

RESEARCH ARTICLE

## Coordinated Support of Stakeholders in the Manufacturing Sector in Ethiopia; Challenges and Solutions

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Received: 30 November, 2022, Accepted: 1 March, 2023, Published: 06 January, 2023

### Abstract

The primary objective of this study is to explore the current situation of stakeholders' coordination in supporting the manufacturing sector and the challenges they face in supporting the sector in a coordinated approach as required. The study employed more of a qualitative approach whereas the quantitative approach has been used slightly. Therefore, the study was done by collecting mainly primary data by interviewing key informant officials and investors as well as questionnaires were developed to collect primary data from government stakeholders and investors. In addition, secondary data was also used as a source of information for the study. The results of the study show that, at this time the stakeholders who support the sector have no coordinated system. As an indicator, they do not have a signed document or procedure to work together. Furthermore, there is no single window/one service center to support the sector together with the stakeholders. In addition, lack of foreign currency supply, lack of developed working place, infrastructure and power interruptions, bureaucracy and rent-seeking behaviour, and procedures of revenue and customs are the biggest obstacles to investors in the sector.

**Keywords:** Stakeholders; Coordination; Manufacturing sector; Investors

### Introduction

According to Naude, W. and Szirmai, A. (2012), the structural transformation of economies from traditional to modern economies driven by high-productivity activities in manufacturing has been a defining feature of the 'great takeoff', that is to say the period since the mid-eighteenth century when first Britain, then other European countries and the USA underwent a historically rapid phase of economic development. It was followed in the twentieth century by Japan, the East Asian Tigers, and most recently China. In the twenty-first century, manufacturing development remains relevant for poor countries trying to catch up with more advanced economies and to provide increasing standards of living for their populations. Although the need for such industrialization remains, the challenges are more daunting than in the past. The emergence of global value chains has affected the nature of international competition (Ibid).

In the past, manufacturing-led development typically delivered both productivity gains and job creation for unskilled labor. Underpinning the productivity benefits was the sector's tradability in international markets, which not only reinforced scale economies and technology diffusion, but importantly, also provided greater opportunities to access demand beyond the domestic market and increased competition. The agricultural sector was also tradable but faced demand-side constraints owing to a low income, elasticity of demand, and productivity improvements that were closely linked to labor-saving technologies. Hallward-Driemeier, M and Nayyar, G (nd) <file:///C:/Users/user/Downloads/9781464811746.pdf>.

Industrialization is viewed as the most important engine of economic growth. The special characteristics attributed to the manufacturing sector can be interpreted in many ways: rapid technological changes, economy of scale, and easy integration into global production networks Szirmai, 2012; Lavopa and Szirmai, 2014 cited in Su, D and Y, Yao (2016). Additionally, a number of investigators have empirically confirmed that the transformation from agriculture to manufacturing and further from manufacturing to service is the process of economic development (Clark, 1941; Kuznets, 1957; Chenery, 1979; Fuchs 1980) (Ibid). Compared with other sectors, the manufacturing industry has a higher demand for capital and investment, thus providing special opportunities for both capital and technological accumulation, Su, D and Y, Yao (2016).

Although there has always been a strong theoretical case for industrial policy based on market failures, the practical difficulties including the identification of firms and sectors to target, the threat of government failure, survival of inefficient firms, rent-seeking and misallocation of resources are considerable (Naudé, W and Szirmai, A; 2012).

In recent times, many developing countries have adopted new industrial policies or industrial development frameworks, including Botswana, India, South Africa, Uganda, Ethiopia, and countries in Latin America, Peres and Primi, 2009; ul-Haque 2007; Rodrik; 2007 cited in (Naudé, W. and Szirmai, A; 2012).

In Sub-Saharan Africa, patronage and political interference resulted in low-productivity activities being sustained with large welfare losses as a consequence (Killick, 1978; Robinson, 2009) cited in (Naudé, W and

Szirmai,A;2012). In both Latin America and Sub-Saharan Africa macro-economic imbalances (overvalued exchange rates and inflation) further constrained the performance of firms (Ibid).

