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INDUSTRIAL PARK DEVELOPMENT IN ETHIOPIA CASE STUDY REPORT

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Industrial park development in Ethiopia

Case study report

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Executive Summary

Economic growth in Ethiopia is progressing at an impressive rate, where industrial parks have piqued the interest of international investors in the country's economy. This Industrial Park study aims to analyze the adequacy of industrial parks as a means for industrialization, and focuses on how to use industrial parks effectively, seeking to answer three main research questions: What is the current status of Industrial Parks in Ethiopia? How could the country's industrialization benefit from industrial parks? How could industrial park development be enhanced in future?

Findings presented in this study are derived from extensive research and analysis of primary and secondary sources as well as from field findings conducted in Ethiopia throughout 2014 to 2018 in tandem with the implementation of Programme of Country Partnership (PCP) by UNIDO and the Government of Ethiopia.

The study determines that industrial parks in Ethiopia have contributed significantly to the nation's industrial development in terms of creating employment, increasing government revenue and export, diversifying the industrial products, attracting Foreign Director Investment, and attracting foreign exchange. Some newly built industrial parks have also started to implement sophisticated technology and introduce it to the local manufacturing sector.

The study also finds that governments, industrial park developers and resident firms in Ethiopia experience multi-faceted challenges, such as complications associated with administrative and regulatory capacity building, coordinating key actors and stakeholders, infrastructure and public utility provision, financing issues, skills development, and linkages with local economies.

Recommendations are given on how to improve efficiency of regulatory bodies, how to ensure sufficient funding for infrastructure development, how to promote linkages between industrial parks, the local labor market and local companies; and how to support technical education and training for industries targeted by industrial park development strategy through aligning curricula of universities and Technical Vocational Education and Training (TVET) institutions with private firm labor requirements. In this connection, the study provides some 'food for thought' in addressing these challenges by all relevant stakeholders.

Introduction

I Background of the Report

Since the 1960s, an increasing number of countries have embarked on the road to promote industrialization and economic restructuring through industrial parks. For developing countries, industrial parks can maximize resource integration for limited production factors within a certain spatial scope. By attracting labor and capital-intensive domestic and foreign investment in manufacturing and service industries, industrial parks can not only increase job opportunities, wages and skills of local workers. Furthermore, they can also establish links to global value chains through participating in international competition, and making full use of comparative advantages to promote the upgrading of industrial structure, and constantly improve the country's position in the international division of labor. Currently, the industrial park economy has become a global trend.

China's industrial parks originated from, and developed in tandem with, it's *"Reform and Opening Up"* policy adopted in 1978 and have since then played a significant role in propelling China's unprecedented economic development, industrialization and internationalization. Over the past three decades China also went through a Special economic zone (SEZ) learning curve, facing challenges relating to infrastructure financing, service provision within the zones and the coordination of policy measures similar to the experiences of African countries today. Industrial park development in China was guided by the principle of *"emancipating the mind and seeking truth from facts"* and adjusting measures to local conditions by placing emphasis on the comparative advantages of land, market and labor resources. Today, industrial parks are the principal means through which the Chinese government at local, provincial and national levels provides preferential policies to foster the development of technology and industry. Over time, China's national and provincial governments and its private zone developers have built up substantial expertise in planning, developing, and operating industrial parks, and today all provincial capitals and autonomous regions and other major cities in China have set up national-level trade and economic cooperation zones. China continues to establish, refine and use industrial parks to support the internationalization of its companies through Overseas Economic Development and Cooperation Zones.

In 2013, China formally proposed the *"One Belt and One Road"* initiative. Since then, policy communication among participating countries has continued to deepen, facilities and telecommunications have continued to expand, trade has been continuously improving, financial resources have been continuously strengthened, and people have become increasingly connected during the past 4 years. In 2016, the UN General Assembly resolution (A/71/9) first incorporated the *"One Belt and One Road"* initiative and was unanimously endorsed by 193 member states, showing that co-operation of the *"One Belt and One Road"* initiative has become a platform for the international community to seek common development. The cooperation platform also provides a golden opportunity for China to become the focal point for international development, and continuously make greater contributions to mankind. Industrial parks development is also an integral part of China's One Belt One Road Initiative, which aims to promote connectivity between Asian, African and European countries.

The "One Belt and One Road" initiative has heated up the "going out" wave of China's enterprises and parks. Meanwhile, China also needs to summarize and promote its own successful models and experiences of the development, construction, and transformation of industrial parks, so as to make greater contributions to the inclusive and sustainable industrial development of the world. In this perspective, China's Center for International Knowledge and Development (CIKD) launched the project *"Development Zones and Industrial Parks in China and Implications for Other Developing Countries".*

UNIDO is one of the major counterparts of the above-mentioned project, and is responsible for producing a sub-report on industrial parks in Ethiopia. The current mandate of UNIDO is to help Member States achieve inclusive and sustainable industrial development (ISID). To meet diversified demands from the Member States for policy advisory and technical assistance services, UNIDO has kept identifying the best practices to fulfill such mandate. Amongst these solutions, the establishment of dedicated industrial zones/area or parks is regarded of the most efficient and effective instruments to stimulate a country's innovation and growth by clustering enterprises, attracting foreign direct investment, transferring technology knowhow, increase exports and create employment. This approach has also been identified as one of the key service component of UNIDO's new business model with enhanced partnership, in particular through the implementation of Programme for Country Partnership (PCP). UNIDO has more than 20 years of experience in promoting the development of industrial parks. UNIDO published its first guidelines for the establishment of industrial parks back in 1978, and issued guidelines and specifications for the construction of small scale industry estates in 1988. In 1996, UNIDO published the document entitled *Export Processing Zones: Principles and Practice*. A new publication entitled *Industrial Estates: Principles and Practice* was published in 1997. During the 15th session of UNIDO General Conference held in 2015, a side event was jointly organized with the Government of Kazakhstan, focusing on the role of innovation hubs for sustainable industrialization and shared prosperity organized. Examples of concrete projects in this area are the enhancements of investments to Iraq through industrial zone development; technical assistance for strengthening SEZs and industrial parks in Rwanda; Fostering ISID in the New Silk Road Economic Belt by leveraging potential of industrial parks and SEZs in Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan; technical assistance for implementation of integrated agro-business industrial platforms in Ethiopia and so on.

Today, UNIDO's involvement in fostering industrial parks has covered a broad range of diversified parks, including integrated, agro-business, sustainable and green industrial parks , which are tailored based on the specific background and requests of our Member States. In the early opening and reform stage of China in late 1970s, UNIDO helped China in their formulation of SEZ strategy and policies through best-practice sharing, policy advice and technical assistance, for which China has constantly been expressing its appreciation. Through this study, UNIDO has had the honor to invite colleagues from China to share their experiences in promoting industrialization and structural upgrading of the economy.

In recent years, UNIDO has recognized that clean technologies and planning for industrial areas can contribute to decoupling economic growth from environmental damage, hence contributing to safeguarding the environment. This has led to development of eco-industrial parks and sustainable park models. In the current approach to promote sustainable cities, UNIDO has also embedded the planning and integration of industrial parks to the urban context, which will foster the creation of jobs, and inclusive development.

Currently, UNIDO, in conjunction with many partners, namely, the World Bank, Asian Development Bank, African Development Bank, European Union, China, Germany, and Switzerland, jointly developed the "*Establishing UNIDO Industrial Parks Development Guiding Framework"*, based on a large number of normative studies and case studies. The aim is to combine the experience of various types of industrial parks around the world to explore standardized and efficient park development and operation models, and to propose relevant policies guidance for industrial parks in developing countries.

II Objective of the Report

Ethiopia has achieved a remarkable economic growth rate of 11 per cent per annum in the last 12 years, underpinning of which is the expansion in the agriculture and service sectors. The contribution of industry to GDP, on the other hand, has remained below 14 per cent, which is less than half of the sub-Saharan Africa low income country average. Notwithstanding remarkable economic growth, the small role played by the industrial sector in the economy calls for industrial park development and expansion as key instruments for attracting investment, promoting technology transfer, export promotion and generating employment; thereby achieving economic transformation. The positive attributes of industrial park development have led Ethiopia to consider this model as a tool to facilitate industrialization.

Preliminary observations indicate that industrial park development can significantly boost Ethiopia's attractiveness for investment and business, as demonstrated by intense interest to take up space in one of the parks that are under construction. However, even though industrial parks' transformational role in Ethiopia's industrialization process is believed to be immense, the concept of industrial parks, effective & feasible policies and institutional arrangements are new to Ethiopia's regulatory processes. However, due to the fact that IP development is only a recent phenomenon in the country, lack of comprehensive regulatory framework (such as the absence of comprehensive legal, policy and organizational frameworks) and master plans, makes development efforts more challenging. Furthermore, there are IP knowledge gaps in the process of their establishment, management, governance structure, model of development and operation.

Among the key issues related to the knowledge gaps which crucially determine the successful implementation of industrial park development in Ethiopia are its objectives, governance system, policy preferences, administrative pattern, investment promotion and linkages to the rest of the economy.

The study has been structured in eight parts:

The first part focuses on macroeconomic objectives of industrial park development in Ethiopia and outlines key economic background issues that need to be considered in industrial park fostering strategies.

The second part focuses on the roles and prospect contributions of industrial park development in Ethiopia's industrialization.

The third part provides a general overview of specific types of industrial parks of Ethiopia by defining the type of industrial parks based on their ownerships.

The fourth part provides a performance evaluation of the current and upcoming industrial parks.

The fifth part summarizes recent success experiences from the country's industrial development strategy.

The sixth part elaborates on the formation and progress of the leading/pillar industries in each type of industrial parks.

The seventh part discusses the main challenges faced by the government, the developers and enterprises residing in the parks as well.

On the basis of the findings of the studies presented in the fifth part, the report finally presents lessons and policy suggestions for Ethiopia, which can be used to successfully and effectively implement IPD and facilitate industrialization. This section further highlights the experiences of industrial park development in China, which have been analyzed to provide a comparative context against Ethiopia's current practices. The report can also be used as a reference to other countries that adopt IPD as a policy instrument to enhance industrialization.

III Methodology of the Report

Reference to a wide range of literature and reports produced by international organizations (such as the World Bank, IMF, AfDB) on Ethiopian economic development, field visits to industrial parks in Ethiopia, and discussions with stakeholders have been used as sources of information in the analysis. Feasibility studies for the Integrated Agro-processing Industrial Parks (IAIP) conducted by UNIDO under the PCP framework have also provided strong support for the report. By doing so, the report provides insights on how to successfully implement industrial park development strategy in Ethiopia.

References to literature and reports: Background reports from international organizations like World Bank, IMF, AfDB provide the basic macroeconomic context and industrial strategies of Ethiopia. The report also makes reference to relevant empirical evidences on industrialization in Ethiopia as well as its policy and strategy documents, proclamation, annual reports, etc. The feasibility studies on IAIP provide the context and rationale for the development of the industrial parks and describe the agricultural sector, industrial sector, agribusiness sub-sector, industrial zones and outlines how clustering industries will help achieve the Government of Ethiopia's Growth and Transformation Plan (GTP).

Key informant interview: Several members of the research team joined UNIDO and China Joint Scoping Mission for PCP Ethiopia on 21-27 January 2018. Accordingly, the research team conducted interviews with selected policy makers and private sectors. These include: **Ministry of Finance & Economic Cooperation, Ministry of Industry, Ministry of Education, Ethiopian Investment Commission , managers of industrial parks (Eastern Industrial Park,**

Huajian International Light Industry City, Hawassa Industry Park), private firms in industrial parks (Huajian Group, Sansheng Group, Lifan Motors) and some TVET Colleges (Selam TVET College, Sendafa-Bake TVET College) in Ethiopia, and private sector representatives. Some of the points of discussions include, but are not limited to, historical profile of the park, sectoral focus of the park, sources of FDI and major investors, governance and management aspects of Park, policy incentives, success factors as well as challenges during the development of industrial parks.

Field visit: During the field visits to Ethiopia, relevant information has been collected using detail discussions with government officials, industrial park managers and resident enterprises; video and pictures about the park history, exhibitions; industrial park presentations by the representatives of the Parks and collection of relevant materials have been utilized.

1 Purposes of Promoting Industrial Parks in Ethiopia

1.1 To improve sustainability and resilience of economic growth

Ethiopia is the second largest country in sub-Saharan Africa (SSA) in terms of population and about the fifth largest economy. The country is undergoing significant structural and economic reforms, and experiencing high growth averaging 10.5 per cent a year from 2005/06 to 2015/16, compared to a regional average of 5.4 per cent. Higher economic growth brought with it positive trends in poverty reduction in both urban and rural areas. In the year 2000, 55.3 per cent of Ethiopians lived in extreme poverty, but by 2011 this figure was 33.5 per cent. However, it is still among the lowest income countries.

The government is implementing the 2nd phase of its Growth and Transformation Plan (GTP II). GTP II, which will run to 2019/20, aims to continue developing physical infrastructure through public investment projects, and to transform Ethiopia into a global manufacturing hub. Growth targets include an annual average GDP growth of 11 per cent which is consistent with its manufacturing strategy, and a 20 per cent growth rate for its industrial sector. (World Bank, 2017)

Although Ethiopia's economy has shown a certain level of resilience in 2016/17 despite the weak global prices for its agricultural commodities, it is still fragile to temperamental rainfall patterns which are indicated by the high drought's budgetary and social costs with 8.5 million people requiring food assistance[1]. The increased frequency of drought conditions caused by climate change in the future presents the necessity and opportunity to switch to a sustainable development model.

1.2 To enhance contribution of manufacturing to national economy

Recently, the contribution of manufacturing to Ethiopia's economic growth keeps increasing. The real GDP grew by 8.0 per cent in 2015/16, which was driven by the services and industry sectors, growing by 8.7 per cent and 20.6 per cent respectively. In 2016/17, GDP is estimated to have grown 9 per cent, owing to the recovery in the agriculture sector and 16 per cent industry growth (power generation, construction).

However, the manufacturing sector still constitutes the lowest share of national economy and the service sector remains the leading contributor to real GDP growth. Trade, hotels, transport and communications led growth within the services sector. Public administration, real estate activities and financial intermediation also propel the services sector. Domestic credit increased by an estimated 27.1 per cent in 2015/16, slightly below the 31.5 per cent recorded in 2014/15, also boosting the services sector.

[1] IMF Executive Board Concludes 2017 Article IV Consultation with the Federal Democratic Republic of Ethiopia

Table 1 Ethiopia Economy Data

	2012	2013	2014	2015	2016
Population (million)	92.4	94.9	97.4	99.9	102.4
GDP per capita (current USD)	469	502	571	645	707
GDP (USD bn)	43.3	47.6	55.6	64.6	72.4
Economic Growth (GDP, annual variation in %)	8.6	10.6	10.3	10.4	7.6
Fiscal Balance (% of GDP)	-2	-2.6	-2.5	-1.9	-2.9
Public Debt (% of GDP)	42.4	46.3	54.6	54.9	56.9
Money (annual variation in %)	32.3	22.3	29.1	21.7	25.1
Inflation Rate (CPI, annual variation in %, eop)	15	7.7	7.1	10	6.7
Inflation Rate (CPI, annual variation in %)	22.8	8.1	7.4	10.1	7.3
Exchange Rate (vs USD)	18.27	19.05	20.33	21.26	22.4
Exchange Rate (vs USD, aop)	17.78	18.72	19.72	20.76	21.9
Current Account (% of GDP)	-5.8	-6.1	-11	-11.1	-
Current Account Balance (USD bn)	-2.8	-3.4	-7.1	-8	-8
Trade Balance (USD billion)	-8.5	-9.1	-12	-13.8	-13.6
Exports (USD billion)	3.2	3	3.4	2.9	2.8
Imports (USD billion)	11.8	12.1	15.4	16.7	16.4
Exports (annual variation in %)	6.3	-7.6	13.1	-13.4	-3.6
Imports (annual variation in %)	41.2	2.6	27.2	8.8	-1.9
International Reserves (USD)	2.4	2.5	3.2	3.4	-
External Debt (% of GDP)	22.1	22.6	25.7	28.2	-

Source: World Bank.

