

**A Series of Studies on Industries
in Ethiopia**



The Embassy of Japan in Ethiopia

March 2008

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Study on the Floriculture Industry in Ethiopia

(This is an English version translated by the Embassy of Japan in Ethiopia based on an original report written in Japanese)

August, 2007

Embassy of Japan in Ethiopia

1. Introduction

The Embassy of Japan has been conducting a series of studies on industries in Ethiopia in order; i)to have an overview and deepen the understanding of the economic situation in Ethiopia, especially the background to the significant GDP growth observed in the past 3 years, ii)to explore the possibility of contributing to the effort of the Ethiopian government and people to promote the private sector development by optimizing Japanese ODA, and iii)to identify the areas in which the Japanese private sector can invest.

The Embassy of Japan is very aware of the importance of the private sector development. We consider it a driving force for the economic development of Ethiopia and believe that in return, it would contribute to food security of the country, which constitutes the first priority in the Japanese Country Assistance Plan for Ethiopia. For example, the Embassy of Japan is supporting private sector development through ‘one village one product’ activities that support the creation of unique local products.

The Japanese stance is also in line with the Government of Ethiopia’s development strategy. According to PASDEP (Plan for Accelerated and Sustained Development to End Poverty), private sector development is one of the most important driving forces to maintain high GDP growth, which has reached 10.6% growth as an annual average for the last 3 years.

The floriculture industry has been chosen as the first topic of the series of studies, considering the fact that it is an emerging industry that has shown a significant growth for the last few years in Ethiopia, besides the conventional industries such as coffee, leather and garments.

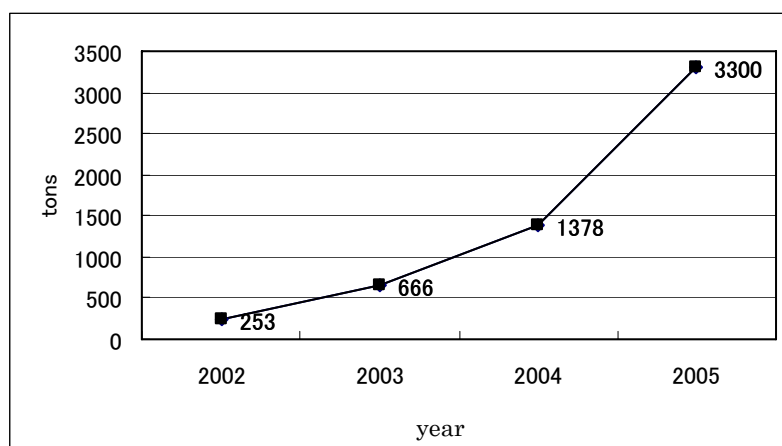
2. Floriculture Industry in Ethiopia

General

Ethiopia has geographical advantages for a floriculture industry, e.g. the high altitude (flowers grow well above 1100m ASL), the vast unexploited arable land and the conducive climate for flowers. Also, the plentiful low-cost labor market is very attractive for the industry, since it is a labor-intensive one. The strong initiative of the Government of Ethiopia to encourage the industry and the safe environment of the country compared to other African countries, such as Kenya, is also a big advantage for Ethiopia. These advantages, especially the geographical ones, are the reason why Ethiopia has been attracting many flori-farms even from Kenya where the industry has already been developed.

The history of the Ethiopian floriculture industry dates back to 1980, 27 years ago, when state farms started to export flowers to Europe. The first private farm that started trading flowers was the Ethioflora. It cultivated summer flowers but not roses and exported only to the Netherlands. Recently it has been producing mainly roses and exporting them to several countries. Another company which entered the industry in the early phase is Golden Rose Agrofarms L.T.D (hereinafter referred to as “the Golden Rose”), which started growing roses in 2000.

Although a few companies started their businesses about 10 years ago, it has only been during the last 4 years that the floriculture industry in Ethiopia has started to prosper.



Source: Based on Data from Global Development Solutions, *Integrated Value Chain Analysis for the Floriculture (Rose) Sector in Ethiopia*.
 Figure 1 Volume of Production (Rose)

The acreage of flori-farm in Ethiopia is assumed to reach 900ha¹, though the accurate figure is not available. Given that the pace of growth of the industry continues as it is now, the acreage is projected to reach to 1,250 -1,500ha at the end of 2007 and up to 3,000 in 2011².

The export value earned by the flori-farms was estimated to exceed 100million US dollars in 2006³ but the actual value only reached 22million US dollars⁴. Although this was far below the anticipated value for 2006, it has grown 77 fold in only 5 years. Given that the growth rate keeps same, it is estimated to reach up to 500-600 million US dollars in 2011⁵.

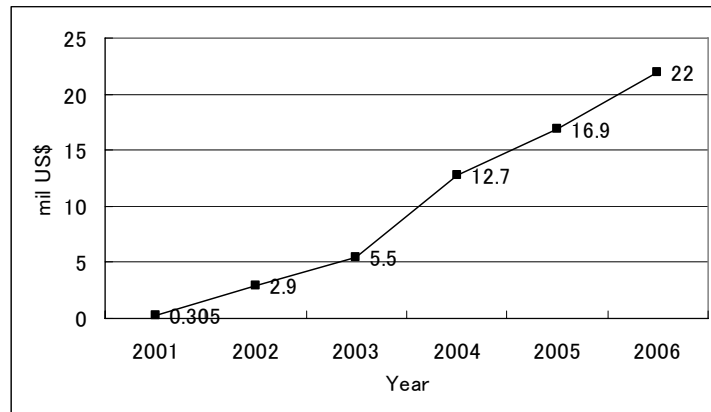
¹ P.5, Holland Horti News March 2007. According to ‘Integrated Value Chain Analysis for the Floriculture (Rose) Section in Ethiopia’ prepared by the World Bank, it was 368.05 ha in 2005 and was projected to reach to 820ha in 2006.

² The estimation varies from source to source. Some say the acreage reaches to 750ha at the end of 2007 and 1500ha in 2011.

³ P.5, Integrated Value Chain Analysis for the Floriculture (Rose) Section in Ethiopia.

⁴ The Ethiopia Horticulture Producers and Exporters Association

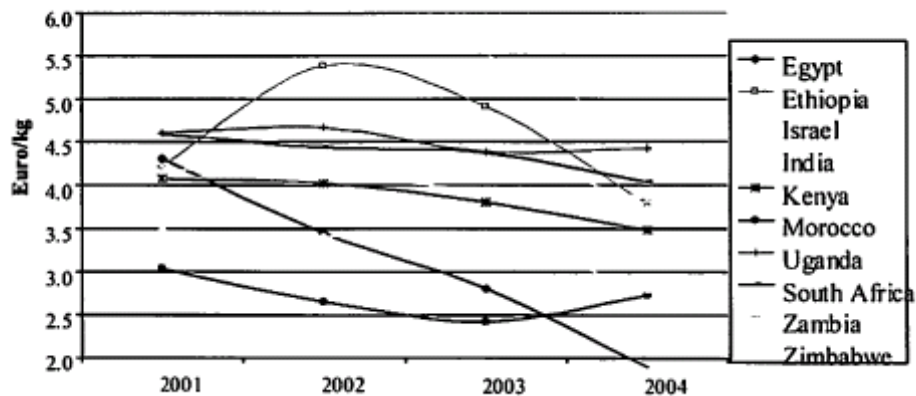
⁵ P.5, Holland Horti News March 2007.



Source: Based on Data from Global Development Solutions, *Integrated Value Chain Analysis for the Floriculture (Rose) Sector in Ethiopia*.

Figure 2 Export Value (Rose)

As the industry grows, the unit cost of a rose has been decreasing. The unit cost of the Ethiopian rose was more expensive than the Kenyan rose by more than 35 % in 2002, while it dropped by 15% in 2004, which is almost the same price as the Indian rose and even cheaper than the South African, the Ugandan and the Zambian rose.



Source: Global Development Solutions, *Integrated Value Chain Analysis for the Floriculture (Rose) Sector in Ethiopia*

Figure 3 Export Price to EU (Rose)

Floriculture is, as mentioned above, a labor-intensive industry. Therefore, it creates many job opportunities in the country, especially for the non-educated/skilled workers. Several different figures are available⁶, but one shows that permanent employment for 38,000 people and temporary employment for 46,000 people were created in 2007⁷ and would reach up to 100,000 employment positions in 2011⁸.

⁶ According to 'Integrated Value Chain Analysis for the Floriculture (Rose) Section in Ethiopia', the sector creates 3,000-4,000 jobs.

⁷ The Ethiopian Herald on May 21, 2007.

⁸ P.5, Holland Horti News March 2007.

Ethiopia Horticulture Producers and Exporters Association

The Ethiopia Horticulture Producers and Exporters Association (hereinafter referred to as “the Association”) was established in September, 2002. The owner of Et-Highlands has been selected as Chair of the Association two rounds in a row. It was a very small association when it started but grew quickly along with the growth of the sector and now consists of about 70 member companies⁹.

The Association has established a good relationship with the Ethiopian government and, through lobbying, has convinced the government to grant many privileges to the industry.

Criticism citing lack of transparency and exclusiveness of the Association can be heard. On the other hand some others say that the Association is more transparent and inclusive compared to other associations because the association is said to be equally open to foreign companies as well.

The Association co-organized and held a fair called ‘Hortiflora Ethiopia 2007’ (hereinafter referred to as “the Fair”) at the Expo Exhibition Centre in Addis Ababa from 21 to 23 March, 2007, following the first exhibition named ‘AgriFlora Ethiopia 2005’. More than 150 companies related to floriculture participated including greenhouse distributors, trading companies of agrichemical and heavy equipment, and irrigation technology companies, as well as the flori-farms. In addition to the private sector’s wide participation, many Ethiopian cabinet ministers visited the Fair, demonstrating the high interest of the government in the industry. The exhibition was a success with approximately 20,000 visitors in total.

An ‘Ethiopian Horticulture Development and Marketing Strategy’ (hereinafter referred to as “the Strategy”), was prepared by the Association with support from the Dutch government and a Dutch consultant. The Strategic Paper emphasizes the importance of diversification of the market and the products, i.e. not only flowers but also vegetables and fruits should be exploited as export goods.

Policy of the Government of Ethiopia

The Government of Ethiopia has been actively encouraging export industries including horticulture, leather, garment, and tourism¹⁰. The privilege differs slightly from industry to industry, but the horticulture industry (including floriculture industry) has privileges such as i) tax exemption for inputs, ii) tax holiday for 5 years, and iii) lease of land with basic infrastructure, e.g. electricity, water supply, and telephone, for a low price¹¹. The business

⁹ P.5, Holland Horti News March 2007.

¹⁰ Information on which sector have the privilege differs by source.

¹¹ Land ownership is basically not allowed in Ethiopia. According to an entrepreneur, it is not problematic because the payout time for the floriculture investment is 7 years and the period of lease is normally long enough, i.e. from 15 to 30 years. The price of a lease depends on several factors, such as the type of business and the location of the land. See *Factor Costs* published by the Ethiopian Investment Agency.

environment around the floriculture industry has radically improved with these efforts by the Government.

The 'National Investment Promotion Advisory Council' was established in 2006, and consists of the entrepreneurs of main industries and relevant cabinet ministers. The aim of the Council is to promote export by providing appropriate institutional arrangements and a preferable business environment.