Currently, the manufacturing industry sector is being given attention because of its important role in the growth of the Ethiopian economy, but it is facing obstacles that need to overcome to prevent the sector from growing at the desired speed. These obstacles and challenges mainly include domestic and foreign investors who invest in the sector from the first phase until they produce and deliver the product to the market. Therefore, the intension of this research is to answer the questions such as how these stakeholders are working together to make the manufacturing industry grow at the required speed and to explore the challenges that are hindering their coordinated support to realize the benefits that the country plans to get from the sector, and how they need to strengthen and streamline their coordination process for the next and other questions.

### **Research Questions of the Study**

I. What are the existing situations and challenges of stakeholders' coordination in supporting the development of the manufacturing industry in Ethiopia?

II. What are the challenges faced by investors to engage in the manufacturing sector as desired in Ethiopia?

### **Literatures Review**

#### **Definition and Concept of Manufacturing**

Manufacturing is defined as the creation of new products, either from raw materials or components. Examples of manufacturing include automotive companies, bakeries, shoemakers, and tailors, as they all create products, rather than providing services. However, for example, logging or mining are not manufacturing, as they do not change goods into new products. Construction, while seemingly a manufacturing process, is actually its own category and not considered a facet of manufacturing either. Manufacturing jobs can cover a wide range of skills, including assemblers, bakers, dental and medical appliance technicians, food processors, jeweller, metal worker, machinists, printers, quality controllers, tailors, upholsterers, welder, cutter and woodworkers. <https://geographypoint.com/2015/09/ten-10-advantages-of-manufacturing-industries-to-the-world-economy/>

**Manufacturing Industry** is the branch industry and trade based on the fabrication, processing, or preparation of products from raw materials and commodities. This includes all foods, chemicals, textiles, machines, and equipment.

Although studies like Korea and China do not accept it (John, 2005; Wu, 2011, etc.), foreign direct investment changes the economic structure of developing countries, streamlines their industrial development and industrialization process, changes their industrial structure, and earns foreign currency. It can be seen from the research papers that foreign direct investment is an efficient solution and it can be said that there is a lot to

contribute to the host countries. For this reason, different countries improve their policies to attract foreign direct investment based on different objectives. It has been observed that some of them have made FDI the main direction of industrial development (eg, Singapore, and Hong Kong). According to Gwangzeh, Michael and Minghuai (2015), before the industrial development strategy was issued, Ethiopia was working on foreign direct investment as the main direction for the industrialization process.

As we can see in various research papers in the field of urban development and industrialization, the policy changes and other enabling measures taken by countries to make the domestic investor participate in industrial development and be competitive are not as strong as the measures taken to attract foreign direct investment. Especially late industrializing countries and developing countries, which are called Special Economic Zones, are established to create favourable conditions for industries that produce for the foreign market. Asia and Africa is a hands-on experience (Premachandra, 1996). Studies on foreign direct investment consistently warn that if the goals set by countries to receive foreign direct investment are being achieved and that foreign direct investment is strengthening domestic capacity, the domestic investor may be crowded out of the market (Ibid).

Guangzhe, Michael and Minghuai (2015) and Miria and Wenjia (2015) warn that foreign direct investments, whose primary purpose is market-seeking in particular, have the power to exclude the domestic investor from the game. For example, Miria and Wenjia (2015) Chinese investors are investing in Africa to take advantage of the special market opportunities given to developing countries by the US and Europe. Their report, titled "Expanding economic ties in an evolving global context", has been made public.

This indicates that one of the reasons why the domestic investor needs to focus on industrial development in the field of urban development and industrialization research is that foreign direct investment will remain in the country only until there is no other country that is better competitive in the industry (Guangzhou, Michael and Minghuai, 2015; Miria and Wenzia, 2015; Kwan 1991; Wu, 2011).

Until 2012, the share of the service sector was 68.93 percent of the total capital registered by foreign direct investment in the world, while the share of the industry was only 18.75 percent. This means that the industrial structure of the countries that are being studied by foreign direct investment, especially the foreign direct investment, is not available as a heart, but rather it is based on high competition, so countries should deploy their own internal capacity in the production sector widely, and it can be considered as an intermediary in the field of urban development and industrialization research (Ibid).