Table 2 GDP by sector (%age of GDP at current prices)

	2010/11	2015/16
Agriculture, forestry, fishing and hunting	44.7	37.2
of which fishing	0	0.1
Mining and quarrying	1.4	0.4
Manufacturing	4	4.3
Electricity, gas and water	1	0.6
Construction	4	15.9
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	18.5	19.2
of which hotels and restaurants	3.6	5.3
Transport, storage and communication	4.2	4.6
Finance, real estate and business services	11.1	7.6
Public administration and defense	5.4	4.3
Other services	5.7	5.7

Source: AfDB and UNDP.

1.3 To stimulate stagnant exports and foreign direct investment

In general, current account deficit of Ethiopia's foreign trade has narrowed due to lower imports however, exports remained stagnant. According to the United Nations Statistical Division (COMTRADE), during the last five years the exports of Ethiopia have decreased at an annualized rate of -65.861 per cent, from $2.88 billion in 2011 to $1.71 billion in 2016. In 2016, Ethiopia exported $1.71 billion, making it the 91st largest exporter in the world and imported $19.1 billion, making it the 57th largest importer in the world. During the last five years, the imports of Ethiopia have decreased at an annualized rate of -4.435 per cent, from $8.83 billion in 2011 to $19.1 billion in 2016.

In the early stages of the development of Industrial Zones the focus of development should be labor intensive industries (with a huge market potential and that agricultural products as raw materials), export-oriented and import-substitution industries and other industries that could benefit from the migration of industries from Asia and that can transfer technology.

Primary agricultural products dominate the Ethiopia's exports. The top exports of Ethiopia are Coffee ($705 million), Dried Legumes ($248 million), Gold ($128 million), Sheep and Goat Meat ($98.2 million) and Tanned Sheep Hides ($42.3million ,using the 1992 revision of the HS (Harmonized System) classification). The most recent exports are led by Coffee which represents 41.2 per cent of the total exports of Ethiopia, followed by dried legumes accounting for 14.5 per cent. The top export destinations of Ethiopia are the United States ($169 million), Saudi Arabia ($167 million), Germany ($148 million), Switzerland ($130 million) and China ($88.7 million).

In contrary, Ethiopia mainly imports industrial process goods. Its top imports are refined petroleum ($1.92 billion), delivery trucks ($803 million), packaged medicaments ($636 million), palm oil ($522 million) and mixed mineral & chemical fertilizers ($427 million). The most recent imports are led by Refined Petroleum which represents 10.1% of the total imports of Ethiopia, followed by Delivery Trucks, which account for 4.22%. The top import origins of Ethiopia are China ($3.21B), India ($830M), the United States ($826 million), France ($476 million) and Turkey ($404 million).

As of 2016 Ethiopia had a negative trade balance of $17.3B in net imports. The current account deficit fell by one percentage point of GDP to 8.2 per cent in 2016/17 as imports of goods and services declined, driven by lower drought-related food and public sector capital imports. However, export revenue rose only 2.9 per cent, well below expectations, reflecting delays in key export-oriented projects—now completed or near completion (Hawassa industrial zone, Djibouti railway, power transmission).

Foreign Direct Investment (FDI) grew strongly by 27.6 per cent, driven by investor interest in new industrial parks and privatization proceeds. Overall, international reserves declined to US$ 3.2 billion, equivalent to 1.8 months of prospective imports of goods and services[2].

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2 IMF Executive Board Concludes 2017 Article IV Consultation with the Federal Democratic Republic of Ethiopia

1.4 To alleviate foreign exchange shortages

Ethiopia's foreign exchange reserves were heavily depleted during 2012 and continue to remain at low levels. By the end of 2016-17, gross international reserves were $3.2 billion, covering approximately 1.8 months of imports of goods and services.

Negative influences of insufficient foreign exchange are diverse. Businesses usually expect delays of foreign exchange supply ranging from six weeks to three months. Slow-down in manufacturing due to foreign exchange shortages is very common. Delays of repatriation for high dollar sales amounts for up to 2 years have been reported. Local sourcing of inputs and partnering with export-oriented partners are strategies employed by the private sector to address the foreign exchange shortage, but Forex access remains a problem which impacts investments in terms of growth potential, maintenance spare parts replacement, and raw material availability (in the case of textile and construction industries).

Although National Bank of Ethiopia (NBE) liberalized some exchange control regulations in October 2017, allowing exporters to access foreign credit and to retain up to 30 per cent of their export proceeds in foreign currency (previously 10 per cent), difficulties in procuring foreign exchange for capital imports are still common among firms. Promoting net exports of processed products with higher value is critical in reducing external imbalances and alleviating foreign exchange shortages.

Foreign exchange earnings can be facilitated through industrial parks to meet Ethiopia's import needs and provide the government with necessary resources for development through the attraction of foreign investors and the export of goods to other countries.

1.5 To reduce borrowing funded government and SOE investment

Current debt servicing risk is becoming significant in Ethiopia. The country faces about US$1.5 billion in external public debt service payments[3] during 2017/18 and significant obligations over the medium term. According to the IMF, heavy government infrastructure investment has fueled the need for external borrowing. The 2016/17 general government budget deficit was 3.4 per cent of GDP including the supplementary budget that was slightly below 3.5 per cent of GDP.

Government tax revenue has been falling below the GTP target since 2010. In 2016 tax revenue was only 11.8 per cent of GDP, falling by 0.7 per cent compared to the previous year, while the target has been raised from 15 per cent to 17 per cent by GTPII. Industrial park is one of effective way to step up the capability of the Government of Ethiopia in revenue mobilization through the leasing of land, the operation of SEZs, and the generation of tax revenue.

1.6 To transfer the lead of growth from public to private sector

The broad array of public and government funded projects, even if highly productive in the long term, would risk aggravating external imbalances in the short term. These imbalances in turn would undermine the development of a vibrant private sector and dynamic markets able to lead the economy into its next growth phase.

The expansion of industrial parks is necessary to elicit increased private investment through circumvent business climate impediments. The new Public-Private Partnerships (PPP) legislation which was recently endorsed by the Council of Ministers will encourage the implementation of a PPP framework that strikes the appropriate balance between private participation and minimizing fiscal risks. The PPP model is expected to be introduced to industrial park development to help private sector development.

[3] This estimate includes public enterprises.

2 Role of Industrial Parks in Ethiopia' Industrial Strategy

2.1 Prioritizing industrialization in growth and transformation

A conscious move to stimulate industrial growth in Ethiopia began only in the mid-1950s with the formulation of the First Five-Year Plan (FFYP) that covered the period 1958-1962. Two more five-year plans, Second Five Year Plan (SFYP) and Third Five Year Plan (TFYP), were launched between 1963 and 1973. The implementation of these initiatives attracted foreign investors and gave boost to the manufacturing sector in Ethiopia, although the overall industrial base of the country remained weak. *(World Bank, 1985)*

The military government which came to power in 1974 nationalized most of the medium and large manufacturing enterprises and declared *"a socialist economic policy"*. The manufacturing sector exhibited a sharp decline particularly in the first few years following the revolution. The nationalization and continued systematic restriction of the private sector from engaging in major economic activities had virtually reduced the emerging vibrant sector into micro- and small-scale manufacturing activities.

The government led by Ethiopian People's Revolutionary Democratic Party (EPRDF) that assumed power in 1991 adopted various economic reform measures under the Structural Adjustment Program (SAP). The SAP was implemented in three phases over the period 1992-99. Industrial restructuring that included deregulation, trade opening and privatization had been the key elements of the program. The aim was to shift resources into industrial sector that has clear comparative advantage over the other sectors and eliminating insufficient use of resources by public enterprises.

The favorable policy environment created by the economic reforms, coupled with macro-economic stability, revitalized the manufacturing sector and the economy in general. The high growth period, however, did not last long and economic activities and particularly exports were less diversified. In an effort to address the lack of progress in export diversification, the Ethiopian government adopted Export Promotion Strategy in 1998, which led the establishment of the Export Promotion Agency. The strategy aimed at promoting high-value agricultural exports (e.g. horticulture products and meat) and labor intensive manufacturing products (clothing, textile, leather and leather products). This strategy was, nonetheless, relatively narrow in scope. *(Gebreeyesus, 2013)*

A full-fledged Industrial Development Strategy (IDS) was formulated in 2002/03. The Industrial Development Strategy (IDS) is based on the government's broad development vision known as Agricultural Development Led Industrialization (ADLI). It comprises the following four key principles: i) Strong linkage between industry and agriculture; ii) Export oriented sectors to lead industrial development and be given preferential treatment; iii) Labor intensive sectors be given priority to exploit comparative advantage and maximize employment; iv) Public-private partnership: the strategy recognizes the private sector as engine of growth, while government assuming leadership and coordinating role. It also distinguishes the “rent seeking” and “developmental” private sector vows to curtail the former and promote the latter.

From the first IDS in 2002/03, PM Zenawi announced a series of policy initiatives, including the Agricultural and Rural Development Policy and the Industrial Development Strategy. Ever since, Ethiopia's economic development process has been governed by a succession of large-scale government development plans: the Sustainable Development and Poverty Reduction Program (2002-2005), the Plan for Accelerated and Sustained Development to End Poverty (2005-2010), and the Growth and Transformation Plans I and II (GTPI 2010–2015, and GTPII 2015-2020). The objective of GTP I and II is to transform Ethiopia into a middle-income country by 2025 and one of the key pillars for reaching the target is the development of light manufacturing activities.

Following the example set by several East Asian economies, such as South Korea, Malaysia and China, Ethiopian authorities are in favor of government interventions with the State leading the industrialization process. Although it is difficult to trace the specific moment when Ethiopia officially embraced the Developmental State Model, the narrative of advocating the developmental state as the best path for Ethiopia gained traction in the early 2000s, when PM Zenawi emphasized the need for fast economic growth as a way of ensuring Ethiopia's survival as a country.

2.2 Increasing openness and attractiveness to FDI

Attracting FDI is at the core of Ethiopia's industrialization strategy, which is supported at the highest level and in particular by the Prime Minister. *(Ohno, 2013)* To that end, Ethiopia's investment policy has been reformed at least four times over the past 20 years, making the country increasingly open to FDI.

Focusing on the manufacturing sector, Ethiopia is prioritizing FDI in specific sectors: textile and apparel, leather and leather products, agro-processing, and pharmaceuticals and chemicals. The imperative is to build on the country's agricultural foundations by moving toward new tradable activities in manufacturing that absorb large numbers of young and semi-skilled workers. Ethiopia's potential in the light manufacturing sector is significant, but faces binding constraints related to access to land, infrastructure, trade logistics, customs regulations and a skills gap.*(World Bank, 2012)* FDI is seen as a way of lifting all these constraints, with an important role to be played by industrial parks.

2.3 Replicating East Asian Industrial Park/SEZ experiences

With this scheme, Ethiopia is seeking to replicate the experience of East Asian countries such as Taiwan, Malaysia, or China, which have made an extensive use of industrial parks or SEZs to attract foreign investment and push their industrialization. The GTP identifies industrial parks (or SEZs) as one of the means for industrialization and includes provisions on the establishment of industrial parks for the following manufacturing industries: textiles and garments, leather and leather products, sugar, cement, metals and engineering, chemicals, pharmaceutics and ago-processing products. The selection of these specific sectors is to maximize Ethiopia's comparative advantages.

The previous Prime Minister, Meles Zenawi, was a strong proponent of industrialization and looked to the Asian late developers for inspiration.*(Meles, 2015)* It was under him that the details of the EIP were agreed upon and Ethiopia embarked upon a remarkable capital spending programme on large investments (around 15 per cent of GDP) in infrastructure projects. Railways, roads and dam projects have all been part of this endeavor, as have the industrial parks.

(Rahmato et al., 2014) These have all been recognized as integral parts of an Ethiopian developmental state, which Meles explicitly promoted *(Meles, 2012)* and has continued to be central to government policy after his death in 2012. *(Prunier and Ficquet, 2015)* Inspired by the East Asian experience the government has introduced the language of the *"developmental state"* as its policy principle regarding the state-business relationship. *(Gebreeyesus, 2014)* As part of this project, Ethiopia is emerging as a veritable hive of economic zones and industrial parks. In 2014 the Ethiopian Industrial Parks Development Corporation (IPDC) was established and has been actively developing plans and implementing strategies for the development of a plethora of industrial zones across the country.

IPDC is mandated to develop and operate the parks, availing developed land and pre-built sheds equipped with all-encompassing utilities and infrastructural facilities. The industrial zones offer land for factories at US$1 per square meter per month, tax holidays for up to seven years and customs & other services on site for those investing in the country.

Why are industrial parks developed instead of individual industries? Industrial parks are one of the most effective means to artificially foster Industrial Clusters, with more direct effects on FDI, capital formation, and other economic outcomes. When developed and implemented correctly, industrial parks align infrastructure provision and agglomeration economies to jolt industrial growth. For developing countries, which may have very limited capital and human resources, clustering of individual enterprises into industrial parks, can help them take advantage of public infrastructures, economize costs and gain access to nearby skilled labor markets, research, educational facilities as well as other critical inputs.

Learning from China's experiences, SEZs/industrial parks were created as a "catalyst" to spur the Chinese economy by attracting foreign investment, and help reform the economy through the processing of imported materials, compensatory trade, cooperative enterprises, joint ventures and enterprises based on foreign capital. *(Zhang & Zou, 2012)* This enabled China to expand its economy and use foreign investments to develop and construct the SEZs/IPs further. The economic and social impact of the SEZs/IPs can be far reaching if fully materialized.

3 Current Status of Industrial Parks in Ethiopia

3.1 An overview of industrial park development

The Industrial Parks proclamation 886/2015 provides that industrial parks can be developed by any profit-making public, public-private or private enterprise. Three mechanisms are in place for the establishment of IPs/SEZs: (a) fully developed by the federal or regional government; (b) developed by PPPs with the IPDC; and (c) by private developers only. Industrial parks in Ethiopia can also be categorized based on their focus sector including textile and garment; leather and shoes; agro-processing, pharmaceutical and IT parks. In the following section, we will discuss each paths of industrial parks development with practical examples.

The GTP I envisioned the establishment of five industrial parks in the country: two in the Addis Ababa area (Bole Lemi and Kilinto Industrial Parks), one in Hawassa, one in Dire Dawa and one in Kombolcha. The country is targeting US$ 1 billion of annual investment in industrial parks over the next decade to boost exports and make it Africa's top manufacturer.

