

Ethiopia Productivity Report

Policy Measures to Enhance Productivity

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Introductory Remarks

- ❑ Based on the findings of this Report, we have three proposals related to **policy framework** and nine proposals related to **policy areas** where improvements are needed.
- ❑ We offer only ***policy directions*** for discussion and deliberation (not details). They are subject to comment and revision.
- ❑ If policy directions are agreed among key stakeholders, the next step will be to design, implement and monitor an action plan for each proposal with clear designation of budget, timeline and responsible organizations. This will take another round of policy works.

Policy Ideas for Discussion

< Policy framework >

1. Establish a policy organization and an operational organization
2. Improve data collection and publication
3. Set medium-term targets

< Policy areas >

4. Adjust investment policy for proper pace & more private projects
5. Speeding up structural transformation
6. Maintaining wage competitiveness
7. Deepen & broaden Kaizen into National Productivity Movement
8. Construct an effective enterprise support system
9. Simultaneous pursuit of productivity and ethical standards
10. Transforming the mindset of workers
11. Motivating workers with wage and non-wage incentives
12. Transforming management

Policy Framework

1. Policy Organization and Operational Organization

- ❑ A **central organization for productivity policy deliberation** (a national council or committee), headed by the Prime Minister or a similarly high-level person, should be established with appropriate membership.
- ❑ Government should actively use this mechanism to analyze key facts, set goals, approve and guide policy actions, monitor progress and solve problems along the way.
- ❑ A **productivity policy executing organization** (an institute, center or agency) should also be created or designated with sufficient authority, budget and staffing to design, implement, coordinate and review proposed policy actions in detail and on the ground, reporting the results to the policy deliberation organization.
- ❑ In order to avoid the situation of nominal establishment with no real action, the Prime Minister (or a similarly high-level person) must mobilize this policy making and executing mechanism with strong personal interest, involvement and commitment.

2. Improve data collection and publication

- ❑ To prioritize productivity as a national goal, **prompt publication of reliable productivity-related data** is a must. However, such data remain elusive and slow in Ethiopia.
- ❑ This Report checked, cleaned and spliced existing manufacturing survey database before conducting analyses. Even so, not all irregularities could be reconciled.
- ❑ Government should allocate enough human and financial resources, with **designation of an appropriate organization** (PDC? PSI? CSA? Univesrity?), to collect, analyze and publish productivity-related data systematically on a regular basis.
- ❑ Besides basic GDP data, **output, operation ratio, employment and wage data of the manufacturing sector** should be initially targeted for prompt and reliable delivery and analysis. **Agricultural data** should also be improved at an early stage. Capital stock data (for calculating TFP) should also be improved over time.
- ❑ Remaining data deficiencies should be admitted and announced, and they should be eliminated step-by-step over the medium term. The scope of data collection should also be broadened over time.

3. Set Medium-term Targets

- ❑ A small number of medium-term productivity targets should be set which are concrete, monitorable and subject to policy effects.
- ❑ The exact number and content of such targets will be an agenda for the proposed policy deliberation organization.
- ❑ Possible candidates include:
 - (i) Speeding up of labor productivity growth from the current 4-5% to at least **7-8%** annually (as a trend; short-term fluctuations are permitted).
 - (ii) **TFP contribution should dominate** labor productivity growth (say, 70% or more).
 - (iii) Labor productivity growth targets in key economic sectors, namely, **overall manufacturing and agriculture**.
 - (iv) **Benchmarking** Vietnam, Bangladesh or any other apparel exporting country with global competitiveness to attain at least the same **line-worker productivity in concrete processes** such as cutting and sewing.

Policy Areas

4. Adjust Investment Policy for Proper Pace and More Private Projects

- ❑ TFP contribution to labor productivity growth has fallen in recent years while that of capital deepening rose sharply. This is not good news because growth is now **driven mostly by large investments** instead of true efficiency improvement.
- ❑ Investment should be at a pace that would support infrastructure building necessary for development but **without jeopardizing financial, fiscal and balance-of-payments soundness** of the nation.
- ❑ Government should re-direct national investment toward less big public projects and **more private investments** through various measures including budget allocation, foreign currency allocation, incentives and subsidies for skill and technology acquisition, and investment finance.
- ❑ Industrial infrastructure and private investment are both important for growth but available resources are limited. The nation's available finance should be allocated in a way that properly addresses this **trade-off** with due recognition of **the role of the private sector**.

5. Speeding Up Structural Transformation

- ❑ Labor productivity growth has for long been dominated by within-effect while shift-effect remained small. **Ethiopia's past growth did not produce visible structural transformation**, including labor migration from low-productivity to high-productivity sectors.
- ❑ Policy should be directed to sectors that employ large labor force and therefore have considerable impact on aggregate productivity (especially **agriculture**).
- ❑ **Labor mobility from low- to high-productivity sectors should be facilitated.** This will typically occur via rural-to-urban migration, but it may also happen by moving across sectors within same area.
- ❑ Measures for smooth and productive labor migration include: (i) mindset reform, (ii) training that fits the needs of industry and proper in-firm training, (iii) migration information, safety, and matching, (iv) incentive for private effort, (v) assurance of labor rights and good working conditions, and (vi) solving issues associated with labor disputes, culture shock, housing, commuting, hygiene, healthcare, etc.