Researches focused on foreign direct investment put it as a prerequisite that the host countries should have an industrial structure that can avoid foreign direct investment, technology transfer (technical, market, industrial/company/leadership, industrial work culture, etc.) knowledge and skills. For example, Guangzhe, Michael and Minghuai (2015) explain that this is the

reason for the difference in the success of foreign direct investment in East Asian and sub-Saharan African countries in their economic and industrial development.

According to the link below, manufacturing industries have the following advantages in the world economy: It provides employment to the fast-growing population in the world, especially the tropical countries, industries lead to diversification of the economy of the country and reduce reliance on one type of product; it contributes to the earning of foreign currency in the country. For example, Japan earns a lot of foreign currency because of exporting manufactured products, it leads to self-sufficiency. This means that the country reduces its reliance on imported goods and this can lead to the stabilization of its economy, it stimulates the development of transport and communication like the construction of roads, railways, and ports, it leads to the development of other economic activities like tourism, trade, and agriculture, it reduces expenses on imports since most of the goods can be produced locally, it encourages the improvement of social services such as education, health services, electricity, and water supply, manufacturing is the most important cause of economic growth. The growth of manufacturing machinery output and technological improvements in that machinery are the main drivers of economic growth. No machinery industries no sustained long-term economic growth.

<https://geographypoint.com/2015/09/ten-10-advantages-of-manufacturing-industries-to-the-world-economy/>,

### **The Importance of Stakeholder Coordination in the Manufacturing Sector**

Although many countries have tried to achieve this task through the process of one center service in the zone, but only a few have achieved the required amount and implemented it. In UNNExT Brief no. 07, September 2011, stated that there are prerequisites that need to be prioritized in order for stakeholders to coordinate and establish a successful one Service Center. One of the prerequisites for the establishment of a successful service center and the supporting stakeholders of the primary manufacturing industry must be effective and strong coordination. Despite efforts by many countries, however, only a handful of countries have managed to successfully implement and operate Single Window systems in the region. As highlighted in the UNNExT Brief No. 1, 1, there are several key prerequisites for a successful single window implementation. Effective coordination among stakeholders, both public and private sectors, comes at the top of the list. While stakeholder coordination in Single Window (SW) implementation may require different approaches depending on country circumstances, there are common critical factors, or to-do's, that should be taken into account to achieve effective coordination. Accordingly, this Brief elaborates six requirements: that are ensure political commitment with a strategic mandate, appoint a strong lead agencies, keep stakeholders engagement, facilitate inter-agency coordination, set a clear scope, and build proper communication

channels.

<https://repository.unescap.org/bitstream/handle/20.500.12870/519/ESCAP-2011-PB-UNNExT-Achieving-effective-stakeholder-coordination-n7.pdf?sequence=1&isAllowed=y>

### **Research Methodology**

The data collection occurred in Addis Ababa and Oromia special zone (Around Addis Ababa). Addis Ababa is the capital city of Ethiopia. Majority of the industries in the country are located in Addis Ababa and Oromia special Zone which is around Addis Ababa.

### **Research Design**

To achieve the objectives of the study, an explorative and descriptive survey types of studies were employed, which includes both quantitative and qualitative data types. However, the intention of this study was to explore whether the government stakeholders who support the manufacturing sector have a coordinated system or not, what are the major challenges that are hampering their coordination as well as to identify the major challenges that prevent investors not to fully engage in the sector. Therefore, to answer the research questions such as what and why, the researcher prefers to focus on qualitative data and slightly on quantitative data. Primary data being the main input for the study have been collected through a fieldwork survey directly from key informant interviews to get original and detailed information as well as from respondents using semi-structured questionnaires (open and closed-ended). Secondary data were collected from the existing relevant published and unpublished sources such as books, strategic plans, annual reports of federal government organizations, and internet. Based on this, stakeholder institutions included in this study to collect information were, FDRE Industry Minister, Ethiopian Investment Commission, Ministry of Foreign Affairs, Ethiopian Industrial Parks Corporation, Ethiopian Electricity Service, Ethiopian Revenue and Customs Authority, Ethiopian Development Bank, Ethiopian Textile Industry Development Institute, Ethiopian Leather Development Institute and Steel and Engineering Development Institute.