Bole Lemi Phase I (covering 156 hectares) is the first IP operating under the IP development strategy. It was established in 2012 with the help of a World Bank loan, and started its operations in 2014. It now consists of some 20 pre-erected factories (of 185,000 square meters of factory space) rented-out to more than 10 foreign-owned manufacturing companies producing and exporting leather and apparel goods (see Table below). Bole Lemi Phase 2 (covering 186 hectares) is currently under construction with the financial support of the World Bank.

The World Bank also supports the development of the new industrial hub in Kilinto, 20 miles south of the capital. *(Dollar, 2016)* Kilinto aims to be a mixed-use park and the top destination for manufacturers in agro-processing, pharmaceuticals, electric and electronics products, wood and furniture, both for export and to serve local consumers.

Table 3 Federal developed parks

No	Name	Location	Main industry	Progress	Size
1	Bole Lemi Industrial Park I	Addis Ababa	Garment	Operational	157ha
2	Hawassa Industrial Park	SNNPR	Garment	Operational	400ha (100ha in phase I)
3	Mekele Industrial Park	Tigray	Garment	Under construction	1000ha (75ha in phase I)
4	Kombolcha Industrial Park	Amhara	Garment	Under construction	750 ha (75ha in phase I)
5	Jima Industrial Park	Oromia	Garment	Decided contractor	1000ha (75ha in phase I)
6	Adama Industrial Park	Oromia	Assembling, garment, food	Under construction	2000ha(365ha in phase I)
7	Bole Lami Industrial Park II	Addis Ababa	Garment	Decided contractor	170ha
8	Kilinto Industrial Park	Addis Ababa	Pharmaceutical, medical equipment	Decided contractor	279ha
9	Dire Dawa Industrial Park	Dire Dawa	Assembling, garment, food	Decided contractor	4000ha (150ha in phase I)
10	Bahir Dar Industrial Park	Amhara	Garment	Planning stage	1000ha (75ha in phase I
11	Arerti Industrial Park	Amhara	Construction products, home appliance	Planning stage	100 ha
12	Debre Birhan Industrial Park	Amhara	-	Planning stage	
13	Aysha Industrial Park	Somali	-	Planning stage	
14	Airline and logistics Park[4]	Addis Ababa	Transportation	Planning stage	
15	Addis Industrial Village[5]	Addis Ababa			80ha
16	Modjo Leather City	Oromia	Leather	Planning stage	

[4] Needs more info.
[5] Needs more info.

Table 4 Regional developed parks

No	Name of Industry Zone	Location	Main industry	Progress	Size
1	Bure Integrated Agro-Industrial Park	Amhara	Agro-processing	Under construction	260.35ha
2	Bulbula Integrated Agro-Industrial Park	Oromia	Agro-processing	Planning stage	263.09ha
3	Yirgalem Integrated Agro-Industrial Park	SNNPR	Agro-processing	Under construction	214.86ha
4	Baeker Integrated Agro-Industrial Park	Tigray	Agro-processing	Under construction	258.62ha

Table 5 Private parks

No	Name of Industry Zone	Location	Main industry	Progress	Size
1	Eastern Industrial Zone	Oromia	Various	Operational	500ha
2	Huajian Light Industry City	Addis Ababa	Shoes Garment	Partly Operational	138ha
3	Modjo George Shoe Industrial Park	Oromia	Leather		50ha
4	Kingdom Linen Industry Zone	Dire Dawa	Linen	Signed MOU	-

Hawassa eco-industrial park (HIP), which covers 300 hectares of land, is the third government-sponsored industrial park, located 275 km south of Addis Ababa. The IP was designed and constructed by the China Communications Construction Company.

In addition to government-sponsored IPs, several private foreign-owned industrial zones (IZs) have been established. The largest one is the Chinese-owned Eastern Industrial Zone (EIP) in Dukem, some 40 km east of Addis Ababa. Other private IZs include the Lebu Industrial Zone, which is owned by Huajian Group (also called the Huajian International Light Industry City), and the Modjo Industrial Zone, owned by Taiwanese George Shoe. The IPDC had also planned to construct another park in Addis Ababa in a joint venture with Turkish Ayka Addis Textile and Investment Group, but the project is apparently stalled due to financing difficulties.

Table 6 List of Licensed Investment Projects in Bole Lemi Industry Zone

Date of permit	Name of investor	Country	Investment activity	Planned investment (1000 US $)	Investment status	Employees	Sheds
26/11/2013	New Wide Garment (Ethiopian Branch)	Taiwan	wearing apparel (including sportswear)	1,000	Operation	340	1
10/01/2014	Shints ETP Garment Plc	South Korea	garments	7,670	Operation	2,500	5
07/02/2014	Ashton Apparel Manufacturing Plc	India	garments for export	5,000	Operation	648	2
25/12/2013	C & H Garments Plc (M & M Garments Plc)	China	wearing apparel (including sportswear)	5,000	Operation	200	1
17/07/2014	Lyu Shoutao Factory Plc	China	leather products (including gloves)	700	Operation	194	1
18/10/2013	Jay Jay Textiles Plc	India	wearing apparel (including sportswear)	2,000	Operation	937	3
14/10/2013	George Shoe Ethiopia Plc	Taiwan	leather shoe	5,750	Operation	1,100	2
11/06/2014	Vestis Garment Production Plc	India	garments	575	Operation	150	1
17/09/2013	Arvind Lifestyle Apparel Africa Plc (ANF GULF)	India	garments	4,000	Operation	586	2
01/07/2014	KEI Industrial Engineering Consultancy Plc	US/South Korea	garments	2,000	Operation	126	1
18/06/2015	Nitton Apparels Manufacturing Plc	China	garments	4,000	Pre-implementation	_	1

Source: Ethiopian Investment Commission.

3.2 Private developed park----Eastern Industrial Park (EIP)

One of the best examples of Chinese investment in manufacturing in the African continent can be found in Ethiopia's Eastern Industrial Park (EIP). As Ethiopia's first industrial park, since its inception seven years ago, EIP has been showcasing the positive impact of Chinese industrial development, and has become a place for manufacturing excellence and a platform for developing and transferring skills. ECIZ is praised by the Government of Ethiopia for motivating Ethiopia's journey to industrialization and as an institution where thousands of Ethiopians have been employed and gained skills.

The privately-run EIP is located 35 km south east of Addis Ababa in the town of Dukem, Oromia Regional State and is one of the first six Chinese SEZs established in Africa under the FOCAC framework to date. Dukem is situated on the Addis Ababa-Djibouti highway and the Addis Ababa-Djibouti Port railway line, with its own railway station upon completion of the railway line constructions in 2016. The Djibouti Port handles most of Ethiopia's overseas trade and is located 730 km east of the zone.

EIP focuses on export-oriented manufacturing and processing industries including textile, leather, agricultural products processing, metallurgy, building materials and mechanical & electrical equipment that are suitable for the market demand in Ethiopia and Africa. Besides manufacturing and processing, it will also integrate international trade functions such as bonded warehousing, logistics & transport, distribution networks; product showcases etc. aiming to gradually morph into a multi-functional industrial and commercial area.

Today, the EIP is entirely owned and managed by the Jiangsu Qiyuan Group, a private Chinese investor. The Qiyuan Group is a steel pipe and aluminium producer with approximately 1,000 employees. The Group consists of twelve subsidiaries in China, two in the United States and five in Ethiopia. The Ethiopian subsidiaries are all invested in the EIP.

The EIP has a total area of 500 hectares with an investment of USD 146 million. Its construction was intended to create over 20,000 jobs for local workers by attracting 80 Chinese companies over five years. The construction is divided into two phases. The first phase, of approximately 4 hectares mainly allocated to factory lots, was finished, with 320,000 square meters of standardized plants, 3000 square meters of “one stop service” office building, 35.000 square meters of green land, a sewage treatment station and 3 workers' residence buildings. The second phase of infrastructure and facilities is expected to be completed before 2018. By the end of 2017, 82 companies had invested a total of USD 200 million in the zone, including 6 non-Chinese firms, and created approximately 10,000 jobs. *(Interview Qiyuan Group)* The existing companies are mainly engaged in textile and garment, cement production, steel rolling, aluminum rolling, ceramic tiles, footwear, automotive assembly, etc.

In 2010, the Zhongshun Cement Company, one of Qiyuan Group's subsidiaries operating in Ethiopia, was the first company to begin its operations in the EIP. Since then, twenty-six other companies have joined, including producers of shoes, construction and packaging materials, steel products and garments as well as companies focusing on automobile assembly and leather processing.

Although the Ethiopian Government is not a shareholder in the EIP, it has from the onset given its highest political support to the zone's development with frequent visits to the zone at the Presidential and Ministerial levels as well as senior level representatives from Oromia regional state and Dukem town. China has equally shown high-level political commitment to the EIP and support through its overseas trade and economic cooperation zones programme, which provides the developer with up to USD 44 million in grants and USD 294 million in long-term loans, intended to cover up to 30 per cent of the costs of feasibility studies; site visits aimed at planning and negotiating with the zone's host government; land use, legal and insurance fees; and up to 50 per cent of moving expenses and rebates on the interest on loans from Chinese banks. The Zhangjiagang municipal authority also supported the Qiyuan Group through the provision of technical assistance regarding the zone design. *(Brautigam and Tang 2011)*

Table 7 List of Major Chinese companies operating in the Eastern Industrial Park

	Company	Type of Business	Establishing Year
Textiles and clothing (10)	Chang Cheng Packaging Co Ltd	Production of woven bags and packaging material	2010 (operation)
	Huajian Shoe Co Ltd	Leather shoes	2011 (operation)
	Dongfang Spinning, Printing and Dyeing	Textiles and garments	2013 (operation)
	Linde Clothing	Manufacturing of garments	2014 (operation)
	KEPA Textile Plc	Weaving, finishing and printing of textiles	2014 (operation)
	Yuechen Textiles	Manufacturing of woven fabrics	2015 (operation)
	Haibo Manufacturing Plc	Manufacturing of children's clothes and adult suits	2016 (operation)
	Kaipu Manufacturing Plc	Production of school bags, travelling bags	2016 (implementation)
	Shuaije Textile Plc	Textile products	2016 (pre-implementation)
	Wuzhen Miao Textile	Textile products	2016 (pre-implementation)
Metal works (3)	Eastern Steel Co	Manufacturing of basic iron and steel	2006 (operation; expansion 2014 and 2016)
	LQY Pipe Manufacturing Co. Ltd	Steel pipe production	2010 (operation)
	Zhen Zhen Iron & Steel Manufacturing Plc	Manufacturing of basic iron and steel	2015 (operation)
Construction Material (7)	East Cement	Cement production	2006 (operation)
	L&J Engineering Co. Ltd	Production of bricks, pipes and cement products	2010 (operation)
	Yulong Technology Building Materials Co. Ltd	Production of gypsum boards and related products	2010 (operation)
	Zhong Shun Cement Manufacturing Co. Ltd	Cement production	2008 (operation)
	Hansom Kinfengda Manufacturing Plc	Manufacturing of electrical wires or cables	2015 (operation)
	TY Wood Manufacturing Plc	Manufacturing of plywood boards, timer doors, floors and furniture	2016 (implementation)

	Di Yuan Ceramics	Ceramic products	2016 (pre-implementation)
Machinery (8)	Yangfan/Lifan motors	Motor vehicle manufacturing and assembling	2013 (operation)
	Shadeka Spare Parts Manufacturing Plc	Manufacturing of spare parts and accessories for motor vehicles	2013 (operation)
	Changfa Agricultural Equipment Manufacturing	Tractors, harvesters and other agricultural equipment	2011 (operation)
	Yuechen Industry Plc	Manufacturing of special purpose agriculture machinery	2014 (implementation)
	Yema Auto	Pick-up assembling	2011 (operation)
	E-truck Motors Manufacturing Plc	Heavy vehicles	2016 (pre-implementation)
	Higer Pickup	Pick-up production	2011 (operation)
	Ejia Metal Products Manufacturing PLC	Manufacturing of screws, nuts and other metal products	2014 (operation)
Miscellaneous manufacturing (4)	Aisai Recycled Plastic Manufacturing	Manufacturing of plastics and/or synthetic rubber	2013 (operation)
	Hul Huang Industrial Plc	Manufacturing of plastic products excluding plastic shopping bags	2013 (operation)
	Jili Electric Plc	Home appliance manufacturing	2016 (pre-implementation)
	Sansheng (Ethio) Pharmaceutical PLC	Pharmaceutical Manufacturing	2016 (construction)
Packing (2)	Great Wall Packing Material	Packing materials production	2011
	Pure Wood Pulp Paper and Packing Plc	Production of pulp, paper and packaging materials	2017 (pre-implementation)
Services (3)	East Cement Leasing Company	Construction equipment rental service	2008 (operation)
	East Cement Share Company	Administrative services, personnel management, sales, billing, etc.	2006 (operation)
	Eastern Hotel	Hotel services	2008 (operation)

According to a study the World Bank conducted in 2010, roles and responsibilities of the Ethiopian Government and the Qiyuan Group have been defined in a Memorandum of Understanding (MoU), which holds the Qiyuan Group responsible for the EIP planning, development, management and promotion, including through securing adequate financing. Further, it commits the Ethiopian government to covering 30 per cent of infrastructure cost and offering land on a concessional basis; administering investment incentives for qualifying export oriented investments: providing 20 per cent foreign currency retention on all export earnings (compared to 10% for companies operating outside the EIP); creating one-stop shop arrangements to facilitate business operations, including customs clearances; and ensuring coordination and support in the delivery of services through placement of MOI officials in the office of the Qiyuan Group. In contrast to common practice, where the host government is responsible for infrastructure leading to the SEZ, the Qiyuan Group has been asked to develop infrastructure, such as power transmission lines, water supply and waste water treatment to and from the EIP with a 30 per cent reimbursement of the costs by the Ethiopian Government.[6] Telecommunication services are to be provided by the Ethiopian Telecommunications Corporation to companies in the zone on the same basis as to companies outside the park. *(World Bank 2011)*

Over the past eight years the EIP has encountered a number of challenges, which have had a significant impact on its development. Infrastructure financing has been a major challenge for the zone's developer, especially given the developer's responsibility to finance infrastructure leading to and within the zone. Subsidies offered by the Chinese and Ethiopian governments have proved to be difficult to obtain due the required upfront investment and challenges in ensuring the disbursement of funds. Furthermore, both the developer and zone companies have experienced difficulties in identifying local suppliers which impacts the integration of SMEs in the park is direction of future development. The developer has had to build its own cement plant and import clinker to ensure the zone's development. Access to local leather processing companies was initially one of the main reasons that encouraged Huajian to set-up its

[6] Normally all off-site infrastructure is done by the government.

production facilities in the zone. However, due to quality issues and the discouragement local supplier experience due to local tax regulations to sell products (as preferential tax rates are offered for exported goods to ensure foreign currency earnings); Huajian was initially unable to source its supplies fully from the local market (Interview Helen Hai). Furthermore, high transportation costs, general shortages of containers and lengthy cargo dwell-time at the Port of Djibouti continue to be a burden for the zone developer and zone companies alike. However, as regards working with local suppliers, the situation has significantly improved for Huajian over the past years as they are today able to source 80 per cent of their raw materials from the local market.

