

Policy Brief

Unlocking Manufacturing Industry Potential in South Ethiopia: Pathways for Industrial Transformation

Executive Summary

Manufacturing remains a critical driver of structural transformation, job creation, and economic diversification in South Ethiopia Regional State (SERS). Despite strong national policy commitment and abundant regional resources, the manufacturing sector in SERS remains underdeveloped, contributing only about 4% to regional GDP and growing below its potential.

The sector is dominated by small-scale, agro-based industries with limited technological capacity, weak value addition, and poor integration into broader supply chains. Key constraints include limited access to industrial land, infrastructure gaps, low skilled labor participation, weak institutional coordination, and insufficient identification of industrial potentials.

However, the region possesses significant untapped opportunities in agro-processing, textile and leather, pharmaceuticals, construction materials, and metal engineering industries. Leveraging these opportunities requires a coordinated policy approach that addresses structural bottlenecks while promoting investment, innovation, and industrial competitiveness.

This policy brief recommends targeted investments in infrastructure, industrial land management, skills development, enterprise support, and institutional coordination to unlock the region's manufacturing potential and accelerate inclusive industrial growth.

1. Context and Problem Statement

Ethiopia's development strategies—including Growth and Transformation Plans and Homegrown Economic Reforms—prioritize manufacturing-led industrialization. However, SERS has not fully capitalized on these opportunities.

Key challenges include:

- Low manufacturing contribution to regional GDP (~4%)
- Industrial growth below targets (7.4% vs planned ~11%)
- Dominance of low-value, light manufacturing sectors
- Weak industrial planning due to lack of potential identification
- A major structural issue is the mismatch between available resources and industrial development, compounded by weak research, planning, and policy execution capacity.

2. Key Findings

2.1 Weak Industrial Performance

- Majority of industries are small-scale and agro-based
- Limited diversification into high-value manufacturing sectors
- Low productivity and efficiency levels

2.2 Structural and Institutional Constraints

- Large number of investors lack access to land

- Infrastructure gaps (energy, transport, logistics)
- Limited access to finance and technology
- Weak coordination among key institutions

2.3 Labor and Skills Gap

- Only 20.32% of workforce is skilled in manufacturing
- Mismatch between industry needs and workforce capabilities

2.4 Untapped Industrial Opportunities

- High-potential sectors include:
 - Agro-processing industries
 - Textile and leather production
 - Pharmaceutical manufacturing
 - Construction inputs and chemical industries
 - Wood and metal engineering

2.5 Investment and Land Bottlenecks

- Significant number of industries:
 - Waiting for land allocation
 - Approved but not operational
 - Lack of clear land allocation standards

3. Policy Options

Option 1: Infrastructure-Led Industrialization

- Invest heavily in energy, roads, and industrial parks
- High cost but strong long-term impact

Option 2: MSME-Centered Industrial Growth

- Focus on small and medium manufacturing enterprises
- Faster employment impact but limited scalability

Option 3: Sector-Specific Industrial Clusters

- Prioritize key sectors (e.g., agro-processing, textiles)
- Moderate cost with targeted impact

Option 4: Institutional Reform and Coordination

- Strengthen governance and policy implementation
- Low cost but requires political commitment

4. Recommended Policy Actions

4.1 Improve Industrial Land Management

- Establish transparent and efficient land allocation systems
- Develop standards for industrial land utilization
- Fast-track approval processes

4.2 Invest in Strategic Infrastructure

- Expand reliable energy supply
- Improve transport and logistics networks
- Develop serviced industrial clusters and parks

4.3 Strengthen Skills and Human Capital

- Align TVET programs with industry needs
- Promote technical and vocational training
- Support industry–academia partnerships

4.4 Enhance Access to Finance and Technology

- Expand credit facilities for manufacturing firms
- Promote technology adoption and innovation
- Facilitate FDI and public-private partnerships

4.5 Promote Priority Manufacturing Sectors

- Agro-processing for value addition
- Textile and leather for export growth
- Construction materials for domestic demand
- Pharmaceuticals for import substitution

4.6 Improve Institutional Coordination

- Strengthen collaboration among regional bureaus
- Enhance policy implementation capacity
- Establish a regional industrial development coordination platform

5. Conclusion

South Ethiopia has strong potential to become a competitive manufacturing hub, but this requires urgent and coordinated policy action. Without addressing structural constraints, the region risks continued underperformance, unemployment, and economic stagnation.

Unlocking manufacturing potential is not just an economic priority—it is essential for job creation, poverty reduction, and sustainable development. Strategic investments, institutional reforms, and targeted sectoral support can transform the region into a dynamic center of industrial growth.

Source: Unlocking Manufacturing Industry Potentials of South Ethiopia Regional State