



# Policy Inconsistencies in Ethiopian Manufacturing Industry Growth

*Policy Workshop*

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**15, DECEMBER, 2022**

# Outline of the Presentation

- **Objectives and Scope of the Presentation**
- **Introduction**
- **Major Challenges of Manufacturing Industry**
- **Policy Inconsistencies in Manufacturing Industry**
  - Policy Inconsistencies between Regimes
  - Policy Inconsistencies within the Regimes
- **The Way Forward**

# Objective and Scope of the Presentation

- Different studies on Ethiopian manufacturing industries pointed out that the manufacturing sector in Ethiopia is not successful as per to the envisaged target due to **multi-faceted challenges**.
- Despite those challenges, the focus of this presentation is on **policy inconsistencies** in manufacturing growth.
  - ✓ Issues are organized from **secondary source** and **KII**
  - ✓ Issues are for the **sake of discussion** and way forward
  - ✓ Issues are focused on the **gaps of manufacturing** sector.

# Introduction

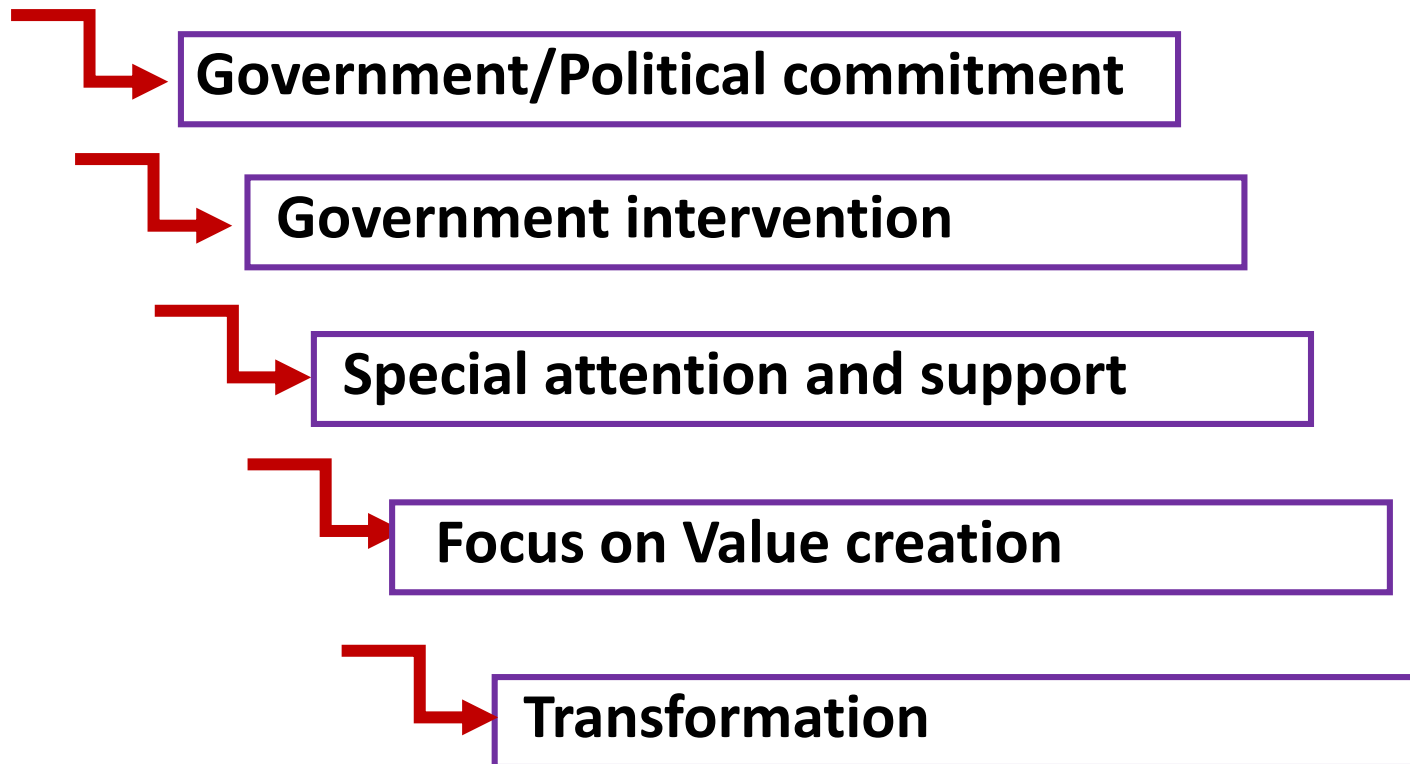
- Industrialization is Equivalent to Growth of Manufacturing Industry.