### **Sampling Techniques and Data Collection**

To make this study complete, the researcher tried to collect information from the relevant government stakeholders mentioned above using a purposive sampling method. Furthermore, a total of 60 respondents from 10 stakeholder institutions were made to fill out the semi-structured questionnaires. In addition, detailed key informant interviews were also made with 10 senior officials of the governmental stakeholders to collect detailed information. Moreover, 10% (41(23 domestic and 18 foreign) of the total investors who invest in textile, leather as well as steel and engineering institutes and located in Addis Ababa and Oromia special zone were



also made to fill out semi-structure questionnaires to collect original information. In addition, to determine the existing coordinated support of stakeholders and challenges in the manufacturing sector, key informant interviews were made with investors (domestic and foreign) to collect detailed data. The developed questionnaire was translated in to the local language (Amharic) for the domestic investors.

## **Results and Discussions**

In this part, the information collected by interviewing key informants and questionnaires from government stakeholder institutions who support the manufacturing sector and investors, on the existing situation of their coordination, internal problems, and deficiencies that prevent them from providing fast and timely services in a coordinated system to the investors and the challenges investors face when they engage in the sector are discussed and presented as follows.

### **The Existing Situation and Challenges of Stakeholders' Coordination that Support the Manufacturing Sector**

A lot of work is expected from the stakeholders to bring the expected results of the manufacturing industry sector. When stakeholders are integrated and work together, the manufacturing industry sector will get faster service. Based on this, the study has tried to explore whether the stakeholders who support the sector have a coordination system or not. In addition, it was possible also to see what the existing situation of the coordination system of the stakeholders supporting the sector looks like. According to the data collected, it was clear that despite many problems, the sector offices have tried to support the sector individually, but they have not been able to do effective work as required and the investors who engage in the sector are not satisfied with their work. Stakeholders who support the manufacturing industry should sign and negotiate a common agreement document to support the sector in a coordinated manner. However, 93.7% of the respondents stated that they do not have an agreement document signed to jointly support the sector and they do not have any coordination system. According to the data collected, 79.4% of the respondents believe that the sector is not being supported by the stakeholders as required. Furthermore, according to the information collected, the current coordination system of the relevant stakeholders is very weak in terms of working together, they do not have a common plan to work together, the individual and joint roles of the stakeholders are not clearly defined and stakeholders do not have a unified ownership structure. Moreover, the stakeholders who support the sector do not have a way to exchange information at the country level. Therefore, it can be understood from the study that the relevant stakeholders need to pay attention to joint operations rather than institutional operations and understand that coordinated operations will make them more effective.

The study can also identified that who are the stakeholders of this sector is not clearly defined, so it is necessary to clearly define who they are. The coordination process,

platform process, monitoring, and support are very weak and there is no accountability system. Besides, there are attempts being made to do joint work by writing letters of support through certain stakeholders. It has been learned that stakeholders who support the sector meet every three months and carry out an evaluation and try to make attempts to jointly discuss and resolve the problems of good governance in certain institutions. Moreover, evidence obtained from the institutions indicates that there are some activities of creating a common platform and solving problems in certain offices, such as Development Bank, Electricity Service, and Ministry of Foreign Affairs. From the data collected, it can be concluded that the coordination system among the stakeholders who support the sector is very weak and it is not possible to say that they have a coordination system. In fact, one stakeholder institution blames the other institution and they are in a state of competition, and their initiative and commitment to joint work is very little, and investors in the sector are also complaining about it.

