

Industry Development Strategy of Ethiopia

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Introduction

The Industry Development Strategy of the country has put in place the principles that primarily focus on the promotion of agricultural-led industrialization, export-led development, and expansion of labour intensive industries.

These principles are inter-dependent and inter-linked one with another. The strategy has also set the other principles that clearly stated the pivotal contribution of the private sector, the leadership role of the government, and the integrated and coordinated participation of the public at large in nurturing the strategy. This strategy refers to those industries which are primarily involved in the production of manufactured goods. It is also tried to include other industrial classified sectors in the document other than the manufacturing industries.

I. Fundamental Principles of the Strategy

1. Considering the Private Sector as an Engine of the Industrial Development Strategy

Ethiopia has now followed the path of the free market economy system, in that it is inevitable that the private sector would gradually become the propeller of the growth of the economy. Thus the strategy should be able to create conducive environments that help encourage the private sector to play

its active role in this regard. Nowadays, many countries of the world are inter-linked and inter-connected in the areas of trade and investment. Therefore, our private entrepreneurs must be competitive in their products and services both in price and quality as well as in timely supply of goods and services in order to maximize and to benefit much from the global market.

It must be understood that however the Ethiopian private investors. Compete with their foreign counterparts who possess latest technology, huge capital resources and advanced managerial skills with the problem of lack of trained and skilled manpower, and shortage of capital resources coupled with low level of technological advancement. This could make the competition stiff to our investors.

The other problem is that some others want to prosper and benefit improperly, instead of involving themselves in the production of goods and services that would be competitive in the world market and generate additional resources for further development. Thus, to reverse the prevailing situation a proper mechanism should be devised to gradually put an end to the means of becoming a rent seeker.

Once the developmental force which has great devotion and commitment to involve in the development endeavor has been created all round support has to be rendered in order to encourage the efforts of this developmental force to penetrate into the global market. In this regard, the industrial development strategy should, thus, consider the private sector, an engine of growth, as one of its fundamental principles.

2. Implementing Agricultural Development Led Industrialization Principle

Since Ethiopia is an agrarian country the building up of industrialized Ethiopia can be realized only through the implementation of agricultural and rural centered economic and industrial development strategy.

It must be underlined that the implementation of agricultural development-led industrialization would at the same time mean that fostering the expansion of the growth of industry side by side to the agricultural development. Thus, it is true that the general economic development of the country as well as the pace of the growth of the industrial sector is determined by the development of the agricultural sector. Fast industry development can only be secured when the industrial sector could reach at the stage of producing various agricultural inputs and consumer goods, and be able to supply agricultural products with added value. If the agricultural development-led industrialization strategy can be successfully practiced, the developmental strategy would be gradually transformed-in to industrial-led development strategy.

3. Implement Export-led industrialization principle since

The foreign market plays a crucial role in securing dependable market for value added agricultural products, the pace and the direction of the growth of the industrial sector is also determined by successful implementation of this achievements. On this connection, to encourage the investor's competitiveness in the world market, available information with regard to

the type of products, price, and timely supply of products in the required area should be availed to them. The industrial competitive capacity would be achieved only when it is possible to promote strong export oriented industry and be able to transform to and implement this industrial competitiveness in other industrial sectors too. In fact, in competitiveness the presence of skilled managerial personnel, active involvement of the workers and other factors could be taken in to consideration.

The development of industrial sector also plays an important role fertile ground to the promotion and development of many other industries. For instance, the development of a sound based leather shoes export industry at the same time help to faster the promotion of other leather and leather products industries and this in turn play on important role in the expansion of livestock resources, and the establishment of qualitative and standardized modern abattoirs.

4. Focusing on the expansion of labour intensive industry direction.

Abundant and hard working labour force are the basis of the competitiveness of our companies. Our industries may have the opportunity of becoming competitive by utilizing this abundant and hard working force. Unless this abundant and hand working force is promoted into productive citizens, the presence of abundant labour force alone could not be served as a means of reaching to the desired good.