Achievement of industrialization implies achievement of growth of all other sectors.

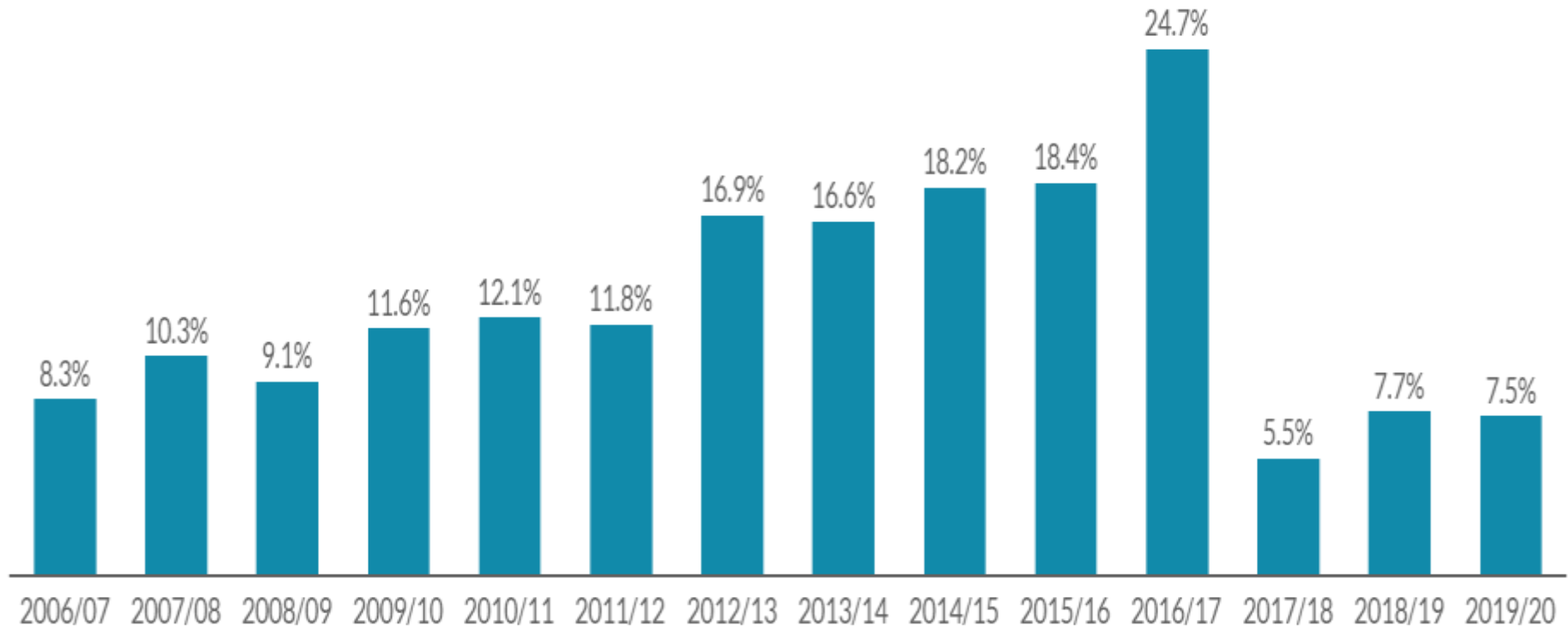
- Most countries including Ethiopia are **challenged to realize industrialization.**

## What Industrialization Requires?



- Ethiopia has been **striving for industrialization since 1940s**.  
But, after a journey of about **80 years, industrialization is still at the early stage**.
- Despite the efforts, the **manufacturing industries did not transformed** from its low productivity and low value addition to high productivity and high value addition.
- **“Why Ethiopian manufacturing industries fail to grow fast?”** There are multi-faceted challenges for its slow growth. One of the challenges for the sluggish development of the sector is **policy inconsistencies**.