### **Views of Investors on the Coordination System of Stakeholders who Support the Sector**

#### **Views of Local Investors**

There is no doubt that the base of the country's manufacturing industry should be a local investors. From the data collected on August, 2016, 82.6% of the local investors involved in the manufacturing industry are engaged in textile, leather and leather products and steel and engineering sectors. 65.2% of them are exporting their products to foreign markets. From the total sampled respondents, 91% of them stated that the support provided by stakeholders is not in a coordinated approach. Similarly, local investors state that the stakeholders who support the sector have little understanding of exports and the sector, and they also have little regard for local investors. Furthermore, the collected data shows that 91.3% of the local investors included in the sample gave a negative response that they are not participating in the sector as required.

According to the information collected by interviewing local investors, the respondents said that the coordination process of the stakeholders supporting the sector is weak. They put several critical evidences for their response; there is no situation in which they can be seen helping each other by seeing the mutual assistance as an intervention for the problems that arise in one of the sectors. One party's decision is not being implemented by the other related stakeholders are not working and not making decisions on time and some of the employees of the institutions are not seen to give quick answers to questions. Due to these and other reasons, the sector is weakening and the country has not been able to get the foreign currency it deserves. Local investors state that even the Ethiopian Development Bank and Commercial Bank are not well thought out for the problem of coordination. The Revenue and Customs Authority sees things only from the point of view of collecting its own revenue. Investors have stated that the National Bank does not work with the Development Bank and Customs to export imports. From the study, it is possible to conclude

that the investors are suffering from a lack of coordinated support of stakeholders. Therefore, the stakeholders should strengthen their coordination to solve the problems faced by the investors.

### **Views of Foreign Investors**

According to the survey conducted in August, 2016, citizens of various countries are engaged in the manufacturing industry in Ethiopia. The sampled foreign investors are engaged in three main sectors, which are 38.9% in textiles, 33.3% in leather and leather products, and 27.8% in steel and engineering. The collected data also shows 44.4% are Chinese investors, 16.7% are from India, and 11.1% are from Korea and others. The reason foreign investors are encouraged to engage in the manufacturing sector is to increase our country's export capacity and earn foreign currency, as well as to create more job opportunities for the citizens, especially investors engaged in the textile and leather sector are made to send 100% of their products to foreign markets. Accordingly, the data shows most of the sampled foreign investors (77.8%) supply their products to foreign markets.

According to the information collected from foreign investors about the coordinated support of stakeholders, 72.2% of them stated that the stakeholders are not working together. The respondents have stated that there is a big gap in the system of coordination, especially in the federal and regional offices. Stakeholders are focused on their own work and have no common work. Investors explained during the interview, one stakeholder does not accept the other's procedures, especially in the federal and regional offices; foreign investors say that there are big operational gaps and stakeholders who support the manufacturing industry sector do not have any coordination system and they seem to work for different countries rather than one sector and one country. Investors spend a lot of time and money going from one institution to another because there is no one-stop shop where all stakeholders can work together.

### **Challenges Facing Investors When They Engage in the Manufacturing Sector in Ethiopia**

According to the field survey conducted in August, 2016, both domestic and foreign investors have explained the many challenges they face when joining the manufacturing industry. The main problems mentioned are presented as follows;

#### **Problems Related to Revenue and Customs Authority**

According to the data collected by questionnaires and interviews, most of the local and foreign investors involved in the sector (69.6% of local and 66.7% of foreign investors) are complaining about the high level of bureaucracy and inconsistency in the revenue and customs authorities. Furthermore, respondents report that the revenue and customs bureaucracy and their work are chaotic and different tax rates are placed on the same goods at different times, delays in VAT refunds and production equipment can be imported duty-free, but

spare parts for new equipment cannot be imported. In addition, stakeholders who support the sector often raise the issue that the revenue and customs system has a negative impact on their operations. Moreover, since the Revenue and Customs Authority has more influence and relationship in the export and import business than other sector offices, it is causing delays in the export process as well as the lack of prompt service at the sector office and tax-related procedures are making investors to complain in the sector.