Environmental Measures

The entrepreneurs in the floriculture industry in Ethiopia are relatively aware of the environmental issues responding to the strict requirements of environmental measures and the bans against products that fail to meet the standards for the protection of the environment. A Code of Conduct (CoC) on environmental standards has been drawn up with support from the Netherlands Embassy in Ethiopia and the Wageningen University of the Netherlands, and is going to be signed by the stakeholders in the near future. Also, labor issues are another pillar of the CoC.

Lack of safe management of agrichemicals is one of the environmental issues. Previously, each farm had to import agrichemicals individually because the mass import and resale of agrichemicals was restricted by law, and each farm had the responsibility to treat and dispose of the agrichemicals safely. The Ministry of Agriculture was supposed to provide training on the safe management of agrichemicals for those farms but this was not implemented. Therefore, the farms rarely had any occasion to be informed about the banned chemicals, the disposal guidelines, and the tolerance for pesticide residues.

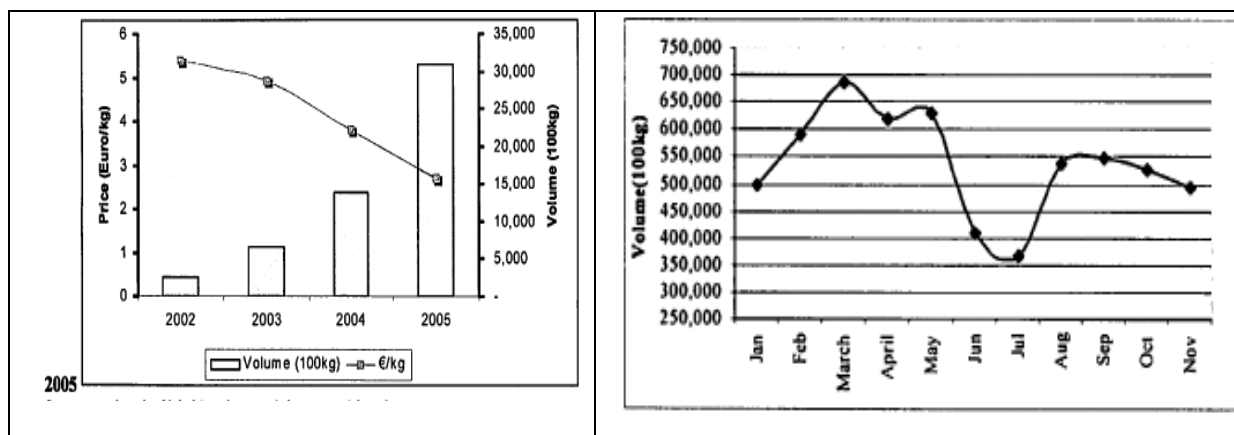
The ban against the mass import of agrichemicals has been lifted and a private company can now import them in mass and resell them to an individual farm with the instructions on use, treatment and disposal. Agri Sher Trading PLC, which is a Dutch umbrella company, is now handling the mass import of agrichemicals. It is not clear how the treatment of agrichemicals has improved on the ground, but according to the Association, the Agri Sher Trading supplies quality fertilizers and agro-chemicals, which are not expired, that have brought about a change for the better.

Diversification of Markets

The biggest market for the Ethiopian rose is the Dutch Auction. About 70% of the total volume of Ethiopian rose exports is now sold to the Dutch Auction¹². The advantage of the Dutch Auction is that individual farms do not need to be involved in marketing because the Auction provides the place where the buyer and the seller meet. However, the volume of transactions at the Auction is not stable and changes monthly (Figure 5), and the unit cost in Europe has been decreasing to half the level of the price in 2002 (Figure 4). Therefore, some

¹² P.5, Holland Horti News March 2007.

of the Ethiopian flower growers are willing to diversify the market, shifting away from the too much dependence on the Dutch Auction to stabilize the volume of transaction and to manage the risk.



Source: Global Development Solutions, *Integrated Value Chain Analysis for the Floriculture (Rose) Sector in Ethiopia*.

Figure 4 Unit Cost of Ethiopian Flower (European Market) Figure 5 Volume of Transaction (Dutch Auction Market)

Breeders' Rights

Only flower breeders have the right to grow new varieties themselves and the right is protected by an international law known as “Breeders’ Rights” and a patent royalty should be paid when others grow the variety. The International Union for the Protection of New Varieties of Plants (UPOV) has been established as a body to protect the breeders’ rights. Ethiopia has launched a proclamation on Breeders’ Right, which is very important for Ethiopia because repetitive violation of Breeders’ Rights would lead to a situation that the country would be shut out of the international market.

3. Associated Industries

Many enterprises ran booths at the Fair, including associated industries, e.g. flower breeders who create new varieties, fertilizer traders, distributors of greenhouses, constructors of irrigation systems, a corrugated box company and refrigeration installation companies (Table 1). Most of them already have a branch office in Ethiopia, while some others were trying to find a new business chance in Ethiopia through the Fair.

Table 1 Number of Companies which ran Booths at the Fair (by Business Type)

Breeding	Fertilizer	Greenhouse	Irrigation System	Corrugated Box	Refrigeration System	Flori-Farm	Others
14	11	33	23	7	1	25	35

Source: Hortiflora Ethiopia 2007 Participant List

The nationalities of the participating companies were quite varied, i.e. 43 Ethiopian companies, 29 Dutch, 16 Israeli, 6 Kenyan, and 4 Spanish and so on. As can be seen in table 2, not only European companies but also African and Arabic companies ran booths (Table 2).

Table 2 Number of Companies which ran Booths at the Fair (by Nationality)

Ethiopia	Netherlands	Israel	Kenya	Spain	Saudi Arabia	South Africa	India	Other Europe
43	29	16	6	4	1	1	1	5

Source: Hortiflora Ethiopia 2007 Participant List

Although the Netherlands is a major partner in the floriculture industry, Israel dominates the greenhouse, the irrigation, and the fertilizer market in Ethiopia because of its price competitiveness; thus the Netherlands has little share in these areas. The quality of Israeli products is, however, relatively low and some farms have started shifting to use greenhouses from France, although the price doubles. The movements towards diversification of country suppliers should be encouraged to stimulate competitiveness not only in price but also in quality.

The industry surrounding horticulture is still in its infancy and improvement is needed in several areas, e.g. refrigeration systems at the airport, the transportation system, and capacity building for the workers.

4. Impact of the Industry on Ethiopian Economy and Society

The biggest and most direct impact of the emerging floriculture industry on Ethiopia is the employment creation, which is projected to be more than 100,000 jobs in 5 years.

Not only the number of jobs but also the social impact of the job creation is huge. For example, Et-Highlands Flora has been training orphans and hiring them at the farm, which the president of the company considers a contribution to society. Also the village where the Golden Rose is located has been expanding tremendously and is currently following the procedure to amend its status from ‘village’ to ‘town’.

On the other hand, it is assumed that the flow-back of the profit is taking place partially because most of the inputs, such as machinery and fertilizers, are imported and partially because many companies are owned by foreigners.

In an environment where most of the inputs are imported and much of the profit flows out of the country, a local corrugated box company that was established 30 years ago has been utilizing local materials to produce pulp and process it into corrugated boxes. The company’s earnings do not leak out of the country, and the sector must enjoy the profit from the growth of floriculture industry.

The durability of the corrugated boxes is good enough to ship flowers to the Dutch Auction, although not all customers are satisfied with it. The quality and the design is, on the other hand, not elaborate enough to go to the retail market, which is anticipated to grow in the near future. Improvement of the product in terms of quality and design is a must for the corrugated box industry to exploit the opportunity further in the growing floriculture industry.

As well as being commercial, for-profit concerns, these companies are keen to contribute to society and return their profits to the local community. For example, Sher Ethiopia, which is the biggest group company with several subordinate farms, has constructed a hospital and a school. The hospital provides free service to its 4,000 employees and their families and it is also open to the local people. Training for nurses is also provided by Sher Ethiopia. The school teaches children from poor families as well as those of the employees for free.

5. Other Donors Activities

DAG PSD TWG (Development Assistance Group Private Sector Development Technical Working Group), which is chaired by the USAID and the World Bank, has been coordinating and harmonizing the donors in the area of private sector development.

The Netherlands has a big presence in the floriculture industry and it has supported the establishment of the COC (Code of Conduct) on environmental standards, the preparation of the Strategic Paper and capacity building for farmers. USAID is also providing technical assistance for farming in general.

Table 3 Other Donors Activities

The Netherlands	<ul style="list-style-type: none"> •Commodity Exchange House Building •Capacity Building for Farmers (6 months) •COC on Environmental Standards (with Wageningen Univ) •Preparation of Ethiopian Horticulture Investment and Marketing Strategic Paper (with Dutch Consultant, about 50,000 dollars)
Sweden	<ul style="list-style-type: none"> •Pest Managing Training (124,000 dollars)
USAID	<ul style="list-style-type: none"> •Technical Assistance on Various Agricultural Activities (ex. Coffee, Horticulture, Oil Seeds etc)
DFID	<ul style="list-style-type: none"> •Financing the Association (200,000 pound in total)

In addition to the ODA activities, the Netherlands is quite active in promoting business between Dutch and Ethiopian private companies and as part of this activity, it has invited many Dutch companies to the Fair. Dutch interest is not only the floriculture industries, but also the agricultural industry in general. For example, it is planning to export Ethiopian sesame to the Netherlands, which carry a reputation as high quality products, and process it into oil to export to other countries. The activities of the Netherlands are also in line with the strategy of the Association to diversify agricultural products into more value added, marketable ones.

6. Issues

Transportation System

One of the issues for the floriculture industry in Ethiopia is the weakness of the international and the domestic transportation system although it shows significant improvement.

In addition, the refrigeration system at the airport is not sufficient enough, and so the flowers cannot remain long at the airport. Therefore, each farm has to adjust the time when they cut flowers to the departure time of flights as well as the amount to be exported to the available space. Most of the farms are, as a consequence, located within 50km from the airport. The proximity of farms to each other, however, causes shortage of water, drainage facilities, and labor.

Lack of a comprehensive transportation system, i.e. absence of a transportation company from the farm to the destination, pushes up the transportation costs in Ethiopia as compared to other African countries.

Safe Management of Agrichemicals

As mentioned in paragraph 2.16, lack of safe management of agrichemicals is one of the concerns. Improvement can be observed in the effort of Agri Sher providing information on agrichemical treatment. However, this is not the responsibility only of private companies but also of the Government as well. There is a need to establish a thorough information-sharing system about agrichemical treatment between the Government and each private enterprise.

Environment

Although accurate scientific data is not available, it is often said that the proximity of farms and the lack of knowledge about how to treat agrichemicals causes contamination of water and overuse of groundwater. Depletion of water resources is also pointed out as an issue caused by the lack of a master plan for an irrigation system. Although the COC is going to be signed quite soon, careful attention should be paid to environmental issues, given that the serious deterioration of the environment has been observed in Kenya where floriculture has prospered and is more advanced than Ethiopia.

Sustainability

The sustainability of the floriculture industry in general is sometimes questioned. Some say that the floriculture industry hops from one place to another searching low-cost labor and leaving vast areas of depleted land behind. However, all the interviewees of this study did think that Ethiopia has a competitive advantage, i.e. not only a huge low-cost labor force but also the desirable climate for flowers and the availability of vast area of land.