For instance, textile and garment industries by nature are labour extensive and capital intensive sectors in which Ethiopia can have comparative advantages

in the world market. Realizing the importance of textile of government sector, all under developed counties of the world including China and India with 1.2 billion and 1 billion population respectively, pay a grater than to achieve a successful resent in this sector.

Therefore, conducting a strong manpower development is essential to be competitive in the global labour market.

5. Implementing effective domestic-foreign investment partnership method

It is known that foreign investors mostly have huge capital and strong world market net work coverage. Thus in Ethiopia where there is scarcity of investment capital and market access, the inflow of foreign investment to the country, has an important contribution in the promotion of the Industrial Development Strategy by wavy of transferring advanced technology, acquiring modern management system, activating the investment capital and helping to successfully penetrate into the global market.

On the other hand, it must be known that foreign investment has disadvantages in connection with profit and dividend repatriation after the foreign based company is commencing its operational activities. Besides since there will be weak world wide market network as well as modern management skill and know low, the country may face the problems in developing productivity and ensuring sustainable competitiveness at the initial few years. The industrial development strategy therefore takes in to consideration both the advantages and disadvantages of foreign investments.

It is only possible to attract foreign investors by creating conducive environment that encourages the production of competitive goods both in quality and price, and gives guarantee to the protection of private property.

This protection of the private property should therefore, be assured by way of stabilizing and guaranteeing the private property against nationalization and expropriation, and creating efficient and transparent judiciary and civil service system. Thus the private sector is said to be an engine of the industrial development strategy, when a fertile ground that boost the capacity of the industrial development strategy could be formulated by making the private sector to be the prime moved of the strategy and wide participation of foreign investors in partnership with the domestic ones.

6. Implementing the direction where, the government will play a leading managerial role.

The government should not intervene in the investment areas where the private sector can successfully involve. Thus the government of Ethiopia has to limit itself in the identification of problems to be posed in connection with market failure and find ways of solving the constraints based on its execution and financial capacity and appropriate experiences gained from those countries which successfully complemented industrial development.

In its short intervention, the government is to play a role in designing a system that help fill market failure gap and in its long plan, it should involve in face-lifting the mechanisms that encourage the private entrepreneurs to file the market failure gap by itself.

In short, the role of the government in the industrial development would focus on the formulation of favorable condition for private sector development and involve in the activities where the private sector is unable to participate

8. Implementing the principle that encourage the active participation of the public.

As the experiences of those countries that have secured rapid economic Development shown, the government or the private investor could not separately register a desired sustainable economic development. It is with a concerted and active participation of the government, the private sector and the public that a swift industrial development has been achieved in these countries. The rapid development of Korea and Malaysia can be cited as an example of this fact.

a) Government-private sector forum

In the case of our country, one of the priority among the decisive political requirements to be fulfilled the government has to make free its reliance from the private entrepreneurs. It would be very difficult to the government to property execute its leading managerial role if its existence is lingering to the private entrappers in many ways. For example, if the government needs to get a financial resource to be abstained from the private entrepreneurs to win a vote of an election, it could not be considered as private entrepreneur's free government. In our country

where 85 percent of voters are peasant population, the political and financial support of the private entrepreneurs in this regard will result in vain. In the same way, the efforts being made by the government alone could not bear productive outcomes. Thus the establishment of public-private dialogue form is an important device in the promotion and strengthening of government private sector close cooperation to work together for one and the same goals. Sectoral level dialogue forums that embrace those investors involved in the investment areas of textile and garment, leather and leather products, agro-processing, construction, export etc. are to be also formed.

b) Peasants and industrialists Integration

As it is clearly stated in the industrial development strategy, a firm integration between the peasants and the industrialists is another most important element in achieving sustainable industrial development in the country. 85 per cent of our population is peasants. Thus the achievement of successful industrial development is unthinkable with out active participation of this large segment of the society. The peasants and the industrialists are therefore the prime actors in the implementation of Agricultural Development Led Industrialization (ADLI) sharing inter linked and common basic benefits. Thus the government should play active role towards the creation of an important mechanism that speed up the development of common attribute and attitude both in the minds of the peasants and the industrialists.

c) Employer- Employee Relation

The Prevalence of smooth employer - employee relation is indeed an other key element in the acceleration of the economic development of the country It is impossible to accomplish rapid industrial development if grievance exists in the day to day work relation between the employer and the employees. It must be under stood that the lives of the society including the employer and the employees could not be improved unless the country could be able to promote globally competitive industrial sector.