#### **Problems in the Development Bank of Ethiopia**

The Development Bank of Ethiopia is one of the major stakeholders in supporting the manufacturing sector. According to the data collected from the investors, although the local investor wants to engage in the manufacturing industry sector, it was found that 60.9% of the sampled local investors face financial shortages and have a lot of trouble getting bank loans. In addition, changes in the policy issued by the National Bank from time to time, foreign exchange shortages, good governance problems, actions, and attitudes of rent collectors are also problems of the institution explained by investors. During the interview, they revealed that it is difficult to invest in the sector with their own capital, so they seek financial support from the Development Bank of Ethiopia. To encourage local investors, the institution said that it has lowered the lending ratio from 70/30 to 75/25. However, they say that there are many problems and complications in service delivery. In addition, 61% of the foreign investors who were included in the study stated that they have a lot of difficulty in getting a loan from the bank and they do not get the loan size they want from the institution. Moreover, investors are also complaining about the interest rate of the institution which is 12%. In addition, the lack of foreign currency supply is also a matter that all domestic and foreign investors in the manufacturing sector are complaining about it and discouraging them.

#### **Lack of Working Place**

It is known that the manufacturing sector needs a large space for work and expansion. It can be seen from the findings of the study that local investors face a lot of difficulties and problems in finding a place to establish their factories. According to the information obtained from the Ethiopian Industrial Parks Corporation, the industrial parks that are being built are for foreign investors, only 15-20% of the factory sheds to be developed in the industrial parks for the local investor. However, local investors have a lack of workplaces and they are complaining with the support given to foreign investors from sheds developed in industrial parks. Due to this, even the interviewed officials agree with the share of domestic investors in the developed industrial parks should be more than 15-20%. In addition, the investors included in the study say that the complexity of bureaucracy in land management is exposing them to waste of time and money as well as making local investors to prefer to engage in other sectors as it costs a lot of money to engage in the manufacturing industry.

### **Lack of Market**

According to the data collected during the field survey, one of the main reasons is that many local investors are not willing to invest their money and time in the manufacturing industry while seeing many local investors get short-term glory. The problem of illegal or similar products being produced in a poor quality manner and disrupting the market is the other problems that they face. In addition, the failure of the government to provide proper protection to the local investors engaged in the manufacturing sector is another reason they mentioned. Moreover, local investors explained that the market is controlled by foreign investors and there is no special support and encouragement for them. In general, the business system in the country is not regulated, and because of the proliferation of illegal trade and practices, local investors entering the sector are less likely to be successful and suffer lack of market for their products

### **The Problem of Infrastructure and Power Cuts**

It is known that infrastructures such as electricity, water, telecommunications, and roads play a key and important role in the manufacturing sector. Even though there is a reform work that has been started to improve the provision of electricity services at the national level, from the data collected from investors via questionnaires and interviews, they explained that, both Local and foreign investors who are engaged in the sector say that lack of adequate infrastructure and interruptions are major obstacles for the sector. 52.2% of the respondents stated that they face the problem of insufficient infrastructure and power outages.. Furthermore, 55.6% of the foreign investors included in the sample state that they do not get land and infrastructure in the amount they want and that they have a lot of trouble in getting infrastructure and electricity supply. They also say that the long and difficult process of getting electricity for the sector makes their factories not as productive as they should be. Frequent water cuts and loss of water for about a week are the biggest problems faced in the sector. In addition, the internet fee is high compared to other countries, especially foreign investors are complaining about it, if it can be reduced, it can have a positive effect on the industry.

### **Problems in the Ethiopian Investment Commission**

According to the information collected from investors engaged in the manufacturing sector, they explained that investors get their tax-free license from the Ethiopian Investment Commission, and they say that it takes 15-20 days to get a tax-free support letter, which leads to unnecessary costs and wastage of time. Moreover, there is a lot of trouble and loopholes to get tax exemption from the investment office. In addition, the concerned officers/professionals not being available at the workplace at the required time, they also state that some managers and experts are facing problems like taking undue advantage of the services they provide and the office should pay attention to these and similar problems and solve them.