6. Maintaining Wage Competitiveness

- ❑ Ethiopia's manufacturing wage is one of the lowest in the world. It is crucial to keep this wage advantage.
- ❑ However, there is a **constant tension between labor and management**. Workers complain that their wages are too low while FDI managers complain that Ethiopian workers are inefficient.
- ❑ The fundamental solution is to **improve labor productivity** so wages can rise at the speed of labor productivity growth without sacrificing the firm's competitiveness. The question is HOW.
- ❑ The second and equally important solution is to create a **social compact** ensuring that the fruits of productivity shall be distributed fairly among workers (for living), firms (for investment) and government (for tax revenue), and that workers will not be laid off or remain poor when the nation improves productivity. This is a political arrangement adopted in Japan and Singapore.
- ❑ A question such as "Is Ethiopian wage too high or too low?" arises when labor productivity remains stagnant. Social tension will melt away when labor productivity begins to rise rapidly and continuously, as observed in Japan, Taiwan and Korea in the late twentieth century.

7. Deepen and Broaden Kaizen into National Productivity Movement

- ❑ With strong resolve and effort, Ethiopia has mastered the basic level of Kaizen in the last decade. This is a great achievement that should be the basis of enforced National Productivity Movement. This should be the **Second Wave of National Productivity Enhancement** with higher and broader targets.
- ❑ **Higher level, wider reach**—the new movement should keep Kaizen as its core, but develop it to a higher level and disseminate more widely to all firms, farms, offices, schools and other organizations in the whole country.
- ❑ **Broader scope**—the new movement should encompass not only Kaizen but other key business functions such as management, technology and finance (also see 8 below).

8. Construct an Effective Enterprise Support System (especially for SMEs)

- Government should aim at creation of a comprehensive national enterprise support system as a long-term goal. Japan, Taiwan and Malaysia may supply necessary information for this purpose.
- However, an enterprise support system is very broad and complex, which includes at least the following components:

Policy mechanism	Sufficient pool of industrial experts	TVET system linked closely with industry
Laws and regulations	State-certification of experts (shindan)	Teaching proper attitude, teamwork & creativity
Nationwide implementation & support mechanism	SME finance, credit & guarantee system	Technical support centers for SMEs

- Ethiopia cannot offer all these services and facilities at once, so a realistic step-by-step approach needs to be adopted, first introducing a few mechanisms in a simplified and modified way, then expanding the policy menu as experience is gained and human and financial resources become available.

9. Simultaneous Pursuit of Productivity and Ethical Standards

- ❑ There are two distinct global trends in manufacturing: (i) **product excellence**—an endless pursuit of desirable features associated with the product such as cost reduction, high quality, quick delivery and efficient services in support of users (mainly Asia), and (ii) **ethical standards**—requirement of high ethical conducts in production with due attention to labor rights and environmental protection (mainly EU & US).
- ❑ The dual concern is visible particularly in labor-intensive products such as apparel, processed food and other consumer goods.
- ❑ Ethiopia, as a latecomer light manufacturer, **must pursue both standards**. This is not a choice but has increasingly become de facto requirement to enter and stay in the global value chain.
- ❑ This requires serious learning, international cooperation and appropriate policy as well as much time, resource and expertise.

10. Transforming the Mindset of Workers

- ❑ Competent line workers greatly enhance firm's profit and global competitiveness. However, in many latecomer countries like Ethiopia, workers come mostly from rural areas with limited exposure to urban life or modern production processes.
- ❑ Our survey finds that Ethiopian garment workers have sufficient educational background and are quick learners of technical skills. However, they are **severely lacking in industrial work discipline and motivation**, as manifested in high attrition rates, absenteeism, no sense of urgency and little motivation to do overtime.
- ❑ Global experiences show that the solution to weak mindset and low productivity of workers is not one but many, including:
 - (i) Top-down order and punishment
 - (ii) Creation of corporate family oneness
 - (iii) Mindset reform through instruction and persuasion
 - (iv) Mindset reform through rewards and incentives
 - (v) Use of middle managers as interface between foreign management and local workers (see also 12 below)

11. Motivating Workers with Wage and Non-wage Incentives

- ❑ Workers' motivation is a function of available incentives—both wage and non-wage benefits—and working conditions. Workers at labor-intensive factories in Ethiopia are unhappy with very low wage, as low as USD 30 monthly or less in some industrial parks, and poor working conditions.
- ❑ For workers to be productive, they need to earn living wages. Ethiopia must manage wage hike process in proper balance between fairness and competitiveness, and with appropriate data and analysis. It should not be a purely political process.
Government recently ratified minimum wage?
- ❑ Non-wage incentives can also greatly improve the welfare and productivity of workers. Housing is particularly critical in labor-intensive establishments. It is essential to view workers' housing (including dormitories) as an integral part of industrial park.
- ❑ Other non-wage incentives include commuting support, good lunch at canteen, clean workplace, clinic service, nice human relations, family events, clarity of firm objective and workers' career paths, etc.

12. Transforming management

- ❑ Foreign managers and technicians bring different cultures, goals, attitudes and experiences from different places which may cause tension between them and local workers.
- ❑ Foreigners usually impose their home methods on local workplaces. They should learn to adapt their methods to local conditions by modifying them without losing their core functions.
- ❑ **Ethiopian middle managers and line leaders** can act as an interface between foreign management and local workers. They can convey to workers global market pressure and close linkage between the company's success and workers' salary and welfare. They can also directly hear workers' complaints, and communicate them to management. This practice is adopted by a number of FDI firms satisfied with current manufacturing operation in Ethiopia.
- ❑ If the mindset of local managers and line leaders is still primitive, they can be improved with additional training which covers the sense of purpose and responsibility, consistency, time management and global thinking.