Realizing the fact that the collection of additional income can be generated with the active involvement of the employees, the employers become liveliness to proportionately share the profit with there employees. Like wise, the employees must understand the reality that the employees have invested a large amount of financial resources to get profit. Thus both sides could likely develop common understanding that facilitates their fairly distribution of profit on negotiation basis Finally, the government would have to play its firm managerial role to strengthen the concerted participation of the private sector, the employers, the employees, civic societies and the public at large in the industrial development of the country.

II. Creating favorable condition for industrial development and developmental entrepreneurs

In order to enable the developmental entrepreneurs to serve as an engine of the industrial development, a better enabling environment for the development of the private sector have to be facilitated by way of creating macro economic stability, modernizing the financial system, creating dependable physical infrastructure services, developing effective human resource and creating efficient civil service and judiciary system that supports development.

a) Creating stable macro-economic stability

b)

The government should have to create stable macro economic by getting rid of rent-seeking trend to promote and strengthen efforts of the developmental entrepreneurs.

To help the developmental entrepreneurs to work and be directed in meaningful plan and involve in investment in the long run, the creation of stable and foreseeable economic environment is necessitated. However healthy economic growth has a decisive role to play in the promotion of macro economic stability, the policies formulated by the government could also be conducive to support the accomplishment of this objective. To this effect, the creation of modernized financial system suitable for development is a compulsory instrument.

c) Creation of modern financial system

Modernized and conducive financial system helps to create favorable condition to the flourishing of developmental entrepreneurs by way of developing efficient trade transaction payment system, which in turn foster the mobilization of savings for investment. This financial economic sector includes bank, insurance and other financial institutions.

Banks could play a major role in the collection and transfer of financial resources for investments. In this regard, domestic private investors have been encouraged to largely involve in this sector and at the same time the national Bank of Ethiopia is strengthened in order to strongly monitor the normal circulation of money in the national economy. However, the participation of foreign banks at this stage of the country is not found to be viable in many ways. In fact it is possible to utilize the expertises of foreign companies to build up the capacity of the national banks. In view of their importance of nurturing development, a system that supports the establishment and effective use of leasing capital, venture capital, share markets insurance and pension institutions, and rural financial institution in development has to be implemented. And a mechanism that envisage the right direction how to invest the finance collected from these small enterprises in a long tern investment has to be implemented

C) Infrastructure

It is well known that the development of infrastructures such as road and road transport, railway and railway transport, telecommunication, electric

power and water supply service are among the major important tractors that expedite the development of industry and private investors.

1. Road and road transport service

The government of Ethiopia has been implementing a road building policy to improve the road facility in the country through the construction of new roads and upgrading the standard of the existing ones. Since the efforts are being made in this connection requires high foreign expenditure, the road construction activity is by large carried out with foreign loans and support. However the government has allocated a road fund in order to minimize the financial scarcity of road construction, it is not possible to register meaningful results. The strategy that is designed to construct rural feeder roads with the participation of the rural community, too, could not be effectively implemented. Exerting an effort to increase the foreign loans and supports, strengthening the road fund utilization and constructing rural feeder roads with the active participation of community are, therefore, the possible alternative solutions of alleviating this problem.

Besides the managerial and organizational system of the Ethiopian Road Authority is improved, and made to leave off its involvement in the construction work to curtail the road conducive environment has to be facilitated to encourage and develop the capacity of private construction companies and to support them to work jointly with foreign companies to acquire adequate experience in their fields of activities.