### **Lack of Human Resources**

When factories are established, they need trained manpower with knowledge and skills to the level of manufacturer need. Investors explained during the interview, they have a lack of skilled manpower to work in factories such as of professional skills of various maintenance and electricians as required; foreign investors involved in the sector say that there is a lack of skilled manpower in the sector and that there are not many workers who can work in factories as well as employees instability and periodic dismissal, lack of availability of tailors in textiles; Poor employee morale are the major challenges investors facing in the sector. In addition, local investors mentioned that they lack technology and experience to compete with foreign investors. Moreover, some foreign investors try to weaken local investors by opening illegal production companies, and this is blamed by leaving workers and being employed by them (Turkey, Chinese citizens/.

### **Problems in the Ethiopian Shipping Company**

The data collected by interviewing the investors indicates that the majority of the foreign investors are not happy with the Ethiopian shipping company because the cost of transportation from Djibouti to Addis Ababa is expensive compared to other countries, logistics and payments are high. In addition, the respondents explained that the Ethiopian Maritime Transport and Logistics Company does not inform in advance of the new laws that will be issued in the field of maritime transport and logistics. They point out that it causes a lot of delay for them to export their products.

### **Lack of Resources**

Investors also explained that they have a problem of getting raw materials at the required time and type; cotton input problem and deterioration of raw material quality are the major challenges.

### **Problems in Labour and Social Affairs Office**

From the data collected, it is possible to understand that, when foreign investors enter the country and engage in the manufacturing sector, they frequently meet with the Labour and Social Affairs Office to deal with issues such as visas, work and residence permits for foreigners, and many of them (38.9%) have complained about the hassles of issuing visas and work permits for workers.

### **Problems of Good Governance and Rent Collection**

Investors state that the nature of rent-seeking and bureaucracy is widely seen in the various stakeholder offices that support the sector. Some of the experts and officials of the stakeholders want to get undue benefits from the investors and are rent collectors. Some of them are ignorant of the country's investment policy and lack sufficient knowledge and skills to support the sector. The investors say that not responding quickly and satisfactorily to all stakeholders and moving around /more



appointments/ are boring and difficult for them. In addition, local investors say that the government prefers and encourages foreign investors over local investors although local investors have no other choice than their country. Therefore, stakeholders who support the sector should pay attention, encourage, and accelerate the development of local investors. Moreover, in order for the manufacturing sector to be competitive and the country's economic transition to accelerate, it is necessary for all relevant stakeholders to pay attention and increase their awareness and attitude towards the sector and provide investors fast and quality services.

### **Ways How Foreign Investors Get Information about Ethiopia's Investment Opportunities**

Foreign investors get information about the country's investment situation in different ways. According to the information collected by questionnaires and interviewing the foreign investors, 50% of them got information about investment opportunities of the country from government bodies and embassies, and 38.9% of them also said that they got information from foreign investors who have already engaged in the sector, 11.1% of the foreign investors stated that they got information through the internet and others. The interviewed foreign investors say that not much is being done to promote the investment situation of the country and that the relevant stakeholders should do a lot to inform the foreign investors about the wide investment opportunities and good image of the country.

### **Problems within Investors who engaged in the Manufacturing Sector**

According to the data collected, the problems observed within domestic and foreign investors who invest in the sector are discussed as follows.

#### **Problems within Domestic Investors**

The interviews made with the government officials of the stakeholders reveal that investors provide at different times to different stakeholders who support the sector is different, for example, the information they provide to banks, revenue or institutes is not the same for one industry, investors have a problem of not providing reliable information, they provide poor quality information and they have lack of management skills. In addition, failure to identify or report their problems to the relevant stakeholder on time, failure to follow the policy, law and support system issued by the government, and even though they have an association, the association is not strong. Furthermore, not using the loan, they borrowed from the bank for the intended purpose and not repaying on time, not paying of lease payments for failure to employ educated and skilled workers, inability to enforce their rights, entering in to projects that are not supported by adequate research and consistent planning is a problem seen within local investors.

The interviewed government officials also said that local investors are being "a baby bird, like always said from his mother's mouth". Therefore, instead of temporary profit,

they should give priority to the construction of tomorrow's country, they should bring a change of thinking and belief that they can compete and sell in the world market. Furthermore, it is occasionally seen that the incentives given by the government are not used properly for the manufacturing sector. Investors engaged in the sector have the mind-set and actions of rent collection. Therefore, they deserve to get rid of the rent-seeking behaviour and bring a developmental perspective and use the support given by the government in the appropriate way to benefit the country and the community/ create job opportunities, bring in foreign currency, etc.