3.3 Federal developed park----Hawassa Industrial Park (HIP)

Hawassa Industrial Park (HIP), a nation-level textile and garment industrial park in Ethiopia, is characterized by "Nine Months Completed" and "Zero Emission Commitment". It represents the highest level of African textile industrial park in the perspectives of speed of construction, size and planning standards.

The city of Hawassa—the location of HIP—is a regional capital of close to 450,000 residents, located 275 km from Addis Ababa, the capital of Ethiopia. Located on the shore of Lake Hawassa, the city lies on the Trans-African Highway, which stretches from Cairo to Cape Town.

Hawassa, with a population of close to 5 million within a 50-km radius, lies in one of the most densely populated regions of Ethiopia. Hawassa's direct access to the highway linking Addis Ababa with Moyale in Kenya, underscores its potential as a regional trade hub for the East African Community. A new US$667 million expressway project will connect Hawassa to Modjo in central Ethiopia— the key “node” for the emerging Ethiopian intermodal trade logistics system.

The government has also finalized the construction of railway links that provide direct connections between the port of Djibouti, Modjo, and Addis Ababa, with further plans to extend railway links from Modjo to Hawassa, although financing for the railway link to Hawassa is yet to be secured. Presently, Modjo is the critical node in the logistics network where shipments transfer from one conveyance to another (for instance shipments move from rail to trucks or trucks to rail) shall occur. A new international airport in Hawassa was constructed in 2015, with limited flight service and plans for expansion.

The combination of these recent developments makes Hawassa an important political and economic center in Ethiopia, which will be strengthened by growth in light manufacturing and tourism.

HIP is currently Africa's largest textile and garment industrial park. Constructed by China Civil Engineering Group Co., Ltd. (CCECC), the first phase of the park started in 2015 and was completed in nine months, with a total area of 2.3 square kilometers and construction area of 230,000 square meters, including 37 standard plants, living facilities and other ancillary facilities.

As Africa's first zero-emission textile industrial park, the Ethiopian government is trying to develop HIP into Africa's first sustainable industrial park with state-of-the-art infrastructure and equipment. Once fully operating, it will help to promote the mandate of a green economy. An Indian sewage treatment company viz. Arvind Envisol Private Limited would provide industrial waste water management solution for the park through global bidding and promised to achieve the goal of zero liquid emissions.

The table below lists some of these elements that set HIP apart from other industrial parks.

Table 8 Advantages of Hawassa Industrial Park

Zero-Liquid-Discharge Common Effluent Treatment Plant	The textile industry uses various dyes and chemicals to treat the textiles and thus is a water-polluting industry. The GoE invested in a state-of-the-art zero-liquid-discharge treatment plant. With such technology, 90 % of the water is recycled and reused, and the final waste is crystallized. While more costly than the government's original plan, this initiative meets the government's aim of meeting leading international standards, placing priority on resource conservation and differentiating HIP from other parks worldwide.
Renewable Energy	HIP uses renewable hydroelectric energy sources. It has a dedicated 75-MW power line and uses light-emitting diode (LED) technology that achieves energy savings of up to 90 % over traditional light bulbs and reduces the carbon dioxide footprint. LED-based light also produces less heat, helping achieve savings on air conditioning.
Compliance with Relevant Fire and Building Standards	Compliance with fire safety standards was of critical importance during the design of HIP. Inspections of the finished sheds by an independent 3rd party have always been on the Tenants Association agenda. Most buyers and brands want to see valid Building Safety and Fire Safety certificates for the factory prior to placing orders with that facility. In some countries this inspection is done by the Government but in the absence of this in Ethiopia, the government and the tenant association sought out an independent firm called Arup[7] to conduct this inspection. The inspection reviewed each of the sheds against both the Ethiopian Building Code and International standards for Building Structural, Fire and Electrical Safety.
Compliance with the Customs-Trade Partnership Against Terrorism (C-TPAT)	The C-TPAT is a risk-assessment program that sets specific supply chain security criteria, known as Minimum Security Requirements, and allows for expedited processing and a much lower chance of being examined by US Customs. In compliance with C-TPAT, HIP has installed video surveillance cameras to monitor premises and prevent unauthorized access to cargo handling and storage areas and perimeter fencing to enclose the areas around cargo handling and storage facilities.
Creation of a Tenant's Association	A tenant's association was created and participation is part of each tenant's lease agreement to address concerns common to the companies to be established in HIP. The main objective of the association is to set out a series of agreed rules of operation between the tenants. The association aims to foster efficient collective action in improving infrastructure, organizing workers' training, and ensuring a safe working environment.

[7] Arup is an independent firm of designers, planners, engineers, consultants and technical specialists offering a broad range of professional services. It was founded by Ove Arup back in 1946 and it has grown to be one of the largest structural engineering firms with offices in 92 countries and employing over 12,000 people. They have significant experience of working on Building Structural, Fire and Electrical Safety and were one of the leading companies behind the Bangladesh Accord standard following the tragic building collapse of Rana Plaza.

At present, all the plants built in the first construction phase of the park have been fully rented. In total 18 foreign enterprises from India, Spain, Taiwan, Hong Kong, China and the US have settled, including the PVH Group (US) [Note:PVH is the second largest apparel company in the world, with more than US$ 8 billion dollars in annual revenue. It owns and markets a diverse portfolio of designer brands, including CALVIN KLEIN, TOMMY HILFIGER, VAN HEUSEN, IZOD, ARROW, WARNER'S, OLGA and others.]. There are also 5 domestic companies. China Huafang Group also plans to enter the park when the second phase of construction is completed. As of March 2017, the park has created employment for approximately 30,000 people, and will employ an additional 30,000 individuals once fully completed. HIP was planned and designed as a world-class eco-industrial park focused on the textile and apparel industries. Companies in HIP are listed in the table below.

Table 9 Companies and Their Specialized Areas in HIP [8]

China & Hong Kong	TEXTILE MILL, GARMENT	Indochine Apparel Ltd CHINA TAL Apparel EPIC Group MUST Garment Giangsu Golden Island Group
Indonesia	GARMENT	Busana Apparel (PTU)
Taiwan	TEXTILE & GARMENT	Everest Textile
Spain	GARMENT	Quadrant Apparel Group Plc
France	ACCESSORIES	Chargeurs Fashion Technologies
UK	GARMENT, ACCESSORIES	Hela Clothing Group
Belgium	PERSONAL HYGIENE PRODUCTS	Ontex Group NV
India	GARMENT: KNITWEAR, DENIM	Arvind Raymond, Silver Spark Apparel Ltd Best Corporations
Sri Lanka	GARMENT: KNITWEAR	Hinderamani Garement Plc Isabella and Sarasavi Export (Pvt) Ltd
US	GARMENT AND BUYER	PVH

[8] Figures on employment and export, as well as information of sourcing of raw materials and industrial integration will be supplemented upon further investigation.

3.4 Regional developed park----Integrated Agro- Industrial Park (IAIP)

Another type of industrial parks established in the country are the Integrated Agro-Industrial Parks (IAIP) which aims to revolutionize the agriculture sector. IAIP is a geographic cluster of firms grouped together to share different infrastructure and to exploit the opportunities for joint buying, selling, training, extension services and other synergies. The business model of the IAIPs promotes efficiency of the commercial food supply chain. It is an end-to-end approach linking production to the market. The agro-industrial parks will be established within a 100 kilometer radius from input source and output market.

Currently, 17 areas with agro-industrial potential (Agro-Industrial Growth Corridors-AIGCs) were identified across the country. Feasibility studies for the four pilot IAIPs have been completed, commodities for processing in the IAIPs have been identified (coffee, livestock, cereals, sesame, pulses, honey, fruit and vegetable), value chain analysis has been done and 1000 hectares of land attributed. IAIPs sites selected for the pilot development are located in the regions of Oromia, Gende Arba (Bulbula); Southwest Amhara, Bure; Eastern SNNP, Yiragalem (Southern Nations, Nationalities and Peoples), Weynenata and Western Tigray Baeker [The Ethiopian Messenger, the Embassy of Ethiopia in Brussels.].

According to the Ethiopian Minister of Industry, H.E.Mr Ahmed Abetew, the parks will incorporate companies engaged in exporting value-added agricultural products to the world market in addition to domestic companies, farmers and youth which are the epicenter of agricultural commercialization. Upon completion, the agro-industrial parks will represent over 30 billion ETB (1.5 billion USD) in investments, and will create over 400 business opportunities and over 400,000 direct employments. They will be finalized within four years.

The development of IAIP is the pillar project of the initiatives of United Nations Industrial Development Organization's (UNIDO) Programmes for Country Partnership (PCP), a model partnership for achieving Inclusive Sustainable Industrial Development has selected Ethiopia and Senegal for the pilot implementation of PCP following the Lima Declaration. The agro-processing industrial parks can further develop Ethiopia’s agricultural sector, which supports the livelihoods for the majority of Ethiopians. It can also create sustainable market link by establishing Rural Transformation Centers (RTC) that can improve production and productivity.

In Ethiopia, the government is making efforts to incorporate the PCP into the broader system of national development programs as part and parcel of the nation's journey towards a lower-middle-income status by 2025. The PCP will be utilized as a platform to synergize the individual projects sponsored by different partners and attract resources to the prioritized sectors identified by the PCP master plan. The government has taken the lead in and coordinating mobilizing investment from private sectors, donor countries and international development finance institutions while UNIDO plays the role as an accelerator by providing additional technical and financial support.

Currently, the PCP has been successful in mobilizing 50 million US dollars from EU and 52 million euros from Italy to support agro-processing, leather, textile and garment industries which are the priorities of the PCP. The implementation of the PCP follows a two pronged strategy that target both upstream federal engagement in industrial park development and regional or private industrial cluster development Initiatives. 4 pilot agro-processing industrial parks in Tigray, Amhara, Oromia and Southern Nations, Nationalities and Peoples' are under construction, and preparations are finalized to launch construction in Oromia.

As these agro-industrial parks accompanying RTCs are expected enable to establish backward and forward linkages; foster strong linkages between agriculture and agro-industry; and increase value addition and reduce wastages, they will serve as a big motivation for local population to get engaged in off farm activities and other service provision related to the industrial cluster.

Besides leveraging external resources, internal cooperation within the government institutions are facilitated by convening a committee comprised of different ministries including Ministry of finance and Economic cooperation, Ministry of Agriculture and Natural Resource, Ministry of Livestock and Fisheries, Ministry of Water, Irrigation and Electricity and Ministry of Industry. 6 sub-committees will be established to ensure the implementation of each pillar component of the entire PCP framework. The harmonization in the actions of different lines of government will provide an institutional foundation in achieving the goals and outcomes of the IAIP development.

4 Contributions of Industrial Parks in Ethiopia

4.1 Stimulating investment and creating employment

The establishment of industrial parks has undoubtedly helped put Ethiopia on the radar of foreign companies and FDI inflows have been on the rise ever since. The gap between overall figures and FDI inflows attracted to the zone is substantial.

Take the case of the Chinese shoe producer, Huajian for example - it started producing in the EIP in Ethiopia in 2012, and then decided to expand its production by creating its own industrial zone in 2015. Although still in its infancy, the Huajian International Light Industry City started operating in 2016. Capitalizing on its experience in the EIP, Huajian International Light Industry City, which is projected to procure a US$ 2 billion investment and yield US$ 4 billion in returns over 10 years, aims to eventually employ 100,000 workers and provide housing, hospitals and schooling on site.

Another positive impact is employment creation. In spite of frequent allegations about foreign companies bringing their own labor force, in Ethiopia, a lot of international firms tend to employ local workers, except in management positions. According to the developer of EIP, 87 per cent of the permanent workforce in Chinese firms in Ethiopia was local.

Based on an annual growth rate of at least 11 per cent in the forthcoming years, the industrial parks are expected to create 32,000 new jobs in manufacturing, mostly targeting younger Ethiopians.

4.2 Facilitating export growth and foreign exchange earnings

The Huajian Group has set up two production lines in the EIP, with a production capacity of 2,000 pairs per day, exporting to the US and the EU markets.

The first and the largest industrial park developed by the government, by the end of 2017 Bole Lemi Industrial Park has hired around 11,000 workers and are operational with a monthly export revenues of USD 2 million.

According to Arkebe Oqubay, Board Chairperson of Ethiopian Industrial Park Corporation (EIPC), Ethiopia’s desire to expand its industrial parks deployment is to enable the manufacturing sector to contribute to 20 per cent of Ethiopia's GDP and 50 per cent of the export volume by 2025. Developing industrial parks is part of the Ethiopian government's plan to make it a manufacturing hub in Africa, and factories engaged in export oriented business in industrial parks will have ideal setting to export their goods.

Additionally, through its second five-year Growth and Transformation Plan (GTP-II), industrial park development is critical to Ethiopia's aspiration to augment its domestic production of various commodities that include cement, sugar, textile, vehicles and heavy duty trucks, while simultaneously adhering to international standards and quality requirements, to reduce the dependence on imported goods. This import substitution initiative is important as the country is facing foreign currency shortage. In the past five years period, Ethiopia has saved over $2.3 billion U.S. dollars due to the substitutions of products such as vehicles, spare parts, steel products, and building elevators which used to be imported from abroad.

4.3 Developing industrial clusters through forward/backward linkages

Through the development of specialized/clustered industrial parks the economies of scale and efficiencies of industries could be enhanced and vertical integration will be developed.

Proponents of industrial parks usually argue that these schemes will benefit the local economy because of the business linkages between foreign and local companies. Foreign investors may purchase materials and services from the local economy, invest in infrastructure built by local companies and bring new technology into the zones that will be transferred to & shared with the rest of the economy.

However, prospects for the industrial parks in Ethiopia to build backward linkages within the local economy are rather weak because the raw materials and intermediates needed in assembly-type operations may not be available locally, and due to the known propensity of Chinese companies to source inputs through their own networks. Moreover, local firms may also lack the capacity or *"absorptive capacity"* to adopt any spillover that does take place.

Simultaneously, the forward linkages, which usually involve the provision of diverse ancillary services to the zones, may be constrained by deficient infrastructure and logistics and lack of competition in the host economy.

In Ethiopia, backward linkages are usually thought to be important in light manufacturing (T&G and leather garment industries, for instance). The reason for such an optimistic stance is that Ethiopia grows cotton and has a spinning, weaving, and knitting history; making local sourcing possible (this is in contrast to what may be observed in many LDCs such as Cambodia). Moreover, Ethiopia's industrial policy has focused on incentivizing exports and developing domestic value chain linkages between cotton, textile, and apparel firms. *(Staritz et al., 2016)* As a result, Ethiopia is not only integrated in the global value chains at the downstream end through cut, make, trim (CMT) activities.

A casual look at the list of Chinese companies already operating in the EIP suggests that the chance for the emergence of major backward linkages is rather weak, since companies in the machinery or construction equipment industries tend to be dominant. Interviews with companies showed that over 50 per cent of the total material inputs and supplies used by Chinese firms in the EIP were sourced abroad.

Nevertheless, the recent rise in the number of T&G producers is encouraging. In the leather garment industry, some backward linkages may also be expected. Chinese leather garment manufacturers such as Huajian are indeed reported to use local raw materials such as skins and hides as inputs for their production. The establishment of Huajian International Light Industry City, the objective of which is to serve as an Ethiopian supply chain cluster has the potential to develop more substantial backward linkages; provided local producers are allowed into the zone and can benefit from clustering effects.

