



MEDIUM & LARGE ENTERPRISE (MSE) SYSTEM OVERVIEW

THE PROBLEM

Addis Ababa is one of the fastest growing cities in Africa, but its growth is not benefitting all. There continue to be significant levels of inequality, and women and youth are particularly disadvantaged due to culturally defined roles of women that limit which opportunities can be pursued, as well as the significant youth population which far exceeds opportunities. Medium and large manufacturers, specifically those in low-tech, labour-intensive, light manufacturing, are key for Ethiopia's industrialisation and continued growth. They hold promise for creating employment opportunities and raising incomes of disadvantaged populations, particularly poor women, and youth for whom manufacturing enables entry into formal employment.

However, achieving growth in this sector is not without major challenges. Low labour productivity, low capital productivity, input supply shortages, foreign currency shortages, underdeveloped marketing and market information systems, and poor infrastructure and transportation logistics are some of the critical constraints that are causing firms to underutilise their assets and operate significantly below capacity. On average, manufacturing firms in Ethiopia utilise only 54% of their production capacity¹.

LIWAY AIMS TO



Address critical constraints to improve the products, productivity, profitability, & competitiveness of MLEs in the manufacturing sector



Drive creation of more & higher-paying jobs for poor women & youth

Our focus is on subsectors with high potential for growth and greater likelihood of employing women and youth, but which lack attention and investment akin to modern industrial parks. This includes agro-processing, FMCG, garments, leather, and recycling.

Following a comprehensive market analysis in Addis Ababa, LIWAY identified the following critical constraints that have high relevance, opportunity, and feasibility to lead to growth for targeted MLEs and therefore enable new jobs and higher wages for poor women and youth.



INADEQUATE HUMAN RESOURCE (HR) MANAGEMENT SKILLS

Ineffective HR procedures are resulting in misalignment between the strategic direction of firms and HR goals, unstructured training programmes, high attrition, and greater training expenditures. The result is increased costs and reduced productivity, and ultimately an impact on firms' ability to grow.

¹ Addis Ababa Chamber of Commerce, 2014



ABSENCE OF PERFORMANCE MANAGEMENT SYSTEMS

Low performance of Ethiopian manufacturing firms is attributed to several factors, which include firms' lack of willingness, knowledge, and skills to inspire and reward personnel based on performance, as well as lack of awareness of the importance of motivational elements and productivity drivers in the workplace. There is also a general lack of understanding of performance planning, assessment, and improvement methodologies, particularly with respect to job assignments, procedures, and activities, and expertise in the field is not kept up to date by industry professionals. In addition, firm owners and managers do not take responsibility for overseeing employee performance at various levels within the organisation.



SHORTAGE OF INPUT SUPPLY

There is a chronic shortage of input supply (e.g., raw materials, equipment, value-added materials), which constrains manufacturers' productivity and growth. There are too few domestic input producers, and they do not meet manufacturers' needs in terms of quantity, quality, and price. Domestic input producers have limited resources, technical capabilities, and awareness about required specifications. Manufacturers also lack awareness about what is available locally due to limited information exchange mechanisms and marketing by input producers. There is therefore high reliance on imported inputs, which are costly and unreliable due to weak logistics, lack of working capital, and forex shortage. In addition, the recycling sector faces unique challenges in sourcing inputs, notably paper and plastic, due to constraints such as ineffective collection and lack of sorting at source.



INEFFECTIVE PRODUCTION MANAGEMENT

Manufacturing firms are relying on outdated processes and obsolete knowledge in their production management (e.g., factory and staff organisation, input sourcing), which results in low productivity, leading to poor utilisation rates, poor quality goods, and high costs of production. Another major problem is poor management and inefficient use of stock, leading to poor working capital management. Firms lack internal capacity to improve production management to enable growth, and there is a shortage of qualified and affordable external consultants.



UNDERINVESTMENT IN SALES & MARKETING

Manufacturing firms overlook and grossly underinvest in sales and marketing, which leads to low awareness of and demand for products, as well as products that do not meet the requirements and preferences of buyers. Efforts are not made to improve sales and marketing because it is not considered an essential component of business strategy and firms lack the skills to develop competitive product marketing plans.



OUR SOLUTION & APPROACH

LIWAY works with various market actors to change how the MLE system works to drive improvements in products, productivity, profitability, and competitiveness of manufacturing firms, with the aim of creating more and higher-paying jobs for poor women and youth. We achieve this through a combination of interventions addressing different aspects of the problem.