It is true that floriculture is one of the biggest industries in the Netherlands despite its high-cost labor and intensive land use, which proves that floriculture can be a sustainable industry. The negative possibility as mentioned in 6.7, however, should be kept in mind to avoid falling into such a situation and to make the industry sustainable in Ethiopia.

Social Impact

The floriculture industry creates many job opportunities for women. As a consequence of the acquisition of stronger financial power than their husbands, the power balance between men and women has been changing. Independence of women is desirable from a gender perspective but some consideration for and careful observation of the change in social structure is required because a rapid change may cause problems in the short term.

Diversification of Products

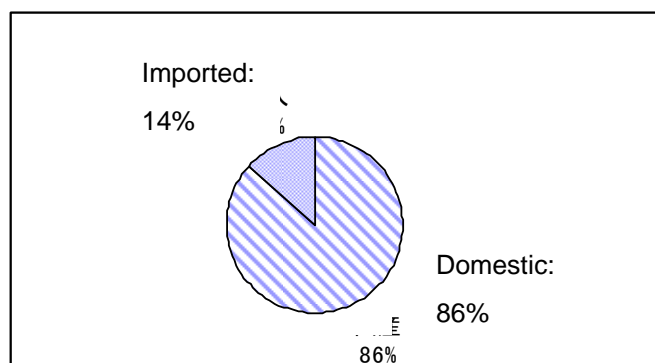
The Association emphasizes the importance of diversification of agricultural products for export, e.g. vegetables and fruits, as well as that of the market to sustain the business in the long term. Therefore, it encourages additional investors to move into vegetable and fruit production for export adding to the existing 8-9 farms, which mainly trade with the Netherlands. According to a newspaper article, a South African investor is planning to start an avocado farm with 100ha size in Ethiopia, which will trade with Japan¹³.

There are many potential export products in Ethiopia, e.g. herbs, spices, and sesame. Trade in the latter is going to be promoted by the Netherlands. At the moment, there is one farm in Awassa growing several kinds of herbs and another one growing Chives to export to Europe.

7. Japanese Market

Japanese Import Market of Flowers

While the production volume of roses in Japan is 4-5 billion stems, 6-8 million stems, which accounts for 10-15% of total demand, are imported.



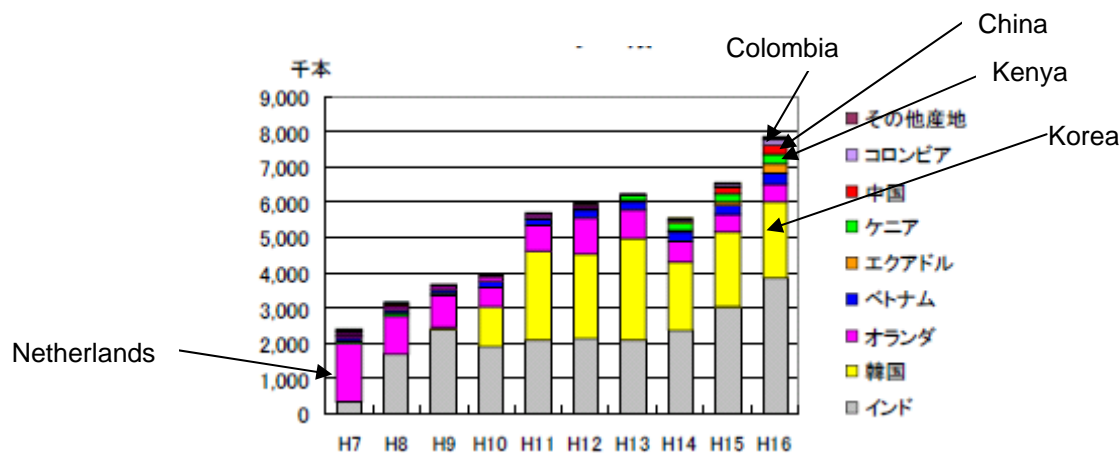
Source: the Japan Flower Trade Association, Tachio Yoneda, 'Import of Cut Flowers'¹⁴
Figure 6 Ratio of Imported to Domestic Cut Flowers in Japan in 2003

The import volume doubled in 5 years since 1995, and then reached 8 million stems in 2004 after a short period when it was stable at around 6 millions stems. 70% of the imported roses in 1995 originated in the Netherlands, but the import from the Netherlands has gradually decreased in terms of both the number and the ratio. Instead, imports from India

¹³ P.16, The Reporter, March 31

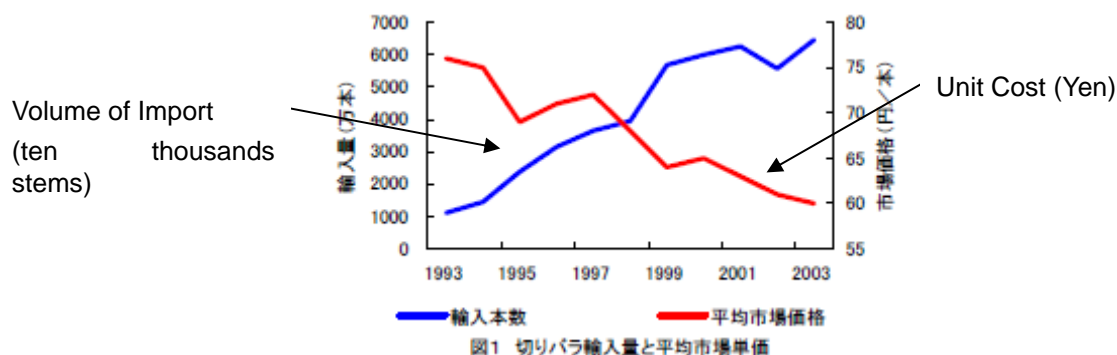
¹⁴ http://www.maff.go.jp/www/press/cont2/20041018press_7s5.pdf

and Korea have been increasing and the diversification of origin has been observed since 2001, when Kenya, China and Colombia started to enter the market (Figure 8). In line with the increase of import volume, the unit cost has been decreasing (Figure 9).



Source: Ibaraki Prefecture, "Trend of Import of Cut Flowers"¹⁵

Figure 7 Supplier Country to the Japanese Market



Source: Web Page of Prof. Hiroshi Fukui, the Gifu University¹⁶

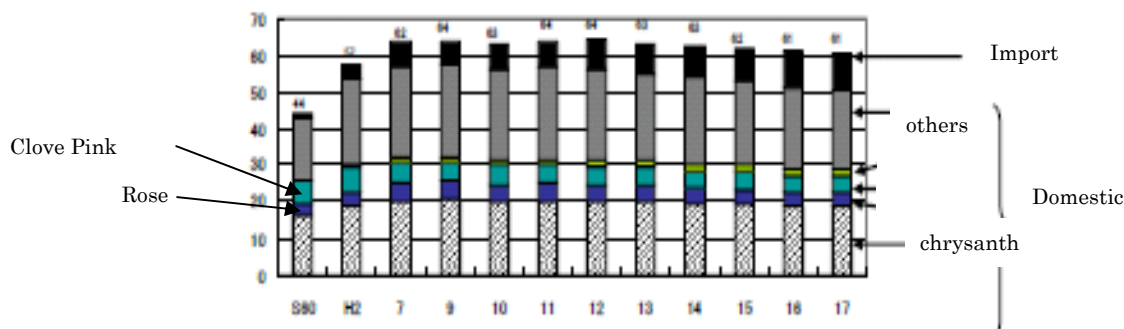
Figure 8 Volume of Import and Unit Cost in Japanese Market (Rose)

Demand Trends

The demand of roses in Japan has been slightly growing while that of cut flowers in general has been going sideways (Figure 10). However, as the Japanese economy is recovering, the demand is anticipated to grow.

¹⁵ <http://www.pref.ibaraki.jp/bukyoku/nourin/tono/topics/yunyuu%20kiribana.pdf>

¹⁶ <http://www1.gifu-u.ac.jp/~fukui/gazou/roseimport.pdf>



The Ministry of Agriculture, Forestry and Fisheries of Japan, 'The Situation of Floriculture Industry'¹⁷
 Figure 9 Demands for Cut Flowers in Japanese Market

Imports from Ethiopia

An Ethiopian planter, invited by JETRO, visited Japan to attend an international fair of floriculture in 2006. In return, JETRO visited Ethiopian farms near Addis Ababa in February 2007 to explore the possibility to open the trade in flowers between the two countries. The head of the Japan Flower Trade Association with 3 other private flower trade companies joined the Fair held in March 2007 in Addis Ababa, as well.

After those efforts, the first trade with Japan started in March 2007 and 3,600 stems were transported by Emirates airline via Dubai to Osaka, which is the second biggest city in Japan. The Ethiopian exporters are the Highland Flora and the Menagesha farms and the Japanese importer is the Japan Flower Trade Association, which is also the distributor within the country.

According to the representative of the Association, the profit from the Japanese market is about 10% higher than the European market in spite of the higher transportation cost. He is quite interested in the expansion of the trade with Japan, even in chartering a flight.

The improvement of information sharing among JETRO and the Ethiopian counterparts would be welcome to provide an equal business chance to the relevant enterprises.

8. Way Forward

Promotion of Trade with Japan

The import volume of roses to Japan has been slightly increasing and Ethiopian roses have already started to break into the market. While the unit cost of the imported roses in Japan was 34-46 yen in 2004, that of the Ethiopian roses in 2006 was 29.3 cents¹⁸ (approximately 35.16 yen¹⁹), which is cost competitive (Table 4)²⁰.

¹⁷ <http://www.maff.go.jp/soshiki/seisan/flower/situation.pdf>

¹⁸ P.25, Integrated Value Chain Analysis for the Floriculture (Rose) Sector in Ethiopia.

¹⁹ 1 dollar = 120 yen.

²⁰ However, the following survey revealed that Ethiopian Airlines is subsidizing flower exports to keep the unit cost low.

Table 4 Unit Cost at Japanese Wholesale Markets in 2004 (Yen)

		Domestic	Imported
ST	Rose	69	34
SP	Rose	85	46

Source: Ibaraki Prefecture, 'Trend of Import of Cut Flowers'

The unit cost of the Ethiopian roses is already quite competitive even though the industry has just started in Ethiopia and is still suffering from relatively low infrastructure and the weakness of institutional arrangements. It could be even cheaper if the business environment was improved.

The expansion into the Japanese market accords with the market diversification policy of the Association to stabilize the trading volume and to diversify risks. If the Japanese demand for roses in June can be created, when the European demand drops, it would contribute a lot to the stabilization of the trading volume.

Not only its profitability but also economic growth, driven by the private sector development including the flori-industry is in line with PASDEP, which the Japanese government supports. The promotion of trade of Ethiopian roses with Japan is preferable from the perspective of Japanese development assistance policy in Ethiopia as well as being reasonable in terms of business.

The Embassy of Japan in Ethiopia is considering promoting the trade between the two countries by encouraging information sharing among the relevant parties including JETRO and JICA.

The representative of the Association is interested in the expansion of the trade with Japan to the extent of considering chartering a plane for the purpose. In that case, the empty space in the aircraft on the return trip should be utilized efficiently, filled with import goods from Japan to Ethiopia. The Embassy of Japan in Ethiopia would aspire to encourage such an attempt by providing information to the potential counterparts who may be interested in the trade with Ethiopia.

Further survey is required to find the areas in which Japan can promote its exports to Ethiopia. One potential area is the fertilizer used at irrigated farms. Since it contains special chemicals, Japan may have the technical advantage although it cannot have cost competitiveness.