The obstacle is that local inputs are not always up to the standards expected by the producers. As a result, foreign final producers were induced in the past to invest in upstream activities, posing a risk of crowding out local suppliers.

4.4 Eliciting knowledge transfer and technology spillover

Another potential channel for dynamic gains is through transfers of technology, or of know-how. Most surveyed Chinese firms provide formal training programs in Ethiopia: Huajian and Lifan have been reported to provide vocational training to its employees, including training of local technicians in China. Skill transfers may also simply occur through labor mobility but, they remain limited if the workers are concentrated in low-skill jobs.

A number of other factors may also limit the potential spillovers. In particular, the fact that very limited local investors are located in the Chinese-led SEZs is one such inhibiting factor, since local SMEs for instance cannot take advantage of working in partnerships with the larger firms in the zones. Moreover, joint ventures, which could facilitate such transfers, are not frequent. As is often the case, the tendency is for industrial parks to work as enclaves; and yet the Chinese domestic experiences show how important it is to synchronize the zones and the local economy, including local suppliers (and even local universities). One of the fundamental goals of FDI is to boost local competitiveness through active interaction with advanced foreign businesses. In the absence of such interaction, the host country cannot benefit as much.

4.5 Establishing connections to global value chain

When China and Vietnam embarked on their development processes through joining the global value chain, using industrial zones located next to ports was an important strategy in order to start their apparel production industries. *(Dihn et al 2012)* Due to the presence of Chinese and other foreign investors actively engaged in the apparel and garment, and footwear industries, Ethiopia is seeking to make a name for itself in the world of mass-produced footwear and garments. Under AGOA, leather shoes export from Ethiopia has reportedly boomed.

However, turning Ethiopia into an international shoe and light manufacturing hub continues to remain elusive. Ethiopia has failed to reach the targeted 15-fold increase in textile and leather exports to US$ 1.5 billion in the first GTP Plan that ended in 2015. One explanation lies in the role of the domestic market, which is still important not only for domestic firms but also for foreign-owned firms-even though the government aims at pushing the latter group solely into exporting. *(Staritz et al. 2016)*

Rather than manufacturing investments, Chinese investments in infrastructure may have proven to be more instrumental in transforming the country. The construction of new dams, for instance, has been instrumental in guaranteeing stable power supply and making a reality out of Ethiopia's plan of making electricity one of the country's greatest exports into reality. Similarly, the construction of a new railway line connecting Addis Ababa to Djibouti, officially inaugurated in Djibouti on 10 January 2017, may turn out to be a game changer: the new 750 km railway line will turn a week-long drive through a winding pot-hole filled road into a smooth 12-hour ride to the coast, facilitating the transport of goods to and from the Port of Djibouti and cutting costs accordingly.

4.6 Fostering Sustainable Growth and social equality

With regards to the link to be created between the industrial parks development and green economy growth, Ethiopia has clarified its stance and efforts on green growth. The significance of industrial parks in green development can be assumed into two ways.

Firstly, when factories enter into industrial parks, their pollutants would be destroyed properly by the centre. Chemicals or other fluids would be released inside the industrial parks. Thus, the factories engaged in the manufacturing sector will not pollute the environment.

Secondly, industrial parks are the foundation to develop urbanized areas which would lead to industrialization within the country. The combination of industrial transformation and linkages with industrial zones, will lead to the expansion of urbanization. Integrated with urban master plans, urbanization can be created in which huge amounts of human and capital resources are mobilized.

Regarding the socio-economic benefits of industrial parks, they can reduce rent seeking and negative consequences in land holding, infrastructure and construction matters.

It should be stressed that the main social benefit of industrial parks is the opportunity to create immense job opportunities for women and youth. Small and medium scale industrial development and large scale industries are geared to poverty alleviation and development.

According to GTPII, the installation or extension of industrial parks is the pathway to improving working conditions and addressing gender equality and empowerment.

4.7 Enforcing implementation of national industrialization strategy

The two-pronged approach to SEZs followed so far by the Ethiopian authorities, with government-led IPs coexisting with private foreign-led SEZs, is a recommended approach since there are more FDI firms that wish to invest or expand in industrial zones in Ethiopia, more than the government can offer.

However, it is imperative to ensure that the parks' activities are aligned with the country's needs in terms of industrial development. This is less likely to be the case if the State is not actively involved. In the case of the foreign-owned private zones, the government simply allocates zones to foreign investors who promise to mobilize a large number of investors from their home country, facilitating effective utilization of the land. It is important to note that the government does not have much influence on the choice of investing firms and their sectoral orientation. In the case of the EIP, for instance, the Chinese developer sought to help the development of the country through the provision of construction materials and capital goods for the fast-growing local construction industry, but it did not pay any attention to the development of the light manufacturing industry which was (and remains) one of Ethiopia's main priorities. In this regard, the EIP cannot really be compared to SEZs in China (or even in other East Asian countries).

One exception in the EIP is the Chinese shoe producer, Huajian. Interestingly, the investment by this specific company was made at the invitation of then PM Zenawi, who went personally to Dongguan in August 2011 to invite the Chinese shoe manufacturer to invest in Ethiopia. Reciprocating the visit, Huajian's CEO, Zhang Huarong, came to Addis Ababa a couple of months later, and opened a shoe factory in the EIP in January 2012. Having a first experience in the EIP proved particularly useful, allowing Huajian to test Ethiopia as an investment location. The further expansion of its activities, through the establishment of its International Light Industry City, although a fully-private Chinese project, is perfectly in line with the government's industrial policy.

The recently launched government-led industrial parks, in contrast, should be seen as real instruments of industrial policy, with the government choosing to favor some sectors of activity rather than others, in line with its own objectives.

5 Key Success Factors of Industrial Parks in Ethiopia

5.1 Preferential policies and investment incentives

Investment laws of Ethiopia provide a wide-ranging incentives package for investments in priority sectors with high export potential, especially targeting industrial parks developers and enterprises.

5.1.1 Comprehensive fiscal and tax incentives

The government of Ethiopia avails fiscal incentives along the different stages of investment within industrial parks – from construction to operation and marketing. Industrial park developers and enterprises benefit from a special tax and other financial incentives package that is coupled with efficiency-enhancing facilitation support and investment protections.

Income tax exemption:

i) Industrial park developer: 10-15 years income tax exemption depending on location of industrial park (10 years if in Addis Ababa or Special Zones of Oromia surrounding Addis Ababa, and 15 years in other areas);

ii) Industrial park enterprise: Up to 10 years income tax exemption - Up to 6 years exemption depending on sector of engagement - Additional 2-4 years exemption for industrial park enterprises with at least 80% export;

iii) Expatriate employees of industrial park enterprises: Up to 5 years personal income tax exemption after issuance of business license by the investment.

Duty and other tax free import:

i) Capital goods and accessories: can be imported duty free by manufacturing industries.

ii) Spare parts: up to 15% of the total value of the capital goods can be imported duty free.

iii) Machinery spare parts: enterprises inside industrial parks with 100% export can enjoy importing 100% of machinery spare parts duty free.

iv) Construction materials: can be imported duty free based on approved Bill of Quantity (BoQ).

v) Motor vehicles: during construction, a maximum of 2 pickup trucks can be imported duty free. After getting business license and commencement of operation or export, a maximum of 3 minibuses, 2 cargo trucks, 2 SUVs, 3 hybrid SUVs and buses required to transport permanent employees can be imported duty free. Also, special purpose trucks such as crane trucks, garbage trucks, ambulances, fire trucks, refrigerated trucks etc. can be imported duty free in line with the specific investment needs and for own use.

vi) Partial exporters: can import duty free a maximum of 2 station wagons upon reaching paid up capital investment of Ethiopian Birr 200 million or above, and over 60% export performance for 3 consecutive years.

vii) Industrial Park developers: can import duty free a maximum of 2 SUVs and 3 hybrid SUVs after getting business license and become operational.

viii) All raw materials needed for the production of export commodities can be imported duty free.

ix) Personal effects of industrial park residents can be imported duty free.

Export tax exemption: is given for all export products except semi-processed hides and skins.

5.1.2 Ease of access to industrial park space

Industrial park developers enjoy 60-80 years land sub-lease period depending on the location of the land. They can import construction materials and equipment necessary for their industrial park construction as per special agreement.

Industrial park enterprises have option to rent or buy factory sheds, or sub-lease developed land at promotional rate to construct own production facility.

5.1.3 Efficiency enhancing non-fiscal incentives

Investors are provided with various non-fiscal incentives including simplified and streamlined procedures for investment establishment and operation as well as strong property protection and guarantees.

One-stop shop service: The Ethiopian Investment Commission provides the following services in one-stop shop:

i) One-stop shop services provided at head office include issuance of investment permits, business licenses, commercial registration certificates, and work permit; notarizing memorandum and articles of association, registration of trade or firm name and technology transfer agreements; as well as issuance of tax identification number (TIN).

ii) One-stop shop services provided at industrial parks branch: renewal of all licenses issued at head office; visa and work permit renewal, duty free grant for capital goods, construction materials, spare parts, accessories and different types of vehicles; customs clearance; and banking services.

iii) Post-establishment investment facilitation (aftercare) service is provided by the Ethiopian Investment Commission.

iv) Government avails fully developed infrastructure up to the perimeter of the park and guarantees access to utilities including a dedicated power station.

Expedited VISA procedure: Expedited procedure of securing entry, work permit and certificate of residency is provided for expatriate personnel working in industrial parks and their dependents. Better visa terms are provided for investors in industrial parks - multiple entry visa of up to five years.

Customs facilitation: Imported raw materials can be transported straight from customs post to factory through bonded warehouse or voucher scheme.

Guarantee against expropriation: The government offers guarantee against measures of expropriation or nationalization. Once expropriation happens, payment of compensation will be made corresponding to the prevailing market value of investment property in case of expropriation or nationalization for public interest.

The right to own immovable property: Foreign investors have right to own a dwelling house and other immovable property required for the investment.

Subsidized utility rates: Electricity is sold at estimated rate of 3 US cents/kwh. The government avails dedicated power station for parks to ensure reliable access to electricity within industrial parks.

Guarantee for remittance of funds: Foreign investors can freely repatriate in convertible foreign currency profits and dividends, principals and interest payments on external loans, proceeds from the sale or liquidation of an enterprise as well as compensation paid.

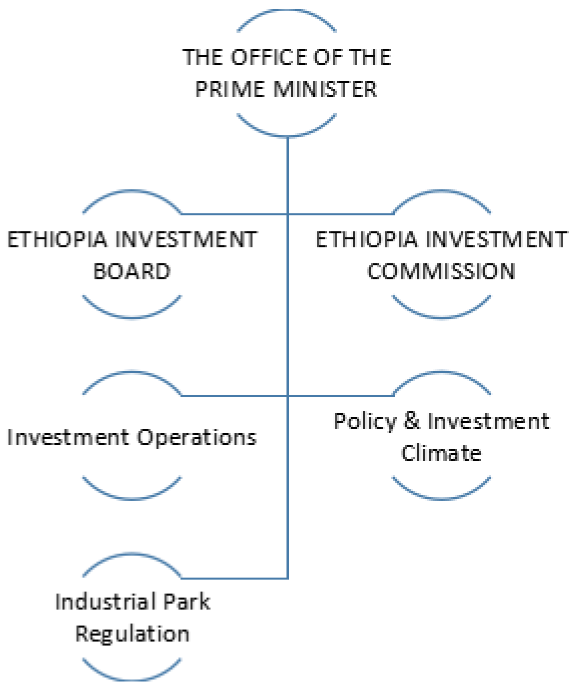
The right to open and operate foreign currency accounts: A foreign investor has the right to open and operate foreign currency accounts in authorized local banks.

5.2 Established administrative system

5.2.1 Administrative structure of industrial parks in Ethiopia

The government has subsequently restructured and repurposed three important institutions to drive investment promotion, strengthen competitiveness, and catalyze the transformation of industries. This institutional structure is mapped out in Figure 1.

Figure 1 Administrative structure of industrial parks



First is the establishment of the Ethiopian Investment Board to serve as a policy, strategy, oversight and approval body. The Prime Minister chairs the board, which comprises of senior ministers from key supporting agencies with direct or indirect roles in investment decision making. This board also consists of senior government representatives from Foreign Affairs, Industry Finance, Agriculture, ERCA, National Bank and City of Addis and its key role is lead overall investment and Industrial Park Policy making in Ethiopia. The board grants incentives to investors, addresses policy and regulatory barriers to investment, designates new Industrial parks, and opens new investment areas to FDI. The elevation of the investment promotion agenda to the center of government represents a significant departure. In the past, FDI promotion and retention was never a central agenda in Ethiopia and was only considered as a technical issue of a government agency. The government has now adopted a new strategy of targeted investment promotion focused on the manufacturing sector and informed by a sound understanding of the sectoral landscape and dynamics. In addition, the investment policy is now being led by the highest level of government—the Ethiopian Investment Board chaired by the Prime Minister.

Second, the government restructured and strengthened the Ethiopian Investment Commission (EIC), formerly under the Ministry of Industry, to be directly accountable to the Prime Minister and act as one-stop shop for foreign investors. EIC's primary objective is to attract foreign investors to strategic sectors by surpassing their expectations. EIC's initial goals are to focus on the light manufacturing sector, consistent with the government's strategy. Perhaps uncommon to other investment promotion agencies, EIC was also given the mandate to regulate industrial park developers, operators, and enterprises.

The third new and important institution is the Industrial Parks Development Corporation (IPDC). Modeled after Singapore's JTC Corporation, IPDC is a state-owned profit-making enterprise in charge of developing and operating industrial parks. It also serves as a land bank and will make land available for potential private developers. Its mandate is to develop industrial facilities with shared infrastructure and services to help enterprises reduce operating costs and improve operational efficiency. Working with private developers, IPDC is expected to develop new industrial land and space that will fuel the growth of existing industries and catalyze new ones.

5.2.2 Ethiopian Industrial Development Zones Corporation

Following the enactment of the Proclamation, the government established the Ethiopian Industrial Development Zones Corporation in 2013, and which was later re-established as the Industrial Parks Development Corporation (the “Corporation”) with the status of a public enterprise under the Council of Ministers Regulation No 326/2014. The Corporation is entrusted with the following powers and duties: i) to develop and administer industrial parks; ii) to prepare detailed master plan for national industrial parks based on the national master plan; iii) to receive land and serve as a land bank to industrial parks; iv) to make necessary infrastructure accessible to industrial park developers in collaboration with the concerned bodies; v) to outsource the management of industrial parks though management contracts and to promote the benefits of industrial parks and attract investors to the parks.

The Corporation has been aggressively engaged on establishing and developing industrial parks in Addis Ababa and other major towns, including: Bole Lemi Industrial Park, Kilinto Industrial Park, Hawassa Industrial Park, Dire Dawa Special Economic Zone, Mekele Industrial Park, and some ongoing activities to establish Industry Parks in Adama, Jimma, Kombolcha and Bahirdar.

Industrial parks that are operational and owned by private investors: Eastern Industry Zone and Huajian Industry Zone, are not intervened by the Corporation.

5.3 Legal and regulatory regimes in progress

5.3.1 Laws and regulations on investment in Ethiopia

The Investment Proclamation 769/2012 first incorporates the development and management of special economic zones. The statement defines the SEZs (paras. 2-17), stating that the development of special economic zones should be the responsibility of the federal government or, if necessary, a joint investment by the government and the private sector (para's. 32-2). The statement also includes rules and agencies governing and supervising special economic zones (para's. 34 and 35).