## Growth rate of Manufacturing Sector in Ethiopia, 2006/07-2019/20



*Source: Industrial Manufacturing White paper, 2021*

- In Ethiopia, notable economic growth is driven by **Services** and Agriculture. This **trend has continued despite the efforts to push the export-led industrialization agenda** in the country.
- This approach will not ensure sustainable **economic growth**.

- Most countries are capable of formulating sound policies but **fail to implement due to policy inconsistencies.**
- **Policy inconsistencies** includes any contradictions, variations and irregularities on policies, strategies, proclamations, laws, directives, regulations, rules and guidelines, lack of coordination among the responsible organizations and stakeholders, misunderstanding and improper administrations of policies, and others.



# Major Challenges of Manufacturing Industry

- Studies on Ethiopian manufacturing industries pointed out that the sector is not successful as per to the envisaged target due to **multi-faceted challenges** which are well known and rolling out for the last two decades (Amare et al. 2017. Mulu et al. 2017).

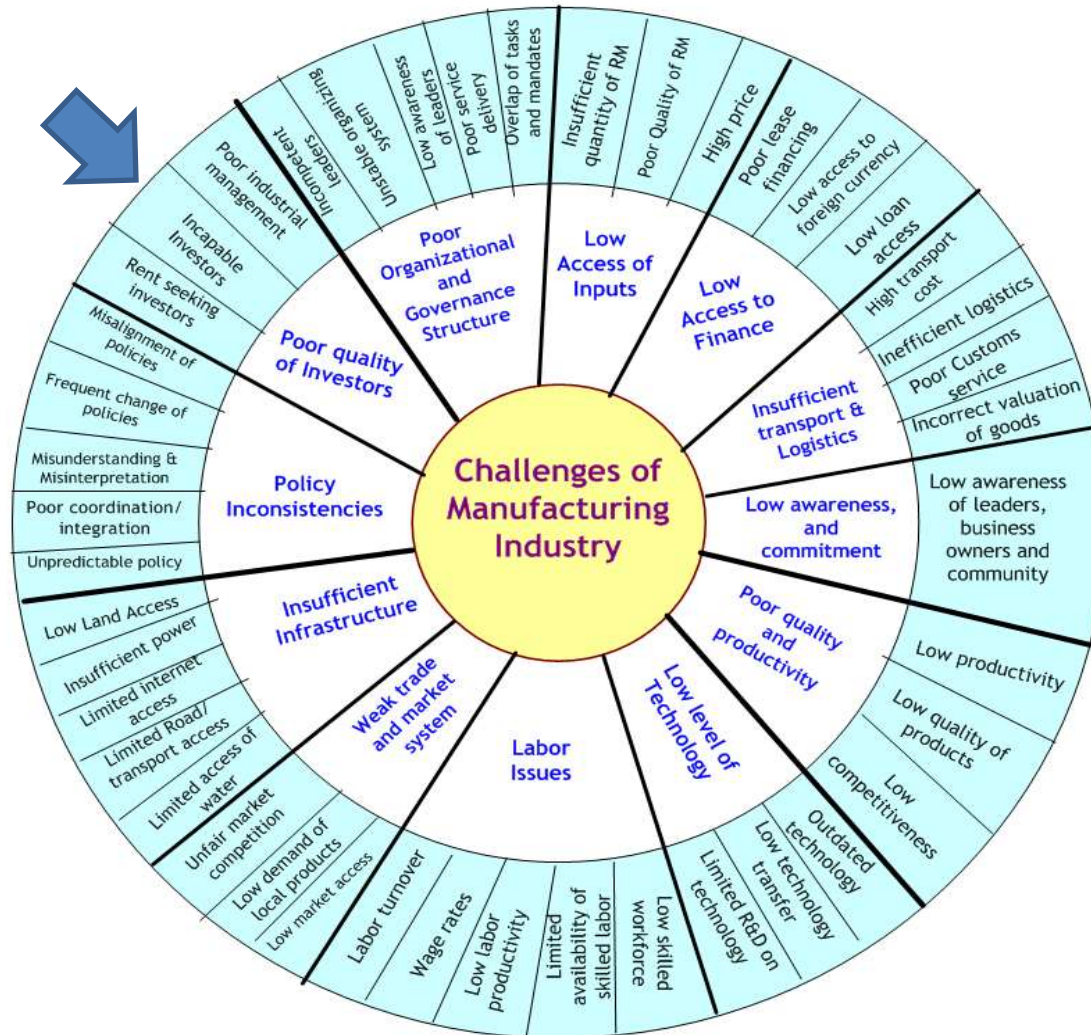
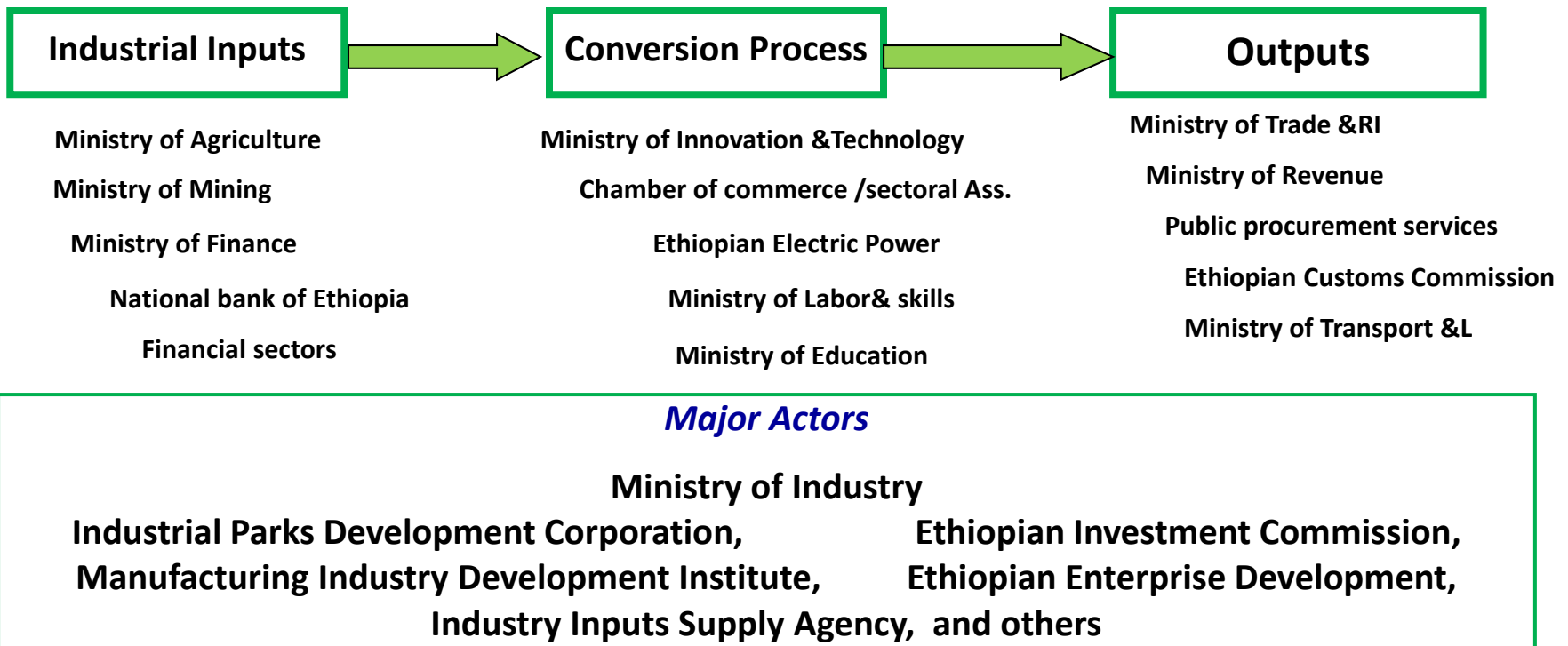


