harar, Kombolcha, Dessie, Mekelle

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1. This is a national initiative implemented by EKI and cities/regions. Japan is not involved, but impressed.
2. City offices, firms, schools & kindergartens participate.
3. Awareness → training → KPT formation → kick-off event → workforce training/monitoring/follow-up
4. Ethiopia has developed unique kaizen method; this can be a model for all Africa.
  - [ **Japan**—one-on-one, customized & labor-intensive
  - [ **Ethiopia**—standardization of procedure, reporting & evaluation for speed and impact volume
5. Among 5S, only *seiri* & *seiton* have been adopted at most organizations. Kaizen is yet to reach children at schools. Mindset change must be enhanced. This is natural because of short implementation (2016-17).

# About Twinning

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1. Twinning arrangements with India (Central Leather Research Institute-LIDI, Council of Scientific Research & Industrial Research-MIDI) should be monitored and reviewed for effectiveness & impact.
2. Possibility of learning apparel industry from Sri Lanka—quality, skills, testing & ethical conduct.

# Issues Raised for Three Tools

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1. **Is more integration and coordination among the three tools desirable?**
  - Each project can be carried out separately, but policy-level authority (MOI?) should monitor progress and ensure synergy.
  - At individual firm level, three tools should be integrated so they form one comprehensive and customized support package (handholding).
2. **Is a high-level strategic document lacking?**
  - For kaizen, strategy is rather clear.
  - For benchmarking and twinning, concrete productivity targets are welcome. But a strategic document for each tool may not be necessary.