Cooperation with JICA projects

The industry itself is a private and for-profit sector, which Japanese ODA does not support directly. However, the industry has a pro-poor impact in the country, and JICA projects can contribute indirectly to it through technical assistance in producing techniques, quality control, management of agrichemicals, and infrastructure development.

9. Conclusion

The importance of the floriculture industry together with the associated industry in the economic growth of Ethiopia has been proved through the survey. Best of all, the job creation has the most direct and biggest impact for the nation. Although the associated industries are dominated by foreign companies, the economic impact is significant in the country. However, negative aspects exist behind those positive stories. The environmental issue is the most worrying negative factor for the long term. It is encouraging that the effort to minimize the environmental impact has started but it should continue further.

The role of the Ethiopian Diaspora is also striking, although it is not a specific phenomenon in the floriculture industry. As the brain drain and the Diaspora are the two issues in Africa to tackle in terms of the integration and the development of the continent, an international conference was held under the sponsorship of the AU (African Union) in Brazil in 2006. The main theme of the discussion was how to establish effective networks between the home country and the Diaspora. Ethiopia also shares this issue. The good example of the role the Diaspora is playing in Ethiopia is that some of the interviewees of the study, who are in important positions in the industry, were ex-Diaspora who returned home after a long absence. An amount of the money transfer from the Diaspora, which cannot be accurately captured, is assumed to add up to 1 billion US dollars per year, which is quite significant and anticipated to increase further in the future. The transferred money is likely to have played an important role in the significant economic growth in the past 3 years. The Ethiopian Government grants privileges of tax exemption and acquisition of land for the Diaspora to promote investment in Ethiopia, which shows that the Government recognizes that the Diaspora is a key factor in the country's development.

The two pillars of the Japanese government's effort in private sector development are to aspire; i) to provide the relevant support mentioned in the study to encourage the growth of Ethiopian industries including breaking into the Japanese market, and ii) to revitalize the Japanese private sector's investment in Ethiopia, which has been suspended since the communist government (the Derg) took power over thirty years ago.

Reference:

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Study on the Hotel Industry in Ethiopia

(This is an English version translated by the Embassy of Japan in Ethiopia based on an original report written in Japanese)

August, 2007

Embassy of Japan in Ethiopia

1. Introduction

Ethiopia is one of the African countries that possess the highest number of UNESCO World Heritage Sites in Africa, with 8 sites spread throughout the whole country, and therefore has great potential to develop itself as a tourist destination.

The Government of Ethiopia (GOE) has prioritized tourism development in its development strategy, PASDEP¹, to optimize the existing tourism resources as a driving force of economic growth for the whole country. The Prime Minister, Mr. Meles, has also mentioned the important role of tourism development in poverty reduction in “Tourism Paradigm” document, which was prepared several years ago with support from United Nation World Tourism Organization (UNWTO).

Ethiopia is a strategically important country in the Horn of Africa for most countries and therefore, many international meetings and conferences are held in Ethiopia. This creates a huge demand for accommodation at an international standard and even an increase in such a demand is expected in the future because the importance of Ethiopia has been growing and many international organizations have been continuously strengthening their institutions and augmenting their personnel in Ethiopia.

The supply of accommodation, however, is far below the level needed to meet the demand. There are only two five-star hotels in Addis Ababa and hotels of an international standard can rarely be found in the regions, even where there are international tourism attractions, such as Lalibela.

Many hotels and lodges are under construction, stimulated by the initiative of GOE and the sharp rise in demand. Since the hotel industry can create job opportunities for so-called blue collar workers, the development of the hotel industry is benefits not only the tourism sector but also poverty reduction.

On top of the importance of the industry itself, since hotels are at the center of supply chains, such as food, handicrafts and tour operations, focusing on the hotel industry provides an occasion to overview those associated industries at the same time.

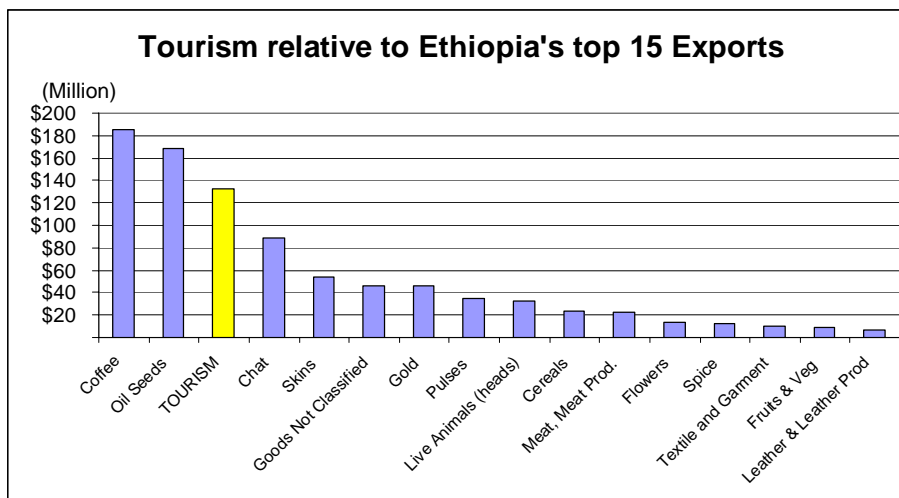
¹ Plan for Accelerated and Sustained Development to End Poverty.

2. Tourism Industry and Hotels in Ethiopia

General

The GOE consider tourism development important as can be seen in its recent reform of ministries. The Tourism Commission was upgraded to the Ministry of Culture and Tourism (MoCT) in 2005. MoCT has, at the same time, the responsibility for cultural issues, which were taken care of by the Ministry of Youth and Sports previously. Tourism development is also included in PASDEP as an important driving force of the country's economy.

Tourism is the third biggest foreign-currency-earning industry in Ethiopia as shown in Figure 1.



Source: p.25, WB, *Towards a Strategy for Pro-Poor Tourism Development*

Figure 1 Export Value by Sector²

The number of tourists visiting Ethiopia was 230,000 per year in 2005, which is far less than to other African countries, such as Egypt, South Africa, Tunisia, Morocco, or Zimbabwe. Ethiopia possesses more World Heritage sites than even Egypt, but unfortunately they are not fully optimized at the moment. The strong initiative of GOE is expected to boost the industry in the future.

The statistics related to tourism are provided by the MoCT, which follows the international standard set by UNWTO. However, there is no projection of required infrastructure based on the statistical analysis of the trend on tourist numbers, which would be helpful in making a down-stream development plan.

² The year is not available.

Policy/Strategy

A joint working group of relevant ministries has prepared a draft policy related in particular to tourism development. It is at the final draft stage after incorporating the comments from the stakeholders, including the private sector and it is expected to be considered by the cabinet soon, although the date is not fixed yet.

A strategy on tourism development for five years is also under preparation. The strategy consists of six pillars, a) human resource development, b) infrastructure development, c) image strategy, d) service improvement, e) strengthening information management capacity, and f) domestic tourism promotion.

The negative image of Ethiopia as a country of poverty, starvation, drought and floods is one of the main impediments to promoting Ethiopia as a tourism destination and therefore, image strategy (c) will play a crucial role for the industry. MoCT has been making an effort to change such an image by running a booth at international tourism fairs, holding exhibitions, and using the media. The Ethiopian Millennium could be a great opportunity for Ethiopia to change its image for the better.

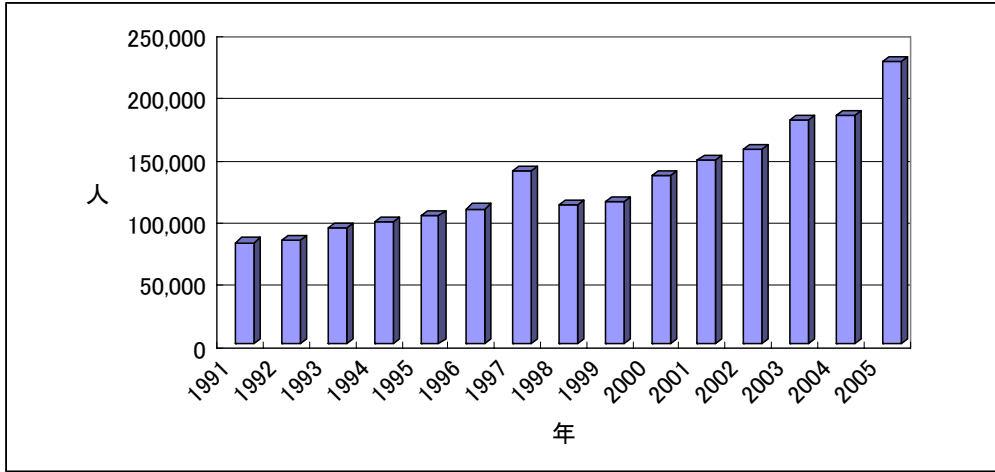
Associations

There exist seven associations related to tourism, e.g. Ethiopian Hotel Operators' Association, Ethiopian Tour Operators' Association, and Ethiopian Eco-tourism Association, to name three. The Ethiopian Hotel Operator's Association was established 10 years ago and now consists of 36 hotels. The operation cost is basically covered by the fee from the members but additionally donors and international organizations such as GTZ and Initiative Africa are providing support.

The Ethiopia Hotel Operators' Association has been working very closely with GOE at both the Federal and Regional level and is playing a crucial role in public-private partnership.

Tourist Trend

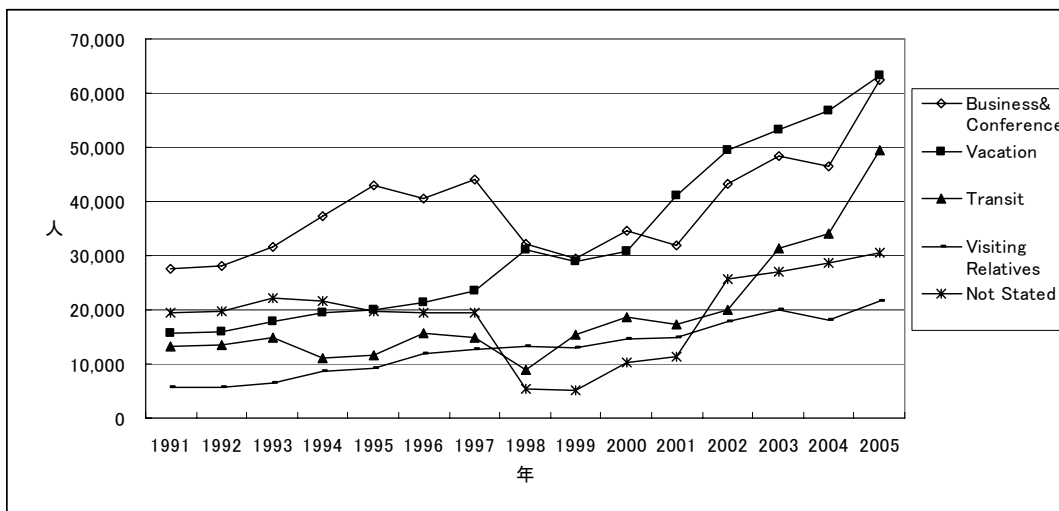
The number of tourists visiting Ethiopia has been continuously growing since 1991 and reached 230,000 visitors per year in 2005, which is threefold compared to 1991.