Figure: Challenges of manufacturing in Ethiopia

- Those challenges are shared among the actors and stakeholders of the manufacturing industry development.
- But, **responsibility** and **accountability** of challenges are not shared.
- Challenges can be solved with **collective effort**: eg. **Under capacity of Firms**
- In Ethiopia, it seems that **growth of manufacturing industry** and aspiration of **industrialization** is on hands of **Actors and Stakeholders** of the sector.

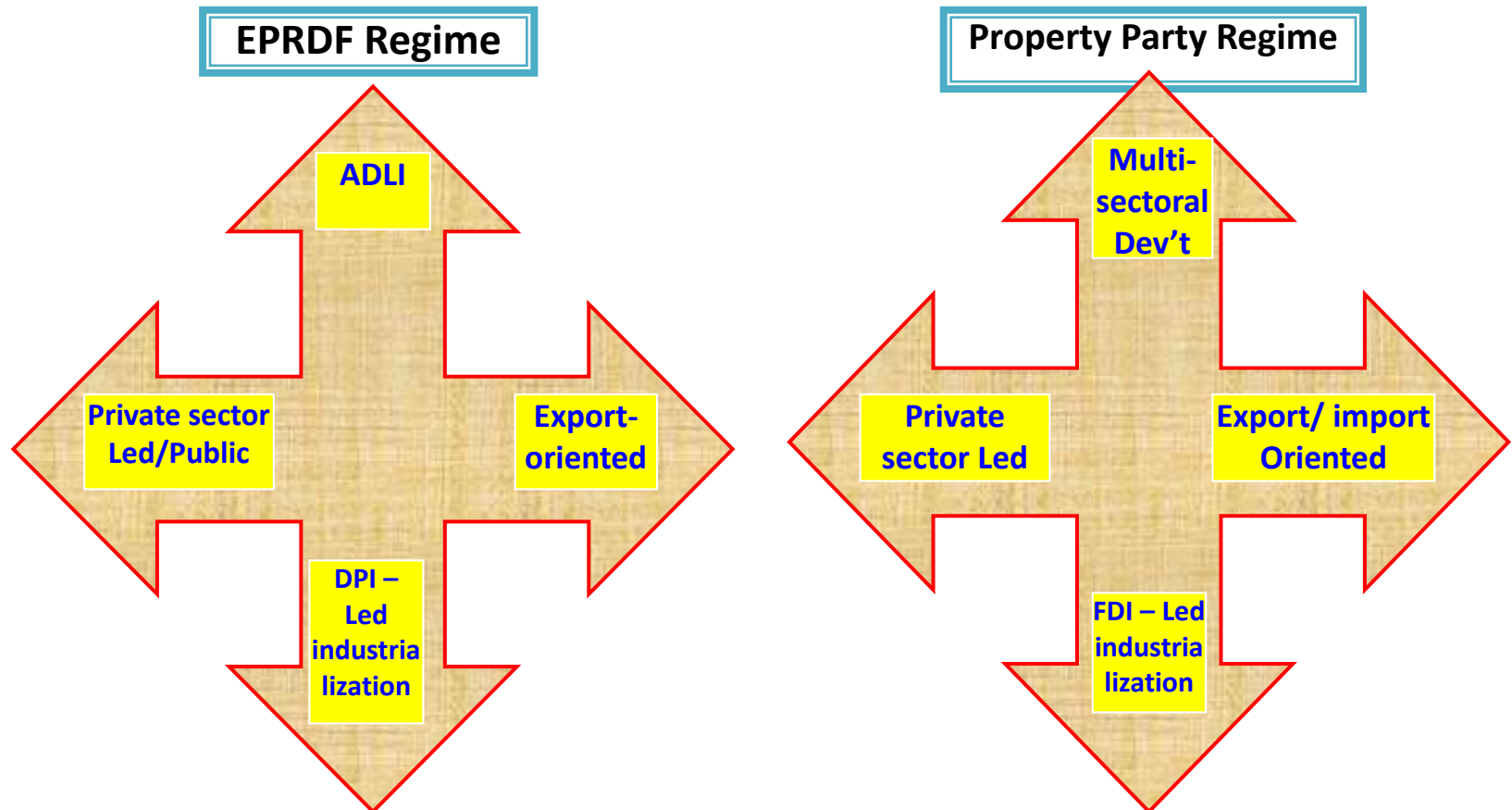


# Policy inconsistencies in Manufacturing Industry Growth

- Policy change or policy inconsistencies occur in many countries with the change of governments or when there is a reform on the development strategy.
- Like other similar countries, uncertainty and irregularity of government policies is one of the major causes for limited growth of manufacturing industries in Ethiopia.
- Policy inconsistencies have observed in Ethiopian industrialization process between and within regimes.

## Policy Inconsistencies between Regimes

- ✓ Ethiopia was searching for industrialization as early as 1940s.
- ✓ In the past three regimes, there were a different ideology and approach of industrialization, which has its own negative impact on the sector growth.
- ✓ Look the inconsistency of basic policy issues between EPRDF & PP regimes.



## **Policy Inconsistencies within the Regime**

**The following are major causes for the existence of policy inconsistencies in manufacturing industry growth in Ethiopia.**

**1)Industrial Development strategy (IDS) without strategic implementation framework:** IDS developed in 2002 with seven strategies but there was no strategic implementation plan until 2013. In the period of 2002-2013, there was no sufficient clarity on industrial policy implementation.