In the first decade of development, the "industrial zones" in Ethiopia were operated without a regulatory framework. Recognizing the need to have a law to regulate the existing industrial zones administered by the government and a private investor as well as facilitating the full-fledged participation of the state as well as private sector in the development of industrial zones, the government introduced to the amendment of the investment law regime (Investment Proclamation No 769/2012) – the inclusion of industrial development zones as part of infrastructural investment and a strategy to expedite investments in the manufacturing sub-sector. Part 8 of the Investment Proclamation (as amended) addressed the establishment, administration and regulation of industrial development zones.

The Investment Proclamation 769/2012 and the Investment Incentives and Investment Areas Reserved for Domestic Investors Council of Ministers Regulation No. 270/2012 were amended by Proclamation 849/2014 and Regulation No. 312/2014, respectively, to address mainly the issue of industrial development zones in detail. The Proclamation in particular opened development of industrial zones for private investors, and also authorized the Investment Board to oversee the administration and supervision of industrial development zones. It also provided for tax holidays for industrial zone developers and additional incentives for investors.

5.3.2 Laws and regulations on industrial parks in Ethiopia

Subsequent to the establishment of the Corporation, the Industrial Park Proclamation No. 886/2015 was enacted and entered into force on the 9th April 2015. It is the first detailed law in relation to the establishment development, administration and supervision of industrial parks in Ethiopia. The objective of this Proclamation is accelerating the economic transformation and development of the Country through the establishment of industrial parks in strategic locations.

The Proclamation defines Industrial Park as “an area with distinct boundary designated by the appropriate organ to develop identical, similar or interrelated industries together or to develop multifaceted industries, based on a planned fulfillment of infrastructures and various services such road, electric power and water; having special incentive schemes with a broad view to achieving planned and systematic development of industries, mitigation of the impacts of environmental pollution and development of urban centers. It includes, among others, special economic zones, industrial parks, technology parks; export processing zones, free trade zones and others to be designated by the Investment Board.”

6 Progress of Leading Industries in Ethiopia's Industrial Parks

IMF praises Ethiopia's efforts to spur industrialization by saying that *"efforts to spur industrialization are showing positive results.*"[9] The orientation of industrialization strategy focuses on labor-intensive light manufacturing such as in leather, apparel, textiles, agro-processing and electricity, which capitalizes on Ethiopia's competitive advantages.

6.1 The "developmental state" approach

Ethiopia's developmental orientation in many ways resembles that of successful catch-up experiences in East Asia, such as the Republic of Korea and Taiwan, with a relatively *"authoritarian corporatist"* structure and centralized economic planning.

Meles Zenawi, Ethiopia's Prime Minister, who ruled from 1995 to 2012 and whose legacy remains strong in the current ruling political coalition, repeatedly expressed admiration for the East Asian experience. He stressed that its success was based on a prudent combination of market forces and state intervention. Additionally, the government has accumulated impressive industrial policymaking capability since the Ethiopian People's Revolutionary Democratic Front government came to power in 1991.

In the above mentioned political context, the GTP I covering 2010-2015 designated as priority manufacturing industries apparel and textiles, agro-processing, meat processing, leather and leather products, and construction, based on resource availability, labor intensity, linkages to agriculture, export potential and relatively low technological entry barriers.

Correspondingly, supporting institutes have been set up for each industry to coordinate the value chains effectively, for example by ensuring efficient supply of inputs to manufacturers and to assist firms with technological upgrading. Two state-owned banks, the Commercial Bank of Ethiopia and the Development Bank of Ethiopia, provide most credit to firms in these industries.

[9] Article IV consultation with the Federal Democratic Republic of Ethiopia, IMF.

6.2 Identification of priority industries in public parks

The agro-processing industries, leather products and the textile and apparel sectors have been designated as top priority manufacturing industries in the latest five-year development plan (2015 to 2020). The main reasons include: i) strong linkages with the agricultural sector as they use inputs from the livestock and cotton sectors, ii) they are also both labor intensive, thus absorbing labor from the agricultural sector, and iii) they have major export potential and low entry barriers. To unleash these supportive industries, the government established industrial parks across the country to cluster these industries.

Besides, other important factors influencing the deployment of industrials in government funded industrial parks are summarized as follows:

6.2.1 Building value chains and supply chains

Ethiopia's active, state-driven industrial policy is aimed at attracting foreign lead firms and manufacturers from major producing countries whilst still providing local firm support and protecting the local market. The focus is on incentivizing exports and developing domestic value chain linkages between raw materials, intermediate inputs, and final products firms. Industrial policy is particularly focused on skill and capability building with a major role of sector specific institutes such as the Textile Industry Development Institute (TIDI). Despite capacity problems, the government has a vision and commitment to drive industrialization and continues to play a decisive role.

Therefore, the government is more interested in foreign investors that are more locally embedded, who do view Ethiopia as a cut-make-trim (CMT) supplier for their global higher value added operations but, rather demonstrate an interest in locating higher value added activities domestically, developing more complex products, and building linkages to local input providers.

Foreign Direct Investment (FDI) with potential for local linkages/embeddedness is highly appreciated in state-owned industrial parks, i.e. the PVH Group in Hawassa Industrial Park. However, crucial value chain challenges still remain such as: i) limited local linkages of exports;

ii) a focus on CMT production; iii) long lead times; iv) low production and product flexibility; v) skill issues; and vi) lagging infrastructure development. Backward linkages (i.e. apparel to textile to cotton) remain quite limited in the export sector even though an integrated value chain approach has been prioritized in the development strategy.

6.2.2 Increasing export competitiveness and diversification

In order to reach the industrialization objective, the Second Growth and Transformation Plan (GTP II, 2016-2020) includes ambitious targets and programmes in which the country's priority sectors including light-manufacturing, agro-processing, textile and leather will be developed for export and shall drive the economy. Thus, boosting exports are crucial to achieve the objective of reaching the global market and moving up the global value chain.

When the Government of Ethiopia builds industry parks, the hope is to attract foreign and local companies that will engage in export. Required by the government, companies in the industrial parks will continue exporting 100 per cent they produce in the foreseeable future. This is necessary to solve the foreign currency shortage in the country. All the industry parks under construction will be export processing zones as well because the shortage of foreign currency will not show decline under the current circumstances. For example, the integrated agro-industry parks will add value to agricultural products destined for export.

On the other hand, the booming mega public projects underway are consuming huge amount of the scarce foreign currency, and hence the government has to expand their export earning sources to satisfy this demand for the future.

6.2.3 Transferring skills to improve local labor productivity

Given Ethiopia’s very recent transition, workers — particularly from the countryside — have little experience in industrial employment. Hence, basic labor skills are absent.

FDI can be exploited as a vehicle to promote human capital formation, and thus it is important for Ethiopia to secure the types of FDI which are most likely to contribute to skill formation. This can be pursued through two mechanisms: i) First, governments can directly target foreign educational institutions to set up local locations. Efforts to attract FDI in higher education and vocational training can bring about better quality universities and technical schools. ii) Second, governments can work with foreign companies use their industry-specific knowledge and expertise to improve curricula and research infrastructure, benefiting both the local skills base, and providing the foreign affiliate with access to workers that fit their unique skill needs.

Therefore, the Ministry of Industry expressed enthusiasm to collaborate with international educational institutes for the development of new skills and curricula focusing on the latest manufacturing technologies, namely on construction, chemical engineering, electronics manufacturing, chemical manufacturing, metallurgy and automotive industry, etc. The Ministry of Education is experimenting with the implementation of the Public-Private-Partnership Model in the National Technical and Vocational Education and Training (TVET) system, to address requirements for strengthening capacity building work and skills development - through the involvement of more business sector partners.

6.2.4 Fostering domestic investors and companies

Ethiopia's plan at the end of the second phase of the Growth and Transformation Plan is to attract a critical mass of foreign investment, which can serve as a concrete base for skill and knowledge transfer to forthcoming local investors. Local capacity cannot develop without the skills and knowledge necessary to build their competitive edges. Hence, the government reserves at least 20 per cent of all the industrial parks to local investors so that they gain insights into industrial culture and technical expertise from the foreign investors.

6.2.5 Laying foundation for advanced manufacturing

Pharmaceutical industries, chemicals and chemical products industries, paper and paper products, plastic industries, building materials, glass and glass products, metal and metal engineering are the other prioritized manufacturing industries.

As the GTP proceeds, the government also has the ambition to move from light manufacturing to the chemical, metal and engineering and fabrication sectors - one of the reasons for this shift being the countrywide mega-infrastructure projects and industries increasing demand of more supplies, such as metal or plastic-based materials for packaging. Thus, the move to the chemical, metal and pharmaceutical sectors is necessary and an opportunity to attract investment and to satisfy the domestic market.

With the expectation of getting a *lower-middle-income* status and a minimum of US$ 1050 per capita by 2025, Ethiopia is also focusing on emerging sectors, such as high-tech and knowledge-based sectors like bio-technologies, ICT, petrochemicals etc. The Ministry of Industry is currently laying the foundations and these sectors will become priorities in subsequent development plans. The Ministry has finalized the feasibility studies conducted on the possibility of developing electronics, ICT manufacturing and mechanical engineering industries in Ethiopia.

6.3 Formation of pillar industries in private parks

The actual focus of private industrial parks is difficult to ascertain and contrasts with the projects being advanced by the government, or particularly the IPDC. For example, the EIP started out focusing on the production of construction materials as well as light industries, including the production of pharmaceuticals, electronics, chemicals and leather. However, this has now widely diversified.

The planning, resolution and execution of the private industrial park initiatives groups together a number of agents and stakeholders, such as central governments in Ethiopia and China, local governments in Ethiopia, national investment promotion agencies, private businesses, interest groups and local communities. It was observed that in a majority of the MOFCOM-approved African zones, private enterprises were at the helm. The EIP is, at present, noticeable for a rather scattergun approach with regard to the types of industries located in the zone. The diversity of industries is problematic given that influential development theory argues that a more directed and steered industrial policy is needed in late developers, even if this is at the expense of a broad-based strategy. This critique of the EIP raises important questions about the efficacy of the EIP as it is currently developing.

6.4 Industry selection under UNIDO PCP framework

Ethiopia is one of the first pilot countries for the Programme for Country Partnership (PCP) that has been developed by the United Nations Industrial Development Organization (UNIDO). Launched in 2014, the PCP in Ethiopia aims to help the country's government progress their national development strategy (GTP II) and reach its industrial development goals of achieving middle-income status by 2025, as well as increasing contributions from both industry and the manufacturing sector to their national GDP.

As part of the PCP Ethiopia, three integrated agro-industrial parks are under development in the Amhara, Tigray and Southern Nations, Nationalities and People's region respectively and the fourth one in Oromia region will start soon. These industrial parks built within the PCP focuses on three light manufacturing sectors: agro-food processing; textiles and apparel; and leather and leather products. These sectors were chosen due to their prospects for job creation, strong linkages to the agricultural sector, high export potential and capacities to attract private sector investment. They will act as a springboard for the transformation of Ethiopia's economy which is currently very dependent on agricultural produce to a model primarily driven by light industries.

In addition, UNIIDO is supporting the government of Ethiopia in establishing an environmentally friendly leather tanning district with a state-of-the-art common wastewater treatment plant to reduce the environmental impact of the leather processing industry.

7 Challenges Faced by Industrial Parks in Ethiopia

7.1 Issues related to regulatory bodies

7.1.1 Administrative capacity to be improved

Developing any type industrial zones requires wide ranging work involving every member of the community. Major “on the ground” tasks include the construction of infrastructure, investment promotion, zone operation and provision of services. Supporting responsibilities which must be undertaken are information and policy communication between the government and investors, exchange of experience, skills training and community integration. The roles of the government and private sector must be integrated, and attention to their roles must be equitable.

The institutional capacity of the regulatory institutions including the Investment Board and Ethiopian Investment Commission is very crucial. For instance, while it is an essential measure to provide overall leadership by the highest government body of the country, which shows the government commitment for IPD, it should also be noted that the Investment Board is a collection of top government officials or ministers. The members have specific roles and responsibilities in their respective ministries, focused more on their ministerial leadership obligations which may limit their effective engagement in IPD issues other than those related to their respective ministry. Thus, IP policy and regulation issues that are critical for the success of the IPD objective may not be reviewed well technically before they are presented for decision by the Board.

An important challenge facing the existing industrial parks and zones in Ethiopia is the lack of an effective management system. In relation to the Ethiopian Investment Commission, both capacity and organizational issues can be critical in regulating and implementing IPD in Ethiopia. Currently the EIC is given responsibilities to provide permit, regulate and promote both domestic and foreign direct investment. The regulation and implementation of Industrial Park are covered in its responsibilities. While this is an important step to enhance IPD in Ethiopia, the organizational capacity of EIC in terms of number of qualified human resources, motivation of staffs, and organizational structure is very limited. EIC has limited capacity to design the right regulation, directives and policy incentives for effective implementation of IPD. It has also limited capacity to monitor the process of IPD implementation. Its current focus is to attract new FDI and maintain those currently under operation based on its ‘relationship building' business model. While this is fundamental to enhance FDI in Ethiopia, it is also equally important to build its capacity in promoting, providing permit to IP, regulating and implementing IPD. EIC is not well staffed to perform the different activities required in the IPD (operation, promotion, legal, etc.) as it is observed from its organizational structure. The available staff members have no experience in IPD. Thus, it is essential to design an organizational capacity that enable the EIC to utilize its current capacity while at the same time build its regulatory, implementation and monitoring capacity in cost effective way.

The other issue is related to IPDC. First, as a developer and operator, it should not have a ‘regulatory' role. Its business model should be market oriented like any other private developer or operator. However, the current proclamation provides IPDC as a regulator while simultaneously as a developer and/or operator. It serves as a land bank for IPD in Ethiopia, which may induce inefficiency as well as conflict of interest.

Second, there might also be a risk of ‘rent seeking' behavior. This risk can originate from land development, land valuation and land right transfer. Since IPDC has no in-house capacity in land and infrastructure development, it has to outsource these functions at least for the next few years. Thus, during the procurement process and construction supervision, there might be a rent seeking action that severely harms the implementation of IPs. It can lead to delay in land and/or infrastructure development of the public IPs, poor quality of infrastructure, etc. In either case, the operation of public Parks may be delayed and, thus, affect the success of IPD in terms of attracting Park enterprises and delay in industrialization.

Third, it is important to recognize the IPDC as a new organization and the IPD a new phenomenon in Ethiopia. Thus, there is lack of experience in administering and managing both the corporation and public Parks. Particularly, the administration or operation of Parks is new to its Ethiopian staffs, and the domestic market may not supply the required manpower. This certainly affects the effective delivery of services for Park subjects, unless IPDC provides attractive incentives to the limited capacity available in the country or hire foreign Park operator to administer the Park as a business entity. Due to lack of experience, there might be also risk of ensuring sustainable sources of resource for the Public Park by IPDC. There may also be weak promotional work to attract the ‘right' enterprises into public Parks due to lack of experience.

The roles IPDC and regional governments in the development and management of the parks is always blurred, which become a more prominent problem with the rapid development of Industrial parks and the improvement of their urban functions.