Source: Based on Ministry of Culture and Tourism, Tourism Statistics Bulletin 2003-2005, No.8

Figure 2 Number of Visitors

When looking closer at the composition of tourists by purpose, those visiting for business or conferences were the biggest category from 1991 to 1997 and it was the sole category growing at that time. It grew 1.5 times in 8 years, but sharply dropped in 1998 due to the outbreak of the Ethio-Eritrea Conflict. For unclear reasons, the number of tourists on vacation did not change during the conflict and remained at the same level until the conflict ceased. After the end of the conflict, the number of tourists both for business/conferences and for vacation has been increasing and reached to 60,000 for each category in 2005. Ethiopian Airlines purchased 11 aircrafts in 2002, which might have affected the increase of transit passengers.



Source: Based on Ministry of Culture and Tourism, Tourism Statistics Bulletin 2003-2005, No.8

Figure 3 the Number of Visitors (by Purpose)

Economic Impact

The export value of tourism is equivalent to 130million US\$ according to a study of the World Bank. This figure includes direct expenditure made on such aspects of the industry as transport, accommodation, services and goods. In addition to the direct expenditure, the indirect expenditure, such as purchase of foodstuff and other items by hotels from local suppliers, or the economic activities induced by tourism, such as consumption made by the workers involved in the tourism industry must be significant.

Notably, one of the biggest hotels in Addis Ababa purchases most of its foodstuff, (vegetables, meats, milk and some cheese) consumed at the hotel's restaurants, from the local market. This significantly reduces the leakage of the profits although most of the goods, from electric bulb to shampoos, are imported from abroad. According to the interview we made, the hotel spends 3 million birr (equivalent to 34,500 US\$) per month for local purchases, which is equivalent to approximately 2-3.5% of the total export value of Ethiopia³.

Number of Hotels and Beds

The number of rooms in Addis Ababa is approximately 2,500 and number of beds is 3,600, which is far below the demand. The average occupation rate of hotels in Ethiopia is about 75% according to the Ethiopian Hotel Operators' Association, which is higher than that in Paris, 72% on average. The top class hotels have even been recording more than 90% occupancy rate on average for the past few years.

Table 1 No. of Hotels in Addis Ababa

Star	No. of HTL	No. of Rooms	No. of Beds
5	2	643	1,074
4	4	337	497
3	13	610	838
2	6	162	180
1	2	146	212
No Star	12	552	798
Total	39	2,450	3,599

Note 1 : including only hotels with facilities for international tourists.

Note 2 : the year is not available.

Table 2 No. of Hotels in Ethiopia(2004)

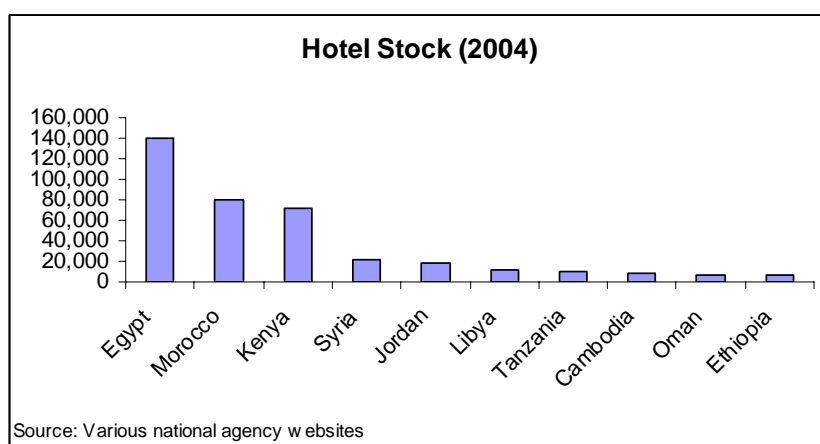
Region	No. of HTL	No. of Rooms	No. of HTL under Construction	No. of HTL under Plan
Addis Ababa	38	2,420	16	170
Afar	4	109	0	4
Amhara	15	552	28	75
Benshangul	1	26	3	9
Gumuz				
Dire Dawa	5	294	3	11
Gambella	1	22	0	0
Harari	4	140	5	18
Oromiya	44	1,629	6	303
Southern	13	434	18	221
Somali	4	104	0	8
Tigray	28	561	16	14
Cross-regional	-	-	-	7
Total	157	6,291	95	840

Note : No. of HTL under construction and under plan includes hotels without facilities for international tourists. As to No. of HTL and No. of Rooms, details are not available.

Source: Based on p.46, WB, *Towards a Strategy for Pro-Poor Tourism Development* and interviews

³ The export value in 2005/06 is approximately 1 billion US\$.

Compared to other African countries, the number of hotels in Ethiopia is smaller and in this regard Ethiopia has less competitiveness to attract big international conferences than other countries.



Source: p.47, WB, *Towards a Strategy for Pro-Poor Tourism Development*

Figure 4 Number of Hotel Rooms in Selected African Countries

In the regional areas, the shortage of accommodation which meets international standards is quite serious (see table 2), and improving the existing accommodation and constructing additional lodging are crucial to attract international tourists to the natural and cultural tourism destinations in the regional areas.

According to our interview with the Ethiopian Investment Agency, 95 hotels in the whole country and 16 in Addis Ababa are under construction. In addition, 840 hotels, 127 of which are with stars, are being planned. There are plans for plenty of hotels, but it is not clear how many of them will be built and how long it will take to complete such plans.

3. Details of the Hotel Industry in Ethiopia

The international hotel classification system is adopted in Ethiopia and hotels are classified into categories with stars from one to five and hotels without stars. Considering the objectives of this report, the focus is on the eco-tourism lodges, which are gradually starting to play an important role in rural development, and five-star hotels, which have a strong purchasing power, which can impact positively on the local markets.

Eco-tourism Lodges

The international tourism trend shows that there is an apparent increase in demand for long-stay apartments and for lodges where the uniqueness of the destination can be enjoyed rather than the internationally uniform hotels⁴.

In line with the international tourism trend, the demand for lodges where tourists can enjoy the unique atmosphere of Ethiopia has been growing. Responding to the demand,

⁴ UNWTO, 'Trends of International Tourism', (<http://www.unwto.org/regional/europe/PDF/SPEECHES/2004/Prague12Feb2004.pdf>)

seven lodges have been constructed so far and several more are under construction/plan.

However, good food and comfortable amenities, such as beds and bathrooms are required even by those who want to enjoy the ‘difference’ of Ethiopia. Therefore, it is necessary for the lodges to be developed with clean showers, toilets, beds and a choice of menu with western cuisine, which requires relatively heavy investments compared to the size of the business.

The number of tourists staying at the lodges in Ethiopia, though the demand has been increasing, is not that many and it is difficult to pay for the investment to develop lodges with facilities at an international standard. Therefore, according to lodge owners, the financial management of the lodges is tight as profits are minimal.

Many of lodge owners, however, yield enough profit from other businesses and consider the lodge management as a contribution to local communities. In this regard, the lodge industry is not only a for-profit sector but also plays an important role in rural development.

Human Resource Development: Lodges are basically training and hiring local people where the lodge is located, though it is not easy to reach the international standard. The trainers are invited either from five-star hotels in Addis Ababa or from abroad with donors’ support. However, since cooking western food is quite difficult to learn, many lodges bring trained cooks from Addis Ababa.

Building Materials and Cooking Ingredients: Lodges have a strong commitment to purchase building materials and cooking ingredients from the local market since they consider it as a contribution to society. Building materials particularly were mostly purchased from the local market, since lodges are meant to be original and unique to the region. However, despite the intention of the lodges, the supply of cooking ingredients from local producers is often not sufficient in terms of quality and variety. Improving quality and variety of agro-products is beyond the capacity of the individual lodges. Since improving agro-products’ productivity/quality is in the realm of international development assistance, linking their outcome to the market of the lodges would make a big impact on the local economy and make the assistance more effective at the same time.

Other Developments: A lodge interviewed during the survey is conducting micro-finance activities as well. To support villagers who are willing to start small businesses, it provides 90% of the initial investment and will cancel 50% of the debt in cases where the villager pays back the first half as scheduled. Also, the lodge has installed a biogas plant, which is called a China Dome, to utilize the methane gas from excretory substance as fuel for cooking. This system supplies almost 90% of its gas consumption.

Five-Star Hotels

As mentioned above, the two five-star hotels in Addis Ababa have been showing above 90% occupancy rate on average for the last few years. The high occupancy rate reflects the increase of visitors as well as the economic growth of the country.

Hotels are more profit-oriented enterprises than lodges but they still play an important role in development, particularly in human resource development. Also, hotels have enormous purchasing power and even a small percentage of it can bring about a noticeable impact on the local economy.

Human Resource Development: CTTI (Catering and Tourism Training Institute) is the main public institute for human resource development in the tourism sector. The five-star hotels hire the graduates from CTTI and train them further with their own training manuals to meet the high standard which five-star hotels are expected to achieve. Continuous training is provided to the employees to maintain the high standards.

In addition to the training for their own staff, a five-star hotel interviewed during the survey provides a 6-month training course to non-certified youth for free and tries to find a job for them after the training. Most of the interns have successfully found jobs in Qatar, Dubai, Kuwait, and some European countries. The hotels have also provided training to the reception staff and cooks of Ethiopian Governmental facilities, Ethiopian/foreign embassies and to the lodges to train local people working in the sector.

Five-star hotels play an important role in providing high quality training not only to their own staff but also to the tourism sector as a whole in Ethiopia. In this regard, they are supplementary to CTTI.

Building Materials and Cooking Ingredients: The five-star hotels have less will to purchase materials and goods from the local market to contribute to society compared to the lodges because they are more concerned to meet international standards. Therefore, most of the building materials and the consumable goods, such as shampoo and electric bulbs, are imported from abroad.

However, because there is no viable supplier country nearby and the custom payments are prohibitive, a five-star hotel interviewed during the survey purchases most of its cooking ingredients from the local market. The hotel has its own farm and it can provide most of the meat it consumes. A stable supply of quality vegetables is, however, a bigger problem. The hotel contracts out to a local supermarket to go around to small farms and green groceries daily to find quality vegetables but the required ingredients are not guaranteed to be found. In case some are not found, the restaurants change the menus according to the available food stuff.

Another problem is the packaging quality. For example, though Ethiopia has good quality honey and the hotel utilizes it for cooking, the tabletop honey packaged into small packs is imported from France due to the low quality packaging done in Ethiopia.

According to the interviews, 80-90% of the expenses of the purchasing department of the hotel is for imported goods. Though the ratio is small, the amount of money spent on the local market by the hotel is assumed to reach approximately 3 million birr per month, which is equivalent to 2-3.5% of the total export value in Ethiopia. This is a sufficiently big market for the local suppliers.

Other Considerations

The movement to sell Addis Ababa as a conference city can be seen optimizing the advantage that there are many international organizations and the fact that Addis Ababa is very safe compared to other conference cities, such as Nairobi or Johannesburg.

A new trend of luxurious resort development can be observed, as well. Targeting rich Ethiopians and the growing international community in Addis Ababa, a resort developed nearby Addis Ababa has been mostly fully booked during weekends since it opened and another development plan is under preparation.

4. Issues

The shortage of accommodation in Addis Ababa and in the regions is one of the main impediments to tourism development. Since tourism destinations are spread throughout the country, infrastructure development connecting the sites, as well as hotel development, is a must.