2. Electric power supply

The expansion of the electric power supply has a paramount contribution in the development of industrial sector. To this effect, the strategy which is at the pipeline to build additional hydro and geo-thermal power generation has to be continued in its consolidate manner. As a result, both domestic and foreign private investors are highly encouraged to invest in power generation area. But the distribution activity will remain in the hands of the government due to the presence of wide power supply failure gap. In addition an appropriate mechanism, which activates the generation of electric power using diesel generator, sunlight and wind power has to be mapped out. Besides, the management capacity of the Ethiopian Electric power Corporation has to be also backed up with foreign expertise.

3. Railway transport

Railway transport is one of the important infrastructure facilities that are needed in to the achievement of effective industrial development. The expansion of the railway line has, therefore, a major contribution in the promotion of the growth of the country by way of connecting Ethiopia with main parts and major transport corridors. Since the country is unable to stretch out internal railway lines reaching it to the foreign ports through which the country imports and exports its trading goods, the current strategy of the government in the upgrading of the existing condition of its railway transport is focusing on modernizing its management system and encouraging the construction of railway lines by domestic and foreign investors on a long tern concession.

4. Air transport

Air transport service could play a meaningful role in the industrial development process of the country. In order to maximize its contribution, the construction of new domestic air fields and the upgrading of the existing ones have to be carried out side by side to the efforts being made to enable the airline to be competitive with its foreign counter air lines.

5. Industrial Zone

Industrial Zones have to be made readily available in major cities and towns of the country with all the required infrastructure facilities such as road, electric power, telecommunication and water supply in order to speed up the allocation of plots of land for investment.

6. Manpower development

The effective development of disciplined and hard working labor force has an important role to play in ensuring efficient industrial development sector. To this effect, an appropriate educational curriculum of professional and vocational system has been started. In addition to this, the promotion of on the job training and apprenticeship has to be firmly undertaken. Further make the training system should include ethical values, be able to meet the labour force requirement of the investors and consider the accountability of managers.

7. Information and tax collection system.

The presence of appropriate agricultural information and tax collection strategy development and the expansion of suitable infrastructure facilities. Theirs it is important to design on agricultural information system could enable the promotion of the private entrepreneurs and putting an end the way to become a rent-seeker. The current tax payment system also encourages the taxpayers to be responsible to pay their taxes on time.

To successfully attain this lefty objective, the formulation of efficient, effective, responsive and accountable judiciary and administrative system that supports productive development is mandatory. Beside, the building up of democratic rule in which peace and the rule of law are entertained could be taken, as part and parcel of this development process and above all it must be considered as a prerequisite development.

III. Directly support genuine investors

To expedite our development in accordance with the direction put in place a concerted effort has to be made towards supporting strengthening of genuine developers, and by doing so compel the rent seeker to involve in the development comp. It is also necessary to support the promotion of small, medium and large-scale industry operations and encourage the most of trained manpower to join the industry sector. Accordingly, some of the industry sub-sectors that are given top primary in the development effort of the Government are out lined below.

1. Textile and Garment Industry

Since cotton is the basic input for the textile and garment industry the sub sector has a direct linkage with the agricultural sector. As a result of this, the sub-sector follows the basic principles of the industry development strategy. The sub-sector helps to maximize capital saving, labour intensive usage and value added on agricultural products. The sub-sector also gives chance to compete in the export market. Since the sub-sector produces yarns and fabrics the basic input of which is cotton, it is also possible to produce fabrics with manmade yarns. Further more it is again possible to establish chemical industries whose products would be used as inputs by the textile industries. To expand and enhance the development of the textile and garment sub-sector, it is important and necessary to let the promoters and the operations in the cotton, textile and garment sub-sector, and the institutions that would give various support to the sub-sector in manpower training and research work incorporation and integrated manner.

In addition to this, by identifying and studying problems and constraints counterfoils by the sub-sector solutions have to be devised. It is also important to prepare development plan and introduce a system that would enable the layers in the sub-sector to know their part and to let them play their role accordingly. More over, to bring about fast growth there is a need to establish consultative forum the members of which would be the actors in the sub-sector. The forum gives special attention to the development of the sector and also examines plan set for the development of the sector and oversee its implementation.