IMPROVEMENT OF THE HR FUNCTION TO INCREASE EMPLOYEE PERFORMANCE & FIRM PRODUCTIVITY

This includes improving market delivery of HR training programmes, internships, coaching, and information on best practices, as well as performance management systems and other tools to improve employee performance and the overall productivity of firms.



DEVELOPMENT OF INTERNAL & EXTERNAL PRODUCTION MANAGEMENT CAPABILITIES

This involves the development of a commercial and affordable service delivery model for MLEs to invest in production management capabilities. More modern and effective production management approaches (e.g., Kaizen) are mainstreamed to MLEs by national consultants, supported by Kaizen Institute.



STRENGTHENING DOMESTIC INPUT SUPPLY & LINKAGES BETWEEN DOMESTIC INPUT SUPPLIERS & MANUFACTURERS

This includes strengthening market exchange mechanisms to connect suppliers with buyers, and, specifically in the recycling sector, developing a coordinated sourcing system to ensure supply of raw materials such as paper and plastic.



IMPROVEMENT OF SALES & MARKETING CAPABILITIES OF MANUFACTURING FIRMS

This includes improving market delivery of capacity building programmes to improve sales and marketing strategy development and implementation, as well as access to information on buyer requirements and preferences.

Changes to the MLE system take time, and impact on poor women and youth is less direct than with LIWAY's other target systems. However, interventions in our other interrelated systems support our work in the MLE system. Our interventions in the labour system include improvements to job matching, pro-poor childcare services, and access to job information, which will better enable poor women and youth to access new jobs created through manufacturing firm growth. In addition, our work in the skills system involves improvements to skills delivery to better equip poor women and youth to become more efficient and productive manufacturing firm employees. As the LIWAY programme progresses, we will continue to revisit critical constraints and may develop other intervention areas.

Across all our intervention areas, we work with various market actors to develop and deliver sustainable market-based solutions. Our role ranges from establishing linkages and dialogue between different actors, to providing technical assistance and sharing investments to test innovative models, to engaging in direct research and advocacy.

Our aim is to improve how systems work for poor women and youth, while demonstrating benefit to public and private actors who play a role in these systems to ensure sustainability and continued improvement beyond the programme period. We share lessons learned and best practices to encourage involvement of other market actors to scale solutions and develop new innovations to maximise impact for the target group.

OVERVIEW OF LIWAY'S MLE SYSTEM FOCUS & APPROACH

CRITICAL CONSTRAINTS



Inadequate human resource (HR) management skills



Absence of performance management systems



Ineffective production management



Shortage of input supply



Underinvestment in sales and marketing

INTERVENTION AREAS



Improvement of the HR function to increase employee performance & firm productivity



Development of internal & external production management capacities



Strengthening domestic input supply & linkages between domestic input suppliers & manufacturers



Improvement of sales & marketing capabilities of manufacturing firms

EXAMPLE INTERVENTIONS

HR Professional Development for the Manufacturing Sector

The business model is delivery of a classroom-based HR training and certification programme through an established and well reputed training institution in Addis Ababa. The programme includes internships with manufacturing firms to gain practical experience, create demand for HR skills in the sector, and ideally lead to employment and ongoing HR management improvements in manufacturing firms. LIWAY provided technical assistance with respect to initial trainee recruitment and selection and helped secure internship placements with manufacturing firms.



Improving Production Management of Firms for Enhancing Productivity & Quality

The intervention entails a pilot with a government organisation to train and certify local consultants on the first-level of the Kaizen approach. Following training, trainees consult manufacturing firms on production management improvements using the Kaizen approach, whereby firms pay only the operational costs of the consultant (i.e. transportation). LIWAY shared costs to test and demonstrate the model, as well as provided technical assistance to identify and develop relationships with manufacturing firms and measure pilot impact.



Input Supply Information & Market Linkage for Textile & Garment Firms

This intervention involves the creation of a comprehensive online input supply information platform for the textile and garment sector with a government institute established to enhance performance of the sector. The platform links input producers with manufacturers, with the aim of improving domestic input supply, supporting import substitution, and ultimately contributing to productivity improvement of manufacturing firms. LIWAY commissioned a local consulting company to assist with data collection and profile development on textile and garment factories across Ethiopia and to develop the online platform.



Increased Income through Paper Recycling for Input Substitution

The business model is a more efficient paper collection system and access to raw materials through expansion of existing private paper collection services to include more office building participation, increased collection locations, and development of an agent network, which provides income opportunities for LIWAY's target group. LIWAY shared costs to test and demonstrate the model, which led to related interventions in waste plastic recycling.



For more information about the LIWAY programme and how we are improving the MLE system for poor women and youth, please visit www.liway.org or contact us at info@liway.org