The finalization of policy and strategy related to tourism development is long-awaited. Since tourism requires cross-sectoral development, a clear road map on how to develop the tourism as a whole is required to prevent it being fragmented and inefficient.

Human resource development is another issue. Training staff is one thing but retaining the trained staff is also an issue. Other tourism-based countries such as UAE attract the trained/skilled but still cheaper staff with better working conditions. Brain drain is a problem observed in other sectors, too.

Stable supply of quality agro-products is important for both hotel/tourism and rural development. Although, as mentioned above, the lodges and the hotels would like to purchase agro-products from local suppliers, the buying and selling after does not go through due to the lack of reliability of supply and the quality of the products.

Some business chances are missed due to the low quality of packaging. Despite their intention to purchase from the local market, the hotels import some goods from abroad because good quality packaging is important for the luxurious image of hotels.

The banks in Ethiopia normally require expensive collateral, which should have double value of the credit on average, as cover for loans. The eco-tourism lodges do not have a standardized building but only a traditional hut, which does not have value as collateral, and therefore many of them have difficulties to get loans at the initial stage.

Credit card services are not yet widespread and where they are available, the interest charged is prohibitive. This should be solved quickly to attract international tourists. Also, the restriction on the possession of domestic credit cards for foreigners and corporate bodies is an impediment for the tourism business because payment by credit card through internet is often required nowadays.

The limitation of the location where tourists can exchange their traveler's check and the control over the exchange of Birr to foreign currency is troublesome for tourists, as well. This drastically limits their purchasing power.

The process of customs is not efficient and burdensome for hotels. The hotels have to go to 13 different offices to get permission to import goods and the duration of the process varies from 1 day up to 6 months depending on the personnel in charge.

The negative image of Ethiopia as a country of poverty and starvation prevents it from being a tourism destination. Also, the hotel industry as well as the tourism industry is affected directly by security issues. Deterioration of security can damage the industry seriously. The situation with Somalia, Eritrea and Sudan are the big concerns for the industry at the moment.

5. Way Forward

Recently, a Japanese tour operator started business in Ethiopia to attract more Japanese tourists to Ethiopia. The Embassy of Japan would like to support the attraction of Japanese tourists by the provision of information to Japanese tourists through our web page and other media. Cultural exchange events by both embassies can help in the amelioration of the image of Ethiopia and in return, it will contribute to the promotion of tourism.

The hotel industry itself cannot be a target for Japanese foreign development assistance because regulations do not allow support to the private sector directly. Also, it seems unlikely for the Japanese private sector to invest in the hotel industry in Ethiopia judging from the fact that the Japanese hotel industry does not have much experience on the African continent.

The emphasis of this report is, therefore, on the utilization of the hotel industry as a window linking other industries to local markets. The hotel industry is the interface with other sectors, such as agriculture, restaurants, handicrafts, infrastructure and trade. Also, the hotels in Ethiopia have the intention to purchase from the local market. Improvement of

productivity of other sectors can take advantage by exploiting the characteristics of the hotel industry as an interface with other industries and its purchasing power, and eventually it will contribute to poverty reduction and the growth significantly.

The Japanese Government has been providing support in productivity/quality improvement of agro-products, handicrafts, cooking and services through several channels, such as by technical assistance projects and by sending Japan Overseas Cooperation Volunteers (JOCV). The weak point of the Japanese development assistance has been, on the other hand, the linkage of the improved products to markets. Linking the existing projects/activities in productivity/quality improvement to markets is to be the next step for our assistance. Also, the One Village, One Product Campaign⁵, which the Japanese Government has been promoting in the least developed countries, can be more effective if linked to markets like hotels.

A Farmers' Festival was held 23-27 November 2006, in Bahir Dar. The festival was supported by the Japan International Cooperation Agency (JICA) and has achieved successful outcomes. This kind of festival, which provides a space to let suppliers and buyers meet and create business opportunities, should also be utilized to make our assistance in productivity/quality improvement more effective.

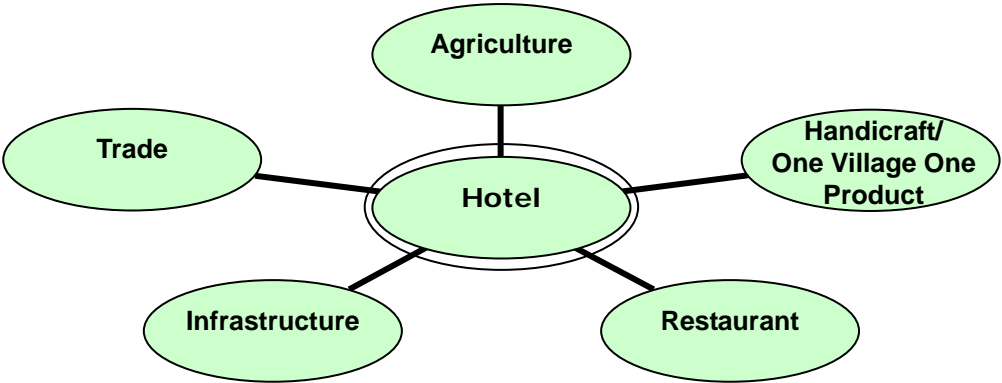


Figure 5 Conceptual Diagram of the Relationship between Industries

The eco-tourism lodges are not only buyers of local products but they play important roles in rural development, as well. In other words, they are not only for-profit enterprises but also have an intention to contribute to the local society. Therefore, it would be very helpful for foreign assistance to cooperate with these players, who are familiar with the local culture and economy and already have connections in the society.

Last but not least, the improvement of the banking system and customs procedures would be helpful not only for the sector but also for the economic growth of the country. This area may require technical assistance from donors as well.

⁵ <http://www.meti.go.jp/english/information/data/OVOP.html>

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Study on the Leather Footwear Industry in Ethiopia

(This is an English version translated by the Embassy of Japan in Ethiopia based on an original report written in Japanese)

August, 2007

Embassy of Japan in Ethiopia

1. Introduction

Ethiopia possesses one of the largest populations of livestock in the world and the leather industry has been traditionally active, based on the abundance of this resource.

The main leather-related export item of Ethiopia is, however, low value-added hides and skins. The Government of Ethiopia (GOE) has been promoting to shift the major export items from the low value-added hides/skins to high value-added finished leather. The leather industry has been one of the major traditional industries together with the coffee and garment industries, but it is now at a turning point to change itself from a traditional industry to a modern industry to penetrate the international high value-added leather market, under the strong initiative of the GOE.

The leather footwear industry is considered an important sub-sector that leads the whole sector's modernization. Although the export of leather footwear started only in 2005, the export value has been growing steadily since then and is expected to make a big impact on the Ethiopian economy. Not only is the economic impact resulting from the trade important but also the job opportunities the industry may create could make a significant impact on poverty reduction.

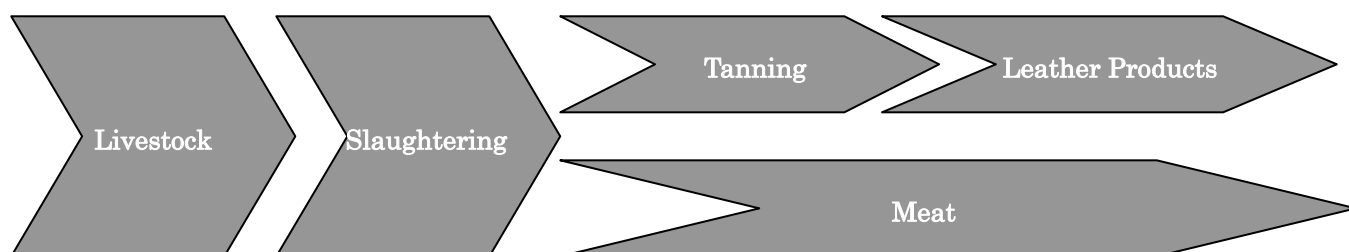
In addition, Ethiopia could be a potential supplier for the leather market in Japan, where the leather industry has been diminishing.

The leather footwear industry has been chosen as the third topic of this series of studies because it has a potential to make a big impact on the Ethiopian economy and poverty reduction, as well as developing trade with Japan.

2. Leather Footwear Industry in Ethiopia

General

Leather footwear is the last rung of the value chain starting from livestock, through slaughtering, to tanning. It is also a by-product of the meat industry.



Source: the Embassy of Japan

Figure 1 Conceptual Diagram of Leather-related Industries

Ethiopia possesses one of the largest populations of livestock in Africa and even 7th-9th in the world, i.e. 41million cattle, 25million sheep and 73million goats. However, the resource is not fully utilized and only 2.7million hides, 8.1million sheep skins and 7.5million goat skins are sold on the market. Therefore, the leather industry still has room to be developed further, optimizing the abundance of the resource.

Table 1 Livestock Population and Off-take Ratio

Raw Material	Population (thousand heads)	Rank of Livestock No. in the World	Share of Total Population (%)	Raw Leather Production (million pieces)	Off-take Ratio (%)
Cattle	40,877	7th	45.5%	2.7	6.6%
Sheep	25,497	9th	28.3%	8.1	31.7%
Goat	23,413	8th	26.0%	7.5	32.0%

Source: MOTI, 'A Strategic Action Plan for the Development of the Ethiopian Leather and Leather Products Industry', Volume I, March 2005

Policy and Strategy of the Government of Ethiopia

The importance of the leather footwear industry as a part of the leather industry has been emphasized by the GOE at various levels.

In the PASDEP (Plan for Accelerated and Sustained Development to End Poverty), the leather industry is mentioned as an important sector for trade and industry development. PASDEP, which is the strategic plan from 2005/06 to 2009/10, sets a target to export 6.4million pairs of leather footwear in 2005/06 and to increase to 20million in 2009/10.

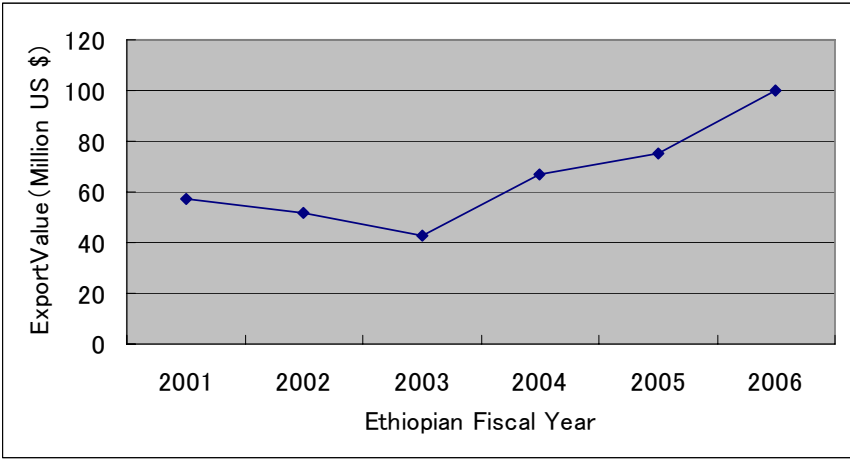
The development of the leather industry is in line with the Agricultural Development Led Industrialization (ADLI), which is the basic development strategy of the country, in that the promotion of high value-added leather products is going to encourage the process of the industrialization of agriculture.

Ethiopia’s Industrial Development Strategy, which was prepared in August, 2003, prioritizes the leather product industry together with garment/textile, meat processing, construction, small and medium sized enterprise (SME), and IT industries.