### **Problems within Foreign Investors**

According to the findings of the study, foreign investors, instead of trying to solve the problems they face in a legal way, they prefer to solve them in an illegal way, being easily disappointed and upset by small problems, thinking of the problems faced as the whole country's problem and not informing or reporting the problems faced to the relevant body of time. In addition, it is seen that some foreign investors do not want to comply with the laws and regulations of the country and they try to gain benefits through indirect and illegal means. Furthermore, most of the foreign investors do not respect the rights of workers and they do not want to comply with the environmental protection policy, foreign investors do not keep their promises when they first come and engage in the investment, they do not work for Ethiopian workers to have knowledge transfer and they do not have a system to improve the knowledge of the workers. In addition, foreign investors do not export in the required quantity and quality and they do not have transparency in their work. Moreover, some foreign nationals try to weaken national investors, and this is caused by leaving workers and hiring them, etc. /Turkey, Chinese citizens.

### **Conclusion**

One of the main reasons for the lack of contribution of the manufacturing sector in Ethiopia's economy is that the stakeholders established to support the sector are unable to provide the required support and encourage investors in a coordinated approach. To speed up the development of the manufacturing industry sector and bring the expected results, it is expected that the stakeholders who support the sector should strengthen their coordination and provide the necessary support and monitoring to the sector. However, the findings of the study clearly show that in the current situation, in terms of supporting the sector in a coordinated way, the stakeholder institutions have many weaknesses and problems in supporting the sector as it should be. As an indicator, the stakeholders who support the sector do not have a jointly signed agreement document and a joint plan to work together, the individual and joint roles of the stakeholders are not clearly defined, there is no accountability system in place, there is no way to exchange information at the country level, who are the stakeholders of the sector is not clearly defined and there is no single window service where all stakeholders who support the sector can work together. These and other problems consequently made investors in

the sector spend a lot of time and money moving from one institution to another.

In addition, lack of foreign currency supply, power outages, lack of developed work places, lack of skilled manpower required by the manufacturers and migration of experts (high turnover of employees), lack of market, bureaucracy and tax-related problems related to revenue and customs authorities are the main problems faced by investors in the sector. Problems of good governance and rent-seeking behaviour of officials, logistics problem, and high cost of transport services from Addis Ababa to Djibouti compared to other countries and delays in exports and imports are preventing them from participating in the sector as required. Therefore, from the findings of the study, it is possible to conclude that, fixing these problems and facilitating the coordination of the stakeholders, promoting good opportunities of the manufacturing sector as well as changing the image of the country should be the priority agenda of the relevant bodies to attract new investors in the sector.

### Recommendation

Based on the analysis of the data and results of the study, the proposed solutions that can help to facilitate the stakeholders' coordination are suggested as follows.

- It is worthwhile for stakeholders to sign a clear and unambiguous joint agreement document to support the sector in a coordinated approach. The execution of the memorandum of understanding will create favourable conditions for the supporting the sector as required and it can ensure accountability.
- It is important to establish one service center /single window service system, where all stakeholders supporting the manufacturing sector can work together. The single window service will greatly reduce the problems of many bureaucracies and service delivery delays faced by the investors in the sector.
- Having a common goal and vision; it will help stakeholders to work together as well as solve the problems of good governance and fight against the attitude and practice of rent-seeking behaviours in the sector.
- It is important for all stakeholders to have a uniform national database and exchange up-to-date information; this will have an important role in the efficiency of their services and the coordination process.
- It is important for stakeholders to facilitate capacity building training with relevant educational and training institutions to produce skilled manpower that can support the manufacturers effectively.
- It would be better if the stakeholders could learn from other similar countries, how to work together, and how to develop a strong coordination system among them.

### Funding

No funding to declare

### Conflicts of Interest

The author has no conflict of interest to disclose.

### Acknowledgement

None

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