7.1.2 Foreign exchange controls to be relaxed

Foreign exchange shortages due to weak export performance and high demand for foreign currency present significant market challenges for Ethiopia. Therefore, all payments abroad require permits and all transactions in foreign exchange must be carried out through authorized dealers supervised by the NBE. Foreign investors cannot repatriate all of their profits abroad. Private sector actors in the industrial parks widely complain about the shortage of foreign exchange and point out the adverse implications on their businesses.

7.1.3 Local public utilities to be facilitated

The other issue is related to service provision by a public utility. One of the key benefits of IPD is increasing firm competitiveness by facilitating the provision of service and infrastructure to Park enterprises. Services such as water, power, wastewater treatment, solid waste disposal, custom, telecommunication, internet, etc. are normally provided by local public offices in Ethiopia. The field visit to EIP, HIP and other offices revealed that the provision of these aforementioned services is extremely low. This is mainly due to lack of motivation and rent seeking behaviors from local staffs, lack of capacity as well as slow decision making process. There is also problem associated with tax including unclear tax standards, poor tax collection and corruption by local staffs. This also creates inefficiency for Park enterprises, and jeopardizes their competitiveness.

For example, when fully operational, HIP is expected to employ “50,000 to 60,000 workers”. These numbers do not include the jobs that will be created indirectly as a result of the development of HIP; each manufacturing job tends to have a multiplier effect. This growth means significant new needs for infrastructure development. Like other Ethiopian cities, Hawassa currently has inadequate infrastructure and services for its population. Urban housing shortages solid waste management and access to water are among the pressing needs in Ethiopia's cities. Compounding this is a serious infrastructure finance gap. Hawassa is a clear example that the industrialization agenda is closely linked to the urban development agenda. Collaboration from a series of development partners has been made available, but what is most needed is a strong coordination mechanism between local and national authorities to address this emerging and pressing challenge with a long-term vision.

7.2 Issues related to park developers

7.2.1 Financing sources to be diversified

For most private industrial park developer including EIP, limited sources of financing are one of the greatest challenges for running the park sustainably. Take EIP as example, due to the fact that its fixed assets are in Ethiopia, it is difficult for Qiyuan Group to get bank loans through asset-backed mortgages, and thus the current liability ratio of the EIP is less than 10 per cent. In the past years, there have been some changes in the policy support of Chinese government- the subsidies of ¥300 million from the Ministry of Commerce and the Ministry of Finance of China have been called off. Among the monetary award of ¥100 million from Jiangsu Province and the City of Zhangjiagang for overseas industrial parks, only 38.5 million has been allocated.

As a result, EIP wishes to diversify its financing sources or channels. For example, the private developer could negotiate with Chinese development financial institutions and banks with the coordination of government to get more credits; China Development Bank would facilitate the loan applications of firms operating in the overseas industrial parks; government-supported funds such as Silk Road Fund, China-Africa Development Fund, China-Africa Production

Capacity Cooperation Fund would set up branches in Chinese-led industrial parks to provide firms more access to financing.

7.2.2 Negotiation power with government to be strengthened

The identity of private firm somehow restricts the bargaining power of EIP developer while negotiating with the Government of Ethiopia on policy and business concerns. Major preferential policies such as "tax return" were difficult to achieve break through. According to the vice president of Qiyuan Group of EIP, *"We also look forward to the participation of state-owned assets and even the representatives of Chinese government, which will not only enhance voice of private park developers in Ethiopia."* Industrial parks should be collaborating to make the *"same voice"* in requesting for preferential policies from the government.

7.2.3 Efficiency of logistics to be increased

The textile industry is highly sensitive to cost and lead times of imports and exports. An estimated 50 to 60 per cent of the value of Ethiopia's garment exports consists of imported raw materials and components. Previous analysis has suggested that abundant low-cost labor provides Ethiopia with a comparative advantage in less-skilled, labor-intensive sectors such as light manufacturing. As such, the factory floor costs in products such as garments and other light manufacturing goods are lower than those in China and India. Longer lead times and higher logistics costs, however, could erode this cost advantage. As a landlocked country, Ethiopia needs to assure investors timely connections to ports. Heavy reliance on the port of Djibouti poses significant risks. Ethiopia's trade logistics constraints include inefficient trade finance and bank processes, long shipping times, high shipping costs, inefficient port operations, high freight transport cost, unregulated service under monopolistic practices; inadequate logistics service capacity, poor coordination, and lengthy customs and inland dry port clearance. Customs processes are unpredictable and that requirements and regulations are not clear.

Customs clearance, trade facilitation and border management procedures must be streamlined and made more efficient. If left unaddressed, logistics costs will prevent Ethiopia from capitalizing on an opportunity to bolster exports and diversify toward higher-value added activities.

7.2.4 Complication in labor relations to be addressed

High frequency of strikes and protests undermines the stability of business environment and productive activities of many parks. In certain events, raises cannot prevent workers striking. For the most part, these strikes have been quite time consuming in achieving resolutions for even trivial disputes.

According to firms interviewed in some industrial parks, local workers demonstrate the lack of faith; loyalty, efficiency and diligence. Labor contracts can regulate the behavior of employers while workers easily breach the contracts without any costs. This also increases the occurrence of labor poaching, which is a problem of firms in the same industrial park taking each other's key workers.

7.2.5 Private developer speculation to be avoided

Ethiopia allows public, private and joint venture arrangements for IP developer. While some of the key issues from a Public developer or operator have been presented earlier, it is also important to outline risks associated with Private Park developer. First, one of the risk from Private Park developer can face is the risk of irrational behavior in land use right. In this case, the developer may acquire resources for Park development but, cannot implement it. It may also be difficult to obtain loans from financial institution (bank) using the land as a collateral. In the event loans are provided, it may be difficult to repay due to lack of revenues, poor strategy for designing sustainable sources of resources and inherited rent seeking behavior of the developer. Second, the private developer may set higher price to sub lease the developed land to Park enterprise. Third, he/she may not appropriately mortgage the Park. Fourth, there is also risk of capital flight.

7.3 Issues related to resident enterprises

7.3.1 Skilled and qualified work force to be fostered

While affordable labor is widely available, productivity remains low. Ethiopia's inadequate educational and Technical Vocational and Training (TVET) system has limited the development of a qualified labor supply. In addition, the high rate of employee turnover is a significant constraint in the industry. Ultimately, the competitiveness of the Ethiopian textile and apparel sector depends on how productively industry can use its human capital. Enhancing productivity requires going beyond preferential market access, low factor costs, and subsidies.

The Government of Ethiopia has established the Ethiopian Textile Industry Development Institute (TIDI) to lead and coordinate the skills development agenda. With support from UK's Department for International Development (DFID), the Regional Bureau of Trade and Industry and Ethiopian Textile Development Institute (ETIDI), sourcing and grading centers have been established. Factories in HIP source their work-force from these centers. This innovative collaborative project provides training to workers on time management, industrial norms and basic operational skills which are crucial for factory efficiency. In return, factories are incentivized to source from this suitable pool of workforce, creating employment opportunities for 30,000 workers, mostly women. At the time of writing, close to 4,995 job seekers were screened and graded and about 1,000 recruited employees received soft-skill training.

Finding skilled labor for management and technical roles is an even bigger challenge. Most of the tenants in HIP will have to rely on expatriate staff until a sufficiently skilled workforce is ready. The government is facilitating the hiring of qualified expatriate managers by simplifying visa and work permit procedures while encouraging them to train local Ethiopians.

Extended collaboration between the Industrial zones and the vocational schools in the regions is critical for increasing labor productivity and sourcing of qualified personnel from the regions.

7.3.2 Technology transfers to be promoted

In relation to Park enterprises, some of the risks are worth noting. They are mainly related to risk of price transfer, irrational behavior in tax, importing out dated machine or technology, lack of motivation in transferring technology and management skill, etc. One of the key issue in importing outdated technology is that enterprises may import obsolete machine but attach higher value as new brand so as to either minimize its profit tax (over invoicing) or increase its asset value for bank loan. There is also reduced invoicing in export outputs or under reporting outputs. The other important issue is the industrial relation between employees and employers. These and other related issues require innovative institutional arrangement to effectively implement Industrial Park development in Ethiopia.

7.3.3 Industrial linkages and spillovers to be encouraged

A source of motivation to encourage investors to aid Ethiopia’s integration into global value chains is to promote domestic participation. In the textile and apparel supply chain, this could include the use of local inputs such as direct raw materials (particularly cotton and yarn); fabric, trim and accessories (e.g., buttons, zippers, thread, labels, hangers); packing materials (e.g., cartoons and poly bags); capital equipment and machinery parts, assembly or finishing activities (e.g., sewing, embroidering, screen printing), and services such as transportation, logistics, information, and catering. *(Staritz & Frederick 2014)* There is always room for local firms to participate in the new value chain. The challenge will be to develop local firms' capacity to enter sourcing networks and build supply linkages. The government must identify areas of interest to the investor and establish the right set of policies to foster and enhance the development of local linkages.

Fortunately, the Government of Ethiopia has realized this problem. In response to these challenges, the government announced a new set of performance based incentives to support the participation of domestic firms in HIP. These performance based incentives available for domestic firms are the following:

(1) Access to Working and Investment Capital: For domestic businesses looking to start new ventures, or relocate facilities in HIP, the government will facilitate access to credit for working and investment capital needs through Development Bank of Ethiopia and Commercial Bank of Ethiopia. Domestic firms will be allowed to get credit up to 85 per cent of their investment and working capital needs.

(2) Access to Foreign Currency: Domestic firms will have preferential access to foreign currency to meet their financing needs.

(3) Cost Sharing of Training and Skills Development Program. The government will cover the cost of training program as follows. For the 1st year, 85 percent of the cost of training, for the 2nd year, 75 per cent of the cost of training program, for 3rd year 50 per cent of the training program, for 4th year 25 per cent of the cost of the training program.

(4) Expatriate Managerial Staff Wage Subsidy: The wage subsidy program aim at putting specialized expatriate employee within the reach of domestic firms. The government will cover the cost of hiring an expatriate staff as follows. For the 1st year, 85 per cent of the cost of training, 2nd year: 75 per cent, 3rd year: 50 per cent and 4th year: 25 per cent. Domestic firm will also get income tax exemption on wage payable to expatriate staff. To continue to receive these incentives, domestic firms should achieve a threshold of productivity goals. For the first year, the domestic firm should reach at least 75 per cent of the productivity of a foreign firm in HIP. For the second and third year, productivity should reach 85 per cent and 100 per cent of the productivity of a foreign investor respectively

8 Policy Recommendations for Industrial Parks in Ethiopia

8.1 Recommendations for the governments

8.1.1 Improving administrative and institutional efficiency of regulatory bodies

One of the key benefits of industrial park is to facilitate investment and trading by providing effective and efficient services. This depends on the administrative system of the industrial park. Generally, the administrative system of industrial park depends on the governance system of the host country, type of, ownership and stage of development of the Park. The lesson from industrial parks in China also shows that industrial parks have different administrative pattern at different stages of their development. At early stage of industrial parks, for instance, the central government decentralized its power and granted provincial-level economic management authority to industrial parks so as to simplify procedure of examination and approval; improve administrative efficiency; establish management institutions entrusted by government; directly manage developing, construction and operation; as well as provide high-quality efficient administrative services. It is, therefore, essential to learn from this lesson and develop an administrative pattern that can provide efficient and effective services at different levels including provision of permits for park investment permit, development, operation and park – enterprises.

8.1.2 Funding for infrastructure within and outside IPs prior to approval

In industrial parks in Ethiopia, power and water supplies, building of roads and factory space have been among the key industrial parks development challenges, which have led to costly delays in all countries. It is therefore recommended that sufficient funding for the development of infrastructure within industrial parks is ensured prior to industrial parks' approval. Furthermore, industrial parks should be well connected to the national power grid and transportation systems. If the industrial park is not established in a location where such infrastructure is already in place, the host government needs to make necessary provisions prior to the development of the park.

8.1.3 Expanding pool of experienced skills and substantiating potential in the labor market

There is a need for continued skills development through, for example, the establishment and further development of dedicated departments and institutes focusing on vocational research and education within higher education organizations and TVET system across the country. Such a development will help build local knowledge and a research base for education and innovation. In doing so, it would be appropriate to set up cooperation schemes between national and international educational institutions for the development of new skills and curricula focusing on the latest manufacturing technologies.

Skill-oriented courses and training programs for engineering and manufacturing should be offered as part of the curricula at the aforementioned institutes to ensure graduates are aligned with the skill needs in a manufacturing professional environment as opposed to a research environment. Therefore, it is also recommended to incorporate placements and internships at companies as part of university and TVET college education.

Existing higher education (TVET institutions and universities)—industry collaboration must be enhanced. In partnership with private businesses and companies and enabled by the Ministry of Industry, a concrete, regular and structural higher education—industry collaboration needs to be created and knowledge transfer activities should focus on providing students access to relevant work experience, tailoring curricula, and branding technical/engineering educational fields through targeted and coordinated outreach campaigns.

On the other hand, companies need to be enabled to tap the potential of the large pool of unexperienced staff that are currently outside the manufacturing workforce. It is expected that the industrial parks could play an important role in the practical implementation of these training initiatives, in close collaboration with the Ministry of Education, Ministry of Industry and the relevant TVET institutions. This will offer companies a support mechanism both in terms of providing basic vocational, technical and ‘soft' skills (attitude, work ethics) training and operational standards certification to new recruits without previous experience and lacking a relevant educational background, such as primary education only or second chance students.

8.2 Recommendations for park developers and managers

8.2.1 Conducting domestic and international marketing campaigns

The increasing appeal of Ethiopia for international investors offers huge opportunities for international private developers and managers. These parties need to promote their industrial parks more actively not only in international, but also in the national and local contexts. Regarding international outreach, time and resources should be invested in making up-to-date information available in English using user-friendly websites. Furthermore, promotional efforts should be undertaken at international conferences and trade fairs as well as in print and online media. Outreach at national and local levels should be conducted in the local language. It will garner interest from local companies to invest in parks or to provide products or services to resident companies. It will also foster understanding and support in the local community and create interest among local work forces. Although most of the Chinese industrial parks in Ethiopia are all open to foreign and domestic investors, the reality is that this has hardly happened, partially due to a lack of proper marketing.

Industrial park development faces strong competition from other parks within and outside of the country. Thus, park development in Ethiopia should be supported by proactive promotional strategy so as to attract enterprises and operate sustainably. This requires identifying and targeting both foreign and domestic tenants, which requires promoting and marketing of the industrial park and its specialized services at national and international events that suits the needs of the tenants. While this is at the core of the park manager's activities, it will be better to be carried out by the EIC as part of its core activities since it is the only institution in a better position for Park promotion at the initial stage of park development. Ethiopian embassies based in targeted countries can also consider Park promotion as their key strategic activity. It is important that the park managers ensure that these firms are maximizing the benefits of proximity to other enterprises, encouraging linkages between them and with service providers.

Promotional activities should only be fully undertaken once the industrial park infrastructure has been completed. This is because most investors are familiar with the difficulties associated with infrastructure completion and will only invest once these uncertainties have been addressed.