A Strategic Action Plan for the Development of the Ethiopian Leather and Leather Products Industry (hereinafter referred to as “the Strategic Action Plan”) was prepared by the Ministry of Trade and Industry (MoTI) with support from the United Nations Industrial Development Organization (UNIDO) in March, 2005. The strategy preparation has involved many stakeholders including businessmen, which made the strategy more realistic and pragmatic. The strategy consists of volume I, in which the international market and the Strength, Weakness, Opportunity and Threat (SWOT) of the Ethiopian leather industry were analyzed and an integrated strategy is recommended in conclusion, and volume II, in which the more concrete targets and an action plan are set in line with the strategy recommended in volume I. The strategy takes the ‘top-down’ approach that the development of high value-added products, such as shoes, garments and bags, should be focused and the other associated industries, such as tanning, will naturally follow the top-stream industries’ development.

Trade of Leather/Leather Products

According to the statistics prepared by MoTI, the export value of the whole leather industry including hides, leather, skins, shoes, garments, bags and so on, was 43 million US\$ in 2003/04, 56 million US\$ in 2004/05, and 75 million US\$ in 2005/06, which has increased 1.7 times in 3 years. The projected export value in 2006/07 is to reach 100million US\$ according to the Ethiopian Tanners, Footwear and Leather Products Manufacturing Association (hereinafter referred to as “the Leather Association”).



Source: based on interview with MOTI

Figure 2 Export Value of Leather/Leather Products

Hides/skins account for 97% of the leather-related exports and in particular semi-finished hides/skins 87%. There are 22 tanning factories (in addition 4 under construction), and only 6 out of 22 have the capacity to process finished hides/skins. Therefore, the high

value-added finished hides/skins account for only 10% of the total export value. According to MoTI, the reason why the semi-finished hides/skins account for the major part of the export is that the price of semi-finished hides/skins is higher than that of finished ones because the factories in Europe, which have their own facilities to finish the process, prefer to import semi-finished hides/skins.

Table 2 Export Value of Leather/Leather Products

	2002		2003		2004		2005		2006	
	Mil \$	%	Mil \$	%	Mil \$	%	Mil \$	%	Mil \$	%
Semi-finished Skins/Hides	57	100	49	100	42	100	62.6	93	65.7	87
Finished Leather	0	0	0	0	0	0	3.6	5	7.6	10
Shoes	0	0	0	0	0	0	0.57(*)	1	1.6	2
Garments	0	0	0	0	0	0	0.23	0	0.31	0
Total	57		49		42		67		75.21	

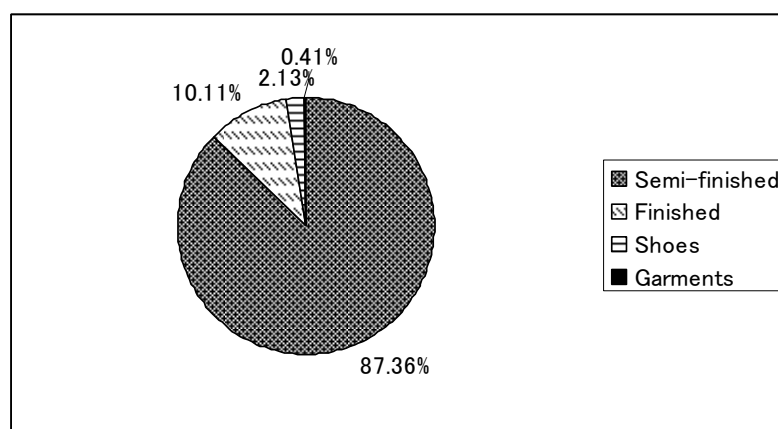
Source: MOTI, Export Value of Leather and Leather Products for the Last Five Years

Note (*) : Including only Peacock Shoe Factory.

Although the price of semi-finished hides/skins is higher, this trade depends on semi-finished leather, which is less value-added in the normal market, and as a major export item this makes the industry unsustainable and vulnerable. Therefore, the attempt to promote the production and export of finished leather has been taken by the GOE. As an incentive to encourage the factories to upgrade their facilities, the privileges which the tanning industry as a whole has been enjoying, such as tax exemption for inputs, are going to be limited only to those which have facilities to process finished leather. Investment to upgrade the tanning facilities can get soft loans (15 years) from the Ethiopian Development Bank.

Leather Footwear

The top-down approach which the Strategic Action Plan has proposed picks up the leather footwear industry as a leading sub-sector industry to pull up the whole industry. The export, however, started in 2005 and it accounts for only 2% of all the leather-related exports in 2005.



Source: based on interview with MOTI

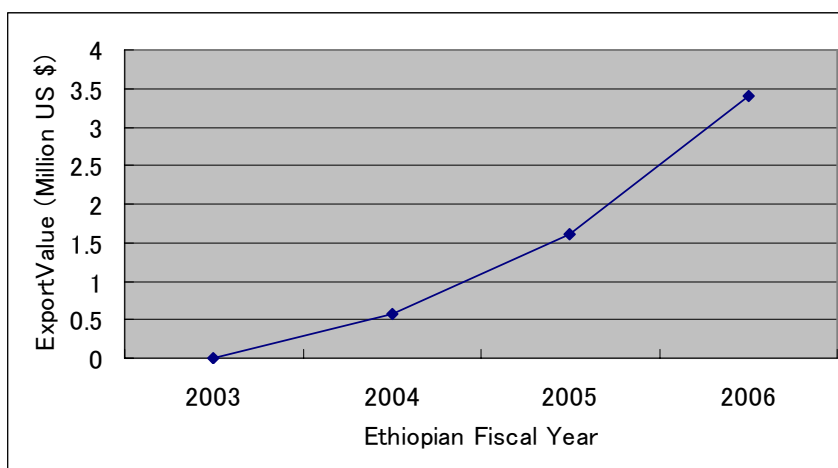
Figure 3 Composition of Leather-related Exports in 2005/06

To promote the export of leather footwear, the Strategic Action Plan has set a target to increase the export value from 0 in 2003/04 to 4 million US\$ in 2005/06 and 17 million US\$ in 2009/10. However, the actual export value was 1.6 million US\$ in 2005/06, while the target was 4 million US\$, and 3.4million US\$ for 10 months in 2006/07; therefore it seems difficult to reach the targeted 16million US\$. The target seems a little too ambitious, but the export value has been steadily growing as can be seen in Figure 5.

Table 3 Export Value Target, Leather Footwear

	2005/06	2006/07	2007/08	2008/09	2009/10
Target (million US \$)	4	16	50	95	177
Actual (million US \$)	1.6	3.4 (10months)	-	-	-

Source : MOTI, A Strategic Action Plan for Development of the Ethiopian Leather and Leather Products Industry, Volume II, March 2005



Source: based on interview with MOTI

Figure 4 Actual Export Value, Leather Footwear

There are 12 mechanized factories of leather shoes in Ethiopia but not all of them are dealing with exports. 7,000-8,000 pairs of shoes per day can be produced in Ethiopia¹, which has been increasing, but still far below production compared to China, where one factory can produce 3,000-4,000 pair of shoes/day. Also, since the industry has been targeting only the domestic market for a long time, the product development, market development and productivity improvement are crucial to increase the trade volume.

At the moment, some factories have started to trade with some European countries, such as Italy and Germany. However, the profitability from trading is lower than from the domestic market. One of the interviewed factories makes a profit of one dollar per pair of shoes maximum from the trade, which is 50 birr (about 5 dollars) less profit compared to that of the domestic market. Another factory loses 0.5 Euro per pair of shoes in trade with Italy. It is still trying to expand the trade despite the lower/minus profit, because it considers that the trade has great potential in the future and it is worth suffering a temporary loss,

¹ According to an interview with MoTI.

which allows it to penetrate the international market.

To make more profit out of trade, cost reduction by mass production is a must. Also, the clients do not find it cost effective if the trading volume is small. Therefore, one of the factories mentioned above is planning to strengthen its capacity by purchasing the to-be-privatized public enterprise with the capacity of 3,000 pairs of shoes per day.

As can be seen above, the leather footwear trade of Ethiopia is still in its infancy. The quality has already been sufficiently improved for export and the trading volume with some European countries has been increasing but production on a large scale is the next step for Ethiopia to penetrate the international market and to make a reasonable profit out of it.

Industrial Cluster

Japanese economists, Prof. Keijiro Otsuka and Prof. Tetsushi Sonobe have been conducting a survey on the industrial cluster in Ethiopia since 2005, particularly that of leather footwear. According to the survey, the leather footwear industry in Ethiopia has had its market captured by China, which has strong cost competitiveness, at the beginning of the 1990's. However, the Ethiopian leather industry has been reviving through quality improvement and market development since 2000. At the moment, it is assumed that an industrial cluster exists with 1,000 small leather shoe factories of less than 10 workers.

Prof. Otsuka and Prof. Sonobe have established a model for industrial cluster development from surveys in East Asia to classify the process into three stages; initiation stage, quantity expansion stage and qualitative improvement stage. According to the survey, the industry in Ethiopia is now at the quantity expansion stage. At that stage, quality normally deteriorates because a number of imitators come into the sector without good know-how. The model explains that whether the industry can successfully shift from the quantity expansion stage to the qualitative improvement stage depends on the effort of experienced and highly educated managers of the factories which have been operating since the initial stage.

The survey in Ethiopia revealed that the industry was revitalized after 2000 not only because many new companies came into business but also because the highly educated managers of the factories which have been operating for a long time made a big effort to get out of the slump. The industrial cluster of leather footwear in Ethiopia has been apparently following the same track as the one East Asia has experienced.

Job Opportunities

According to the Leather Association, the job opportunities created by the leather industry as a whole is estimated to be 17,000. PASDEP estimates the leather footwear industry created 2,600 in 2005/06 and more than 8,000 in 2009/10.

The Ethiopian Tanners, Footwear and Leather Products Manufacturing Association (the Leather Association)

The Leather Association consists of 38 enterprises, 22 of which are tanneries, 11 footwear factories and 5 other leather products factories. 2 of 38 are public enterprises, which are going to be privatized in the future.

The Leather Association's activities are; i) lobbying, ii) publicity of Ethiopian leather/leather products by joining international fairs, and iii) implementation of pilot projects.

Since the leather industry has been enjoying privileges, such as tax exemption and tax holidays, and the strong support from the GOE as one of the promising industries which lead the country's economy, the lobbying activities of the Leather Association has been focusing on the provision of technical assistance and extension services for the quality improvement of leathers rather than on that of additional privileges.

The privileges is, however, going to be limited only to those with the capacity to process finished leather as the initiative for the factories to upgrade their capacity.

Economic Impact

The trade in leather has been increasing under the strong initiative of the GOE and it is expected to make a big impact on the Ethiopian economy. However, the survey has revealed that approximately 25% of the expenditure of a footwear factory interviewed during the survey flow abroad because most of the parts other than leather, e.g. buckles or laces, are imported.

Table 4 General Data of A Footwear Factory in Addis Ababa

Workers (of which, Managers)	175 workers (20)
Capacity	1000 pairs of shoes/ day
For Domestic Market	
Expenditures	1,135,000 Birr/month
Salaries (total)	85,000 Birr/month
Supplying Cost from Domestic Market	750,000 Birr/month
Supplying Cost from International Market	300,000 Birr/month
Profit	300,000 Birr/month
Profit from Trade	Less than 1US\$/pairs of shoes

Source: based on interview

Environmental Issues

Chrome utilized in tanneries is one of the main environmental pollutants of the leather-related industry. Elico-Leather Industry PLC is the first tannery that has successfully invested to obtain the ISO (International Organization for Standardization) for environmental issues.