**2)Frequent restructuring and unstable organizing system:** In Ethiopia, at both federal and regional governments' level, there is a frequent restructuring of public organizations in EPRDF and Prosperity Party regimes. Frequent restructuring and unstable organizing system has resulted in inconsistencies in the industrial policy implementation.

- 3) Low Awareness on Manufacturing Industry:** There is an inconsistent understanding and attitude about the manufacturing sectors amongst the various federal and regional government institutions, leaders, industry development experts, business owners and community.
- 4) Absence of Joint work and Joint plan:** There is no an effective coordination, monitoring, data management platforms between Ministry of Industry and the concerned Actors and stakeholders (MoA, MoM, MoF, MoE, MoR, ECC, EIC, IPDC, NBE, DBE, etc.).
- 5) Absence of consistency on policy, directives, regulations and guidelines of concerned organizations:** For instance, Consider Regulation 517/2022 Investment incentive scheme:

- MoF prepare regulation
- EIC delivers Investment license
- MoTRI delivers trade license
- MoR is to implement this regulation

MoR has faced a challenge to implement due to the inconsistency of the two licenses (deliver trade license and investment license in different areas / sectors)

**6) Frequent change of policies (inconsistent and unpredictable policies, directives, proclamations and regulations):** There are policies which are inconsistent and unpredictable.

- For example the frequent change of directives/guidelines on foreign exchange management in Ethiopia (about 22 directives / guidelines on the last four years).
- NBE has introduced 20/80 that enforces manufacturers to consume only 20% of the foreign currency obtained through their export. Most investors complain that this decision is unpredictable and unfair.



## 7) **Misunderstanding and misinterpretation of proclamations, directives, regulations:** Inconsistencies due to misunderstanding and misinterpretation of policies, proclamations, directives and regulations is a common feature in Ethiopia.