8.2.2 Building joint ventures with local companies

The successful transfer of technology and knowhow within industrial parks in China has largely happened through joint ventures between foreign and local companies. African governments may learn from China's experience by incentivizing the creation of joint ventures between foreign and local companies within industrial parks through additional tax benefits. This would need to be clearly communicated when promoting the industrial parks and should include the provision of information on potential local partners.

8.2.3 Strengthening linkage between industrial park and domestic economy

To facilitate greater knowledge and technology transfer, the government of Ethiopia should ensure that all sector development policies (incl. incentives schemes) are inclusive, in terms of targeting both foreign and domestic firms. In practical terms, this means that an effective organization— the EIC in close collaboration with Ministry of Industry—should extend a similar one-stop-shop service mechanism, as is currently being offered to foreign investors, towards domestic firms. Specifically, the service should be extended in terms of regulatory & policy alignment and coordination; business permits, after care, incentives, real estate, etc. In addition, the Government of Ethiopia should provide incentives for joint ventures and collaborative projects between foreign and domestic companies as well as universities while requiring foreign companies to have a ‘localization plan' that gradually transfers jobs to local staff.

Possible measures to design appropriate institutional arrangements or policy incentives to create domestic linkages include, but are not limited to, the following:

Co-location of foreign and domestic enterprises in the same park for spillover effect in working practices, learn management skills, etc.

Special and targeted policy incentives for park enterprises for their actual initiatives such as in capacity building through on-job training;

Special policy privileges for pre-determined targets and period for Park developers or Park enterprises which have innovative production and marketing linkage mechanisms to build local productivity or marketing capacities; e.g. textile enterprises provide credit to cotton producers, improved technology for livestock productivity improvement, etc.;

Design program support to improve and/or strengthen production, productivity and quality of domestic firms (such as SMEs) to interact with park based firms in supply chain; e.g. programs to improve livestock production, productivity and distribution of skin and hides can be an effective mechanism to link park enterprise in leather sector with domestic economy.

Encourage park enterprises to work jointly with Ethiopian counterparts. Technology transfer and spillover effect cannot be realized without dynamic domestic entrepreneurs. As stated in the industrial policy encouraging domestic investors into the manufacturing sector is another objective. It is therefore, essential to design mechanism to create and encourage joint venture between Ethiopian diaspora and foreigners. For example, this can be achieved by systematic documentation of database to provide the required information to link both foreigners and Ethiopians. It is also a good mechanism to encourage park enterprises to use domestic labor for certain activities of the enterprises.

Ensure that industrial parks are not *"enclaves"*: One of the benefits of FDI is improvement in productive capacity of domestic firms through the spillover effect. However, since the evidence on this is inconclusive, it is essential to give due consideration to IPs not to be perceived as "enclaves", a case in which, for instance, when all enterprises are foreign based, all inputs are imported or locals engage in simple assembly. The lesson from the experience of other countries shows that countries that regulate and/or use appropriate policy incentives based on performance can benefit from FDI. These countries usually consider requirements such as, technology transfer, local content in input/product or exports. For instance, performance based on share of local inputs used by Park foreign enterprises can be used to create linkages. In this case, it is good to note that spillover effects can come from hiring local workers for them to learn new skills; buy inputs from local producers who may pick up new technologies in the process; through demonstration effect on domestic firms by showing them new management techniques; or providing knowledge about overseas market.

8.3 Recommendations for resident enterprises

8.3.1 Aligning labor training program with TVET system

Although there are emerging links between industrial parks, local academic and training institutions in Ethiopia, the skill sets required by resident companies have not yet been met. In order to ensure that jobs created within industrial parks can be filled by local workers, African governments should align the curricula of relevant universities and TVET institutions with the anticipated requirements of industries in industrial parks. At the same time governments need to ensure that these learning and training institutions have sufficient capacities and resources. Public private partnerships between public universities and training institutions with industrial park managers and companies should be considered as a way to leverage required resources. Furthermore, this is a popular area for the provision of technical assistance by developed countries and support through South-South Cooperation.

8.3.2 Employing managers with international work experience and cross-cultural competence

In a diverse country like Ethiopia with cultural richness and diversity as well as business etiquette and practices, it is therefore indispensable for foreign industrial park developers and managers to ensure that some members of their team have international work experience, ideally within the context of the country or region in which the industrial park is to be established as well as cross-cultural competencies and excellent communication skills. Another case in point is the experience of a former employee of the largest company invested in the Eastern Industrial Park, where the significant investment of time into understanding local circumstances and the roles and responsibilities of involved actors - opened the door to effective collaboration. *(Interview with firms in EIP)*

8.3.3 Building supply chain with local labor market and companies

Industrial park developers and managers should actively work with host governments from the onset on the promotion of linkages between firms inside the park, the local labor market and local companies, highlighting the benefits of local job creation, potential transfer of technology and knowhow and the growth of local companies. Having such arrangements in place will be convincing arguments for prospective international investors

8.4 Implications of Chinese experiences in industrial parks

China develops different types of Industrial Parks to generate employment opportunities, promote and diversify exports, increase technology transfer and attract investment flows. In order to achieve the intended objectives of IPs, governments use various mechanisms to effectively implement IP development. The mechanisms range from effectively using their own comparative advantage and opportunities to providing different policy incentives. The incentives range from fiscal to regulatory such as export duty exemptions, streamlined customs and administrative controls and procedures, liberal foreign exchange policies and income tax incentives. However, these stories differ from country to country, and there are examples of success and failure different countries. Overall, the following implications can be drawn from the experiences of China:

First, industrial park development cannot succeed without full government commitment and support. The Suzhou experience shows that the park development might not be profitable in the short-term. It may be very difficult to expect the private sector to wait 10 or more years to start reaping the benefits of investment. Moreover, the park development is not purely a business activity that can be left to the private sector alone. It concerns a variety of stakeholders and involves administrative, political and legal decisions. Broadly perceived, it is also about urban administration. The implication is that the government should take the lead in the development of industrial parks. The experience of Shenzhen amply demonstrates that governments should be proactive and should assume a leading role in the development of IPs. The role of government will of course change over time, with greater role at the early stages and lesser role later on as the industry and sector matures over time. Private developers can also be included in this process, but the process should still be under government leadership, particularly at the early stage of SEZ or industrial park development.

Second, China has deliberately used the industrial parks and the Special Economic Zones not only as a way to generate foreign knowledge and capital but also a venue to experiment with reforms and new policies. This might partly reflect special circumstance of China starting from command economy, but the experimentation in part of a country's geographical areas such as the industrial parks can be used for policy experiment in other developing countries including Ethiopia.

Thirdly, China's experience shows that substantial local autonomy was crucial for success of industrial parks. Local autonomy to administer the parks, introduction of new regulations and laws, generate finance, benefit from the tax collection etc. On the other hand, great attention and support from the higher political echelon was another important ingredient for the success of the park. For instance, the experience of Shenzhen in China shows that the central government focused more on macro-management, and rapidly transferred greater economic power to local authorities at Shenzhen SEZ to both generate revenues and spend it the way it sees fit. Local officials were evaluated based on their performance related with SEZ management. This form of administrative and economic decision making autonomy has aligned the incentive of local officials with the drive to get the best out of SEZ using local level information, incentives and market forces.

Fourth, park development have two aspects – hardware and software systems. The hardware includes the initial plan and capital, while the software refers to good policy, procedure and methods. The software knowledge transfer was the key objective of the Chinese-Singapore partnership. The Chinese government didn't insist on taking higher share in the SIP at the initial stage, while it was providing various resources (such as cheap land) and incentives to motivate the Singaporean side to transfer knowledge. From the inception of the partnership, there was a clear plan and institutional arrangement on how knowledge can be transferred. As a result, the Chinese had no difficulties to take over the management of the SIP in 6-7 years' time.

Fifth, given the governance system of a country, the experience of countries shows that not only that the type of Industrial Park determines the administrative system of the Park but also that policy incentives designed to encourage investment should be made with target that can be measurable, monitored and achievable. For instance, the tenants, the administrative system and the policy incentives for Science and Technology Parks are different from manufacturing Parks.

Sixth, conscious upgrading effort was another crucial factor for the transformation of the SIP from low value added activities to high-tech industries, innovation and R&D, as well as high-end services. In this regard, the role of State Owned Enterprises (SOEs) was very important in aggressively investing in new technologies and joint-venturing with foreign companies.

8.5 UNIDO Intervention for Industrial Parks in Ethiopia

8.5.1 Capacity development support for IPDC

Despite the fact the that IPDC has been established and operated well so far, series of capacity building would be required to support this institution to more strategically manage the industrial parks and clusters, as well as management of projects and funds, beyond simply commissioning real estate development and construction works.

UNIDO will be able to support IPDC in developing a comprehensive strategy and roadmap for the development of federal industrial parks. IPDC's human, operational and institutional capacity will be cultivated to enable them execute the huge responsibility they are to undertake in an efficient and effective manner during the GTP II period and beyond.

Under the PCP framework, UNIDO has been providing capacity-building services to the Government of Ethiopia in establishing a government nodal entity-a Regional Industrial Park Development Corporation (RIPDC)-which will be responsible for developing, coordinating and managing the design of the IAIPs, promoting the IAIPs at an international level, and working with smallholder farmers and other value chain actors to develop selected value chains within the agro-commodities procurement zone. A regulatory framework, an organizational structure and human resource requirements for the establishment of RIPDC branches were developed and shared with the pilot regions for their consideration and further action. The regions have since customized and implemented the regulatory framework and established RIPDC branches in the four pilot regions. Officials to lead the corporations were also assigned[10].

8.5.2 Skills development programmes embedded in TVET system

A severe shortage of skilled and motivated technicians is having a major impact on productivity and growth in the industrial parks, and thus on Ethiopia's economic and social development, as stressed earlier in this report.

To address this issue, UNIDO has been leveraging its international experience in technical vocational training through partnerships. For example, UNIDO and the Swedish International Development Cooperation Agency (SIDA), in collaboration with the Swedish vehicle manufacturer, Volvo, have established a training academy for heavy-duty commercial vehicles at the Selam premises outside Addis Ababa. This initiative provides badly needed skilled manpower for the private sector and, at the same time, creates opportunities for young people to get gainful employment.

During the UNIDO and China Joint Scoping Mission for PCP Ethiopia in January 2018, the delegate held a meeting with Mr. Teshome Lemma Wodajo, State Minster of Education and General Director of Federal TVET Agency, to discuss the potential cooperation between international development partners, educational institutions and private businesses in order to build appropriate technical training centers at district levels to support agricultural transformation and industrialization in the country.

[10] UNIDO, Programme for Country Partnership for Ethiopia 2016 Progress Report.

8.5.3 Cluster linkages establishing support services

Promote backward linkages, which is the basically business to business relationship with input and accessory suppliers. In the leather and leather products sector, one of the three PCP-Ethiopia light manufacturing sectors of focus, linkages between networks and local medium and large enterprises were established in order to facilitate raw material purchasing and sub-contract agreements. The cluster development methodology was transferred to major institutional stakeholders supporting MSMEs active in the leather sector.

Second is the business-to-business linkage between resident firms inside the industrial parks and the ones outside. In the International Agro-Industry Investment Forum jointly organized by the Government of Ethiopia and UNIDO, several companies were selected to given the opportunity to take part in B2B meetings to encourage joint ventures and facilitate business-to-business linkages.

8.5.4 Integration of industrial parks into regional development plan

With regard to linkages with local economy and regional development, Hawassa Industrial Park can be a good indication. When fully operational, HIP is expected to employ "50,000 to 60,000 workers." These numbers do not include the jobs that will be created indirectly as a result of the development of HIP; each manufacturing job tends to have a multiplier effect. This growth means significant new needs for infrastructure development. Like other Ethiopian cities, Hawassa currently has inadequate infrastructure and services for its population. Urban housing shortages solid waste management and access to water are among the pressing needs in Ethiopia's cities. Compounding this is a serious infrastructure finance gap. Hawassa is a clear example that the industrialization agenda is closely linked to the urban development agenda. Collaboration from a series of development partners has been made available, but what is most needed is a strong coordination mechanism between local and national authorities to address this emerging and pressing challenge with a long-term vision.

Appendix Incentives Package for Investments in Eastern Industrial Park

Investment promotion services provided by the Park
− The developers of industrial parks offer consulting services and workshops for potential investors who conduct preliminary market researches.
− The developers of industrial parks assist enterprises with procedures of investment permit application, business registration certificates, tax consultation, etc.
− The management teams of industrial parks assist enterprises with respect to intermediary services, like customs clearance, commodity inspection, logistics, warehousing, and transport, etc.
− Industrial parks can offer bonded warehouse services to firms.
− Industrial parks will ensure the supplies of electricity, water and sewage treatment.
− The management teams of industrial parks not only provide land for leasing, but also help firms to get land sublease deeds.
− Industrial parks construct, sell and rent standardized factory sheds and other buildings, and provide property management services.
− Private industrial parks like EIP have a security-guarding team to guarantee the stability of business activities and provide rescuing services in case of emergencies.
− EIP holds routine meetings on 15th of every month to solve problems for firms inside the park.
− HIP forms a tenant association that attempts to address labor poaching through a collective training and recruitment center and by coordinating the hiring process without unlawfully creating a barrier to worker job mobility.
− EIP has monthly production security and sanitation checks to ensure minimum accidents and pollution.
− EIP offers English training program and build a commercial multiplex area including catering services, supermarket, gym and cinema, other entertainment facilities.
− EIP is planning to launch a series of facilitating services for investors, including: applying for establishing a branch office of Ministry of Immigration and Nationality Affairs to handle visa and ID issues; providing medical health center to safeguard employees' health; setting up Eastern Fund to provide basis subsistence for underprivileged groups; providing legal consulting services to firms inside the park.
− EIP has signed procurement contracts with Ethiopian government, and the government will take the enterprises inside the park as the cooperation partner for government procurement in the future.

Investment incentive policies granted by the Government of Ethiopia
− There is a biannual routine meeting between Ethiopian Prime Minister and the senior leadership team of EIP to overcome difficulties and problems encountered in terms of relevant policies and regulations.
− The Committee of Guidance for EIP, which is made up of representatives of economy-related ministries of the GoE, organizes regular meetings every three months, making effort to navigate EIP and firms out of the problems encountered.
− “One-stop service” is available within EIP which is co-established by customs, tax, quality inspection authorities to conduct on-site inspections for the imported and exported goods.
− Firms inside EIP enjoy corporate income tax holiday as long as 4-7 years, among which, tax holiday will be extended if over 50% of the products are exported.
− EIP and firms inside the park can enjoy 30% of foreign currency reserves, 10% higher than the firms outside the park.
− Construction equipment, production machinery and building materials are entitled to custom duty exemption under the catalog of capital goods.
− Raw inputs for exported goods will enjoy zero import customs duty.
− Spare parts which don’t exceed 15% of the total value of capital goods can be imported with zero import tax.
− Zero export taxes are applied to exported goods.
− No quota is implemented for goods exported to the US and the EU.
− EIP and firms inside the park have freight discount and prioritized delivery services from Ethiopian Shipping & Logistics Services Enterprise.
− EIP was made one of the ports connecting marine and inland transportation in 2012, which will greatly reduce the time needed for inland transportation of equipment and raw materials, and help reduce demurrage charges in the Port of Djibouti.
− EIP is working to get 35% of VAT refund, found trade companies to carry out wholesales, and expand quota for importing duty-free vehicles.

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