Product Development

The main products in the Ethiopian footwear industry are men's and children's shoes, because they have less model changes than women's footwear. Product development of women's footwear for the domestic market is on the way. For example, one factory interviewed during the survey is trying to develop new products for women.

For the international market, however, the mainstream of footwear produced is subcontracted with European factories. European companies order with a sample and Ethiopian factories replicate it precisely. Ethiopian companies have not yet reached the level of developing their own designs and selling them on the international market.

On the other hand, an interesting project led by UNIDO, Italian Cooperation and the International Trade Center is under way. Considering the fact that the market for cheap, mass manufactured shoes is highly competitive and China is far ahead of Ethiopia, these three organizations provided support to create an Ethiopian brand named TAITU targeting the higher-priced market. TAITU is an umbrella company, under which several Ethiopian tanneries and footwear factories have joined together to produce leather bags, garments and shoes which are designed by an Italian designer. The design of TAITU products is very modern and has a good reputation at international trade fairs. Shops in New York and Paris have opened and a new one in Tokyo is planned as well.

TAITU exported 200 pairs of shoes to Japan prior to the opening of the shop in Tokyo. The wholesale price per pair is 22.5 US\$ in Japan, while it is 13 US\$ on the European market. Nicely designed products can grab the high-priced market and make a high profit, while the low-priced market is highly competitive and it is therefore difficult both to penetrate the market and to make a reasonable profit.

Marketing

The Leather Association and MoTI have been promoting the Ethiopian leather/leather products through international fairs and the Ethiopian embassies abroad. However, despite the high quality of the finished leather and the effort of the relevant organizations, the negative image of Ethiopia makes the promotion difficult.

According to the interview, MoTI projects that the productivity will increase from 7,000-8,000 pairs of shoes per day to 50,000 in the near future. If this happening, marketing will be required to find additional sales channels to sell the increased number of products.

UNIDO held a fashion show of Ethiopian leather and leather products at the Embassy of Italy in Ethiopia in June, 2007. This kind of effort could gradually change the image of Ethiopian leather/leather products and help them to penetrate into international markets.

Capacity Building

The problems of the Ethiopian leather industry are i) low technology and ii) shortage of skilled workers. Therefore, the Leather and Leather Products Technology Institute (hereinafter referred to as “the Technology Institute”) has been established by the Common Market for Eastern and Southern Africa (COMESA) and the GOE. It is the biggest institute in the leather sector in Africa and accepts many international trainees from many other African countries, such as Sudan, Zimbabwe, Burundi and Rwanda.

The curriculum of the Technology Institute consists of i) diploma course for three years, ii) job training course for one year, and iii) short-term training course to upgrade the skills of the actual workers. The latter is held only on request and provides training for 1,000 trainees per year on average, either at the institute or at the factories. The total number of trainees is 400 at the moment. In addition to the three courses, a degree course for four years is going to be established in a few years.

Job opportunities after the training are abundant at the moment. The average salary for a graduate of the institute is 700-800 birr, which is relatively high for a blue-collar worker. This positive perspective encourages the trainees at the institutes.

The institute also possesses demonstration factories with modern facilities. It leases the facilities as well as provides consultations to the enterprises which have the intention to promote trade. Since the institute is meant to build capacities to promote trade, these services are not provided to those who only deal with the domestic market.

Other Donors' Activities

UNIDO is supporting the industry in various areas, such as capacity building, product development and marketing, as crystallized in the TAITU project, as well supporting the preparation of the Strategic Action Plan. It was the main organizer of the fashion show held in Addis Ababa, as mentioned above.

USAID is providing support in the quality improvement of raw hides/skins. To add some salts to the hides/skins within a certain time after slaughtering is a necessary step to discourage bacterial growth. It is a simple but important step to produce high quality leather. Therefore, USAID is introducing the treatment together with the construction of a warehouse.

The Embassy of India is currently planning to provide support in the quality improvement of the hides/skins, as well as in design improvement. As the leather industry in India is also big, investment by the Indian private sector is also expected to promote the Ethiopian leather industry.

Table 5 Donors' Activities

USAID	<ul style="list-style-type: none"> • Quality Improvement of Raw Hides/Skins, Marketing • Web Page Development of the Leather Association² • Warehouse Construction³ (700 sites in the country, 80 of which are in Addis Ababa)
GTZ	<ul style="list-style-type: none"> • Re-engineering in 6 Leather-related Factories • Technical Assistance to the Leather Institute
UNIDO	<ul style="list-style-type: none"> • Preparation of the Strategic Action Plan (finalized in 2005) • TAITU
CDE ⁴ (until 2005)	<ul style="list-style-type: none"> • Quality Improvement • Marketing

Source: Based on interviews

3. Issues

Livestock and Slaughtering Industry

The biggest issue in the leather industry as a whole is the low quality of raw hides/skins. This is caused by the rough treatment of livestock, the lack of treatment of skin diseases and the primitive slaughtering methods. The Leather Association is playing a main role to implement a pilot project to improve the quality of the raw materials with support from international donors.

Additional slaughterhouses are needed as well as capacity building in slaughtering because much of slaughtering is done in backyards of private houses without any proper skills or tools.

The improvement of post-slaughter treatment of hides/skins is also needed. USAID is introducing the salting process after slaughtering to discourage bacterial growth as well as constructing warehouses to stock raw materials properly.

Tannery

There are only a few factories with the capacity to process the finished leather and therefore, the low value-added semi-finished hides/skins account for the majority of exportation. Ethiopia depends greatly on the semi-finished hides/skins because the European market prefers semi-finished hides/skins and prices them higher than finished leathers. It is, however, unsustainable and vulnerable for the Ethiopian leather industry to depend on the low value-added semi-finished leather, which is normally less expensive than the finished leather. The policy of the GOE to encourage tanneries to shift to finished leather production is very important to make the industry sustainable. Also the high-quality leather will find the domestic market growing in line with the increase in trade of leather footwear.

² www.elia.org.et

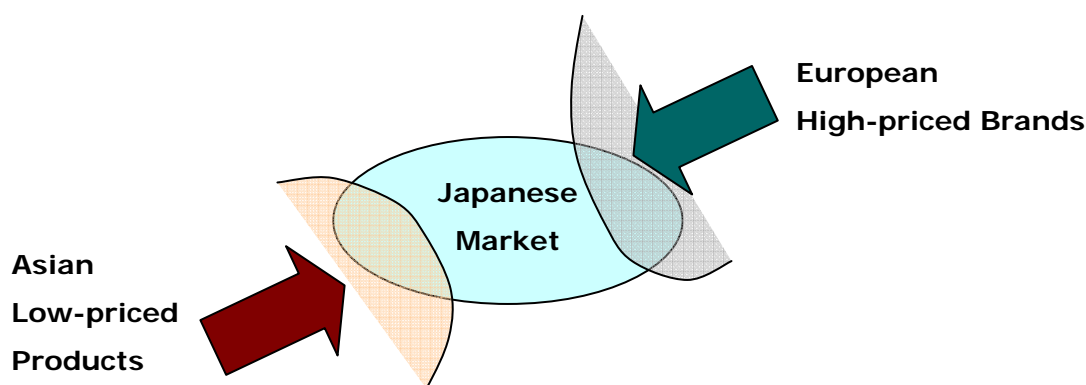
³ Using the method of matching funds of the Leather Association

⁴ Center for Development of Enterprise.

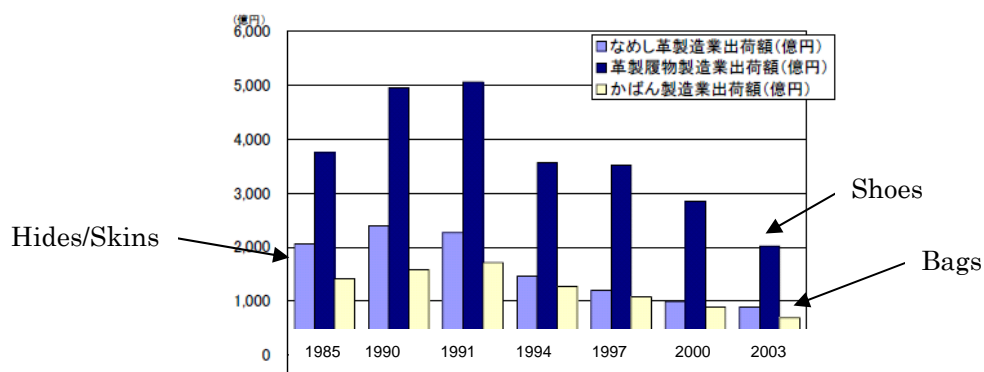
It is important to encourage tanneries to obtain the ISO for environmental issues as Elico-Leather Industry PLC, since chrome induces a serious environmental deterioration.

4. Leather Industry and Leather-related Trade in Japan

There was a traditional method of tanning in Japan but it was replaced by Western technology during the Meiji period (1868-1912), spread widely by production for the military. The leather industry revived and prospered from the mid 1950's to the mid 1970's after the slump of the postwar period but now it is on the wane because it cannot be competitive in price with China, Cambodia, or Bangladesh, and the well-known brands from Italy or the UK dominate the high-priced market.



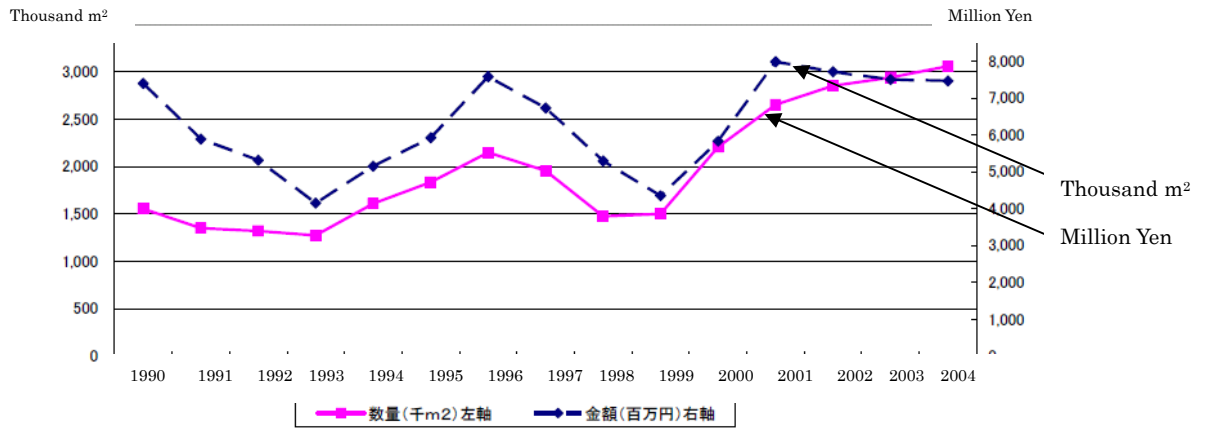
Source: p.4 Ministry of Economy, Trade and Industry of Japan, 'The Vision of Japanese Leather Industry'
Figure 5 Concept