- For instance, Proclamation 768/2012 Export trade duty incentive schemes: customers complain on the implementation of the input-output coefficient of export incentive (voucher) scheme.
- MoF, MoR, MoI, ECC, EIC are concerned organization and develop their own perspective guidelines which lacks consistency.
- The incentive value varies across the manufacturers which is based on the nature of the products and design, ranges up to 20%. But, ECC did not consider this variety and applies 20% for all types.



**8. Contradict Objectives:** In few cases, some organizations have been implementing contradicted objectives with the manufacturing industry growth. For instance Ministry of revenue, Banks, MoF and others may give priority for **immediate revenue/return**, whereas the **manufacturing firms may not deliver immediate return or revenue.**

- Another contradicting issue is regarding to the limited access of raw materials. Respondents from Ministry of Agriculture confirm that on one hand, the manufacturing industries are suffering with critical shortage of raw materials (import raw materials from abroad); on the other hand, raw materials are exported to the global market. For example, Edible oil manufacturers are suffering with the shortage of raw materials like sesame.
- The respondents has also indicated that the exporters of raw agricultural products are encouraged and incentivized; but local suppliers of agricultural products to the manufacturing industries are not sufficiently incentivized like exporters.

## The Way Forward

- Currently, MoI has recognized those challenges and launched National Manufacturing Industry Movement to resolve them.
- The movement is cross-sectoral and involves all actors and stakeholders of the manufacturing industry. It aims to identify, reduce and eliminate policy obstacles
- The movement shall be empowered and continue with strong and well organized system until success of the sector in Ethiopia.

**To resolve those inconsistencies and other challenges, the following issues are recommended for further considerations.**

- 1. Take a lesson on industrialization from the success and failure of previous regimes in Ethiopia:** there is no consistency in the industrial development **direction (ideology, role of public and private sector, role of FDI and DPI and others)**. Hence, to devise the appropriate path for the industrialization, it is essential to take a lesson from the success and failure of the sector from previous regimes in Ethiopia.
- 2. Ensure continuous awareness creation among governmental officials, business owners, and community:** It is essential to fill an awareness and knowledge gap among the leaders, business owners and community on the manufacturing sector in a continuous manner through an organized system.

**3. Confirm special attention and support to the manufacturing industry:** Different business organizations have different nature and require different effort to development. **“One size fit for all” does not work here.** Industrialization cannot be achieved with normal pace of work. Manufacturing sector requires a strong effort, support and commitment from the government as compare to other service sectors. Overall, if the government and public organizations do not realize the difficulty and challenge of manufacturing sector with special treatment and support, industrialization will not be successful in the country.

#### **4. Guaranteed coordination/ integration/ cooperation among the actors and stakeholders of manufacturing industry:**

The actors and stakeholders shall identify their respective role and responsibility for the success of industrialization through manufacturing industry development. It is essential to create common data/information sharing platforms as well as monitoring and controlling system.

**Collective approach is better than individual approach to solve the challenges:** the challenges of manufacturing industry are shared, the responsibility & accountability shall be also shared.

- 5. Eliminate duplication of tasks and mandates among actors and stakeholders of manufacturing sector:** It is essential to ensure consistency on policy, directives, regulations and guidelines. An **exhaustive assessment and monitoring of the tasks and mandates to identify** and take corrective action in a continuous manner.
- 6. Avoid any contradict objectives among the actors and stakeholders:** It is known that the objectives of all actors and stakeholders of the manufacturing industry are targeted and expected to enhance the socio-economic development of the country.

**7. Scope of Manufacturing industry:** Respondents have indicated that there is no consensus on the definition and scope of manufacturing industry in Ethiopia. The ISIC classification standard has clearly indicated the definition and scope of manufacturing.

Hence, it is advisable to refer the ISIC classification standard and redefine demarcation between manufacturing industry and other sectors (such as mining, construction, Agriculture) in Ethiopia.

- Overall, the policy inconsistencies and challenges of the manufacturing sector can be solved with the **effort of all concerned organizations along the value chain.**
- If actors and stakeholders of the sector are **successful in coordination/ integration/ cooperation,** then industrialization will be successful that would ensure sustainable socio-economic development in the country.



# Thank You

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