The problem that is being faced in the textile and garment industries pertaining skilled manpower and management inhibits the industries from being competitive both in price and quality neither in the domestic nor in the foreign markets. To ameliorate these problems there is, thus, a need to involve foreign companies in the management of the industries through contract management arrangements. This would enable the industries benefit from their rich experiences. In order to improve the productivity of the workforce, there is also a need to undertake vocational and technical training.

Furthermore, to ease the management and the productivity problems of the public textile and garment enterprises, and thereby to make them play active role in the sub-sector, there is a need to privatize them or to run them either through joint venture or contract management arrangements.

Foreign partners which are coming to the country through the above arrangements, as they would bring with them technology, market and management skill and know how they should be supported and be rendered priority in credit services that would help further their investment. In the attempt to produce export standard products the quality and standards Authority of Ethiopia should render services to the industries that would enable them to produce export standard products. To encourage the industries in their export credit service, efficient marketing and information systems and exemption from export taxes have to be in place.

The investors in the sub-sector should improve their competitiveness and take advantage the market opportunities that are made available the European Union and the United States to access their markets quota and tax free.

In the process of realizing this opportunity, a concerted effort should be made to attract foreign investors through the diplomatic missions, and here Wally through the creation of contusive business environment.

2. Meat, Leather and Leather Products Industry

With regard to this industry sub-sector, there is also a need to establish a consultative forum comprising the actors in the sub-sector. Through this forum a study should be under taken that will identity problems and constraints, which hampered the development of the sub-sector. Based on the results of the study a development plan has to be mapped out that would lead to the solutions of the problems and that would indicate the roles very actor would play in the sub-sector. To get the plan realized all the concerned artic should work together and in common. Some of the major actors in the sub-sector are pastor lists investors, shouter houses, turneries, Leather and Leather goods producing factories, the Ethiopian Livestock marketing Authority and Leather and Leather goods technology Institute. The successful marketing of live cattle and meat requires improvement in the health of the chattels and establishment of modern shouter houses with the necessary standard and number in the other hand to produce leather and Leather goods with the required quality both for domestic and foreign markets, an effort should be made towards

improving the existing tanneries to enable them produce at full capacity and expanding the existing ones and establishing additional new factories. Further more promote shouter house services in the cities and towns and also create enabling situation to improve the productivity of the work force operating in the sector by arranging various training programmes in the Leather and Leather products technology institute.

As the Leather Producing enterprises of our country do not have their own brands they are not able to compete with foreign companies which have dominated the market through their contracted agencies by way of price, quality control and rendering other support Services. To resolve this problem, there is a need to support our enterprises in their effort to meet the requirements of these big companies. And by all means attract and encourage these companies to buy our products. This entries to under /// study and mahout a long term plan with which to act.

3. Agro Processing Industries

The agro processing industries produce both for domestic and foreign markets. They are capital intensive and the major raw material for these industries are // vegetables and traits and airmen by products. For the sector to fastly and sustainable grow and develop, the agricultural products should mark an increasing growth both in quantity and kind. In order to realize the aspired growth and development in the sector a development plan that would integrate the industry and the agriculture should be in place.

The agro- processing industries by processing the cereals that are widely produced in the country could produce corn oil, methane, starch and corn flax with competitive price and quality for both // and foreign markets. Since these predicts are dominantly controlled by big companies in the international market, there is a need to create a situation in which the domestic investors could work incorporation with these foreign companies and necessary supports be given to them. To reap the benefit from the sector the domestic and foreign investors should be supported and encouraged so that they could go in to investment.

The other item that is given special focus in the Agro-industry sector is to selling of processed // which has an add value. The raw coffer which our courtly exports to the developed countries accounts only 8% of what the consumers in the developed nations pay for the coffee they drink. And it is this small amount export income that the Ethiopian coffee tamers and traders share among themselves. The remaining balance (92%) is shared among the other groups who sold the coffee by processing and adding value to it is therefore, our country to benefit much from of processed coffee, there is a need to encourage attracts foreign companies to jointly work with the domestic investors.

4. Construction Industry

The construction industry is capital intensive as well as labor intensive sector. It is also the basis for the development of other economic sectors. As a result of this the sector is one of the industry groups that is given top priority by the government.

To enhance the development of the sector there is a need to establish consultative forum where the actors in the sector would be members. There is also a need to identify the problems encountered by the sector and there by prepare a plan that would be implemented commonly by all members of the forum.

In order to alleviate the financial problem the construction companies face with regard to purchase of machineries and shortage of working capital, a system should be devised in consultation with the financial // and put in place. Further more a study should be conducted as how foreign investors involve in the promotion of the construction industry. On the basis of the results of the study design and implement a plan that attar of foreign in vectors in to the country. The effort that would be exerted to develop the sector should and ought to be integrated with the over all government development plan.

The Ethiopian youth trained in the various construction fields should be assisted to be organized in small construction companies and encouraged to participial in construction projects. To further strengthen them they need both technical and supervisory support either from government or the big companies operating in the construction field. It is also important to organize companies from which talented leaders could emerge. It is again necessary to help the establishment of capital goods leasing companies that would give teasing services to these small constriction companies.

Small construction companies that are to be established and strengthened as described above could under take development works both in the rural areas and small towns. To ease the shortage of residence houses in the various towns and to enable people to construct houses of their own through saving practices, a concerted effort should be made to support and encourage the establishment of mortgage companies some of the major problem that inhibit the development of the construction industries are shortage of finance and trained manpower, the non-existence of sufficient certification system, and that support industries which produce inputs and accessories could not grow side by side with the construction industries. To resolve these problems government should provide bank credits, establish and expand technical and vocational training centers, create a situation in which imported inputs could be substituted by competitive domestic products both in price and quality.

5. Strengthen Micro and Small Companies

As Micro and Small Companies are the playground for the emergence of entrepreneurs and as they have the potential to create large employment opportunity, they need to be given special attention and support for growth and development. Those Agencies established both at the Federal and Regional Level, and the municipalities at various cities and towns are expected to play a role in promoting and strengthening these companies. The core issue in the promotion of the micro and small companies is the establishment of consultative forum in which the operators in the sector would be members and which coordinates the efforts of the actors in the sector. Add to this, there is again a need to prepare a plan and implement

that would help solve the problems these companies are faced with. As many of the operators in the sector are not trained, the management is poor and the productivity is low as a result there is shortage of production. To remedy these problems based a training program should be designed and implemented. The other problem the sector is encountered with is shortage of seed capital. To resolve this problem there is a need to use various financial sources such as traditional saving mortgaging residence houses, //, and assistances related to government development programs the Government could particularly strengthen these micro and small companies through allowing them to participate in development works and also through buying their products. With regard to easing the financial problem of the companies, the government can assist them through the provision of land and shades to work on and through encouraging the establishment of Capital Goods Leasing companies. They could also be assisted through subcontract arrangements that would be made between middle and big companies. Trade fairs could be also another area by which the micro and small companies could be assisted and supported.

6. Prepare the necessary ground to ascertain sustainable industrial development

In the effort to ascertain sustainable industrial development finance and infrastructure are basic inputs that need to be available. In the strategy priority is given to the labour intensive industries and the promotion and development of these industries is expected to be in line with the economic strategy of the country ADLI. In the second phase of the

implementation of the strategy a concerted effort will be made to promote capital-intensive industries. During this time knowledge and experience in industrial development will be further enriched. And the effort to make available trained and skilled manpower both at management and operational Level will also be further strengthened. The skill in quality control will again be improved. For the industries to be strengthened and to support each other there is a need to build capacity in information communication Technology (ICT) and in Bio-Technology. The development of bio-technology has a major impact on the enhancement of our economic development. The development of capacity in bio-technology contributes to the development of the agro-Industry sector, to strengthen agricultural research and to use and handle properly genetic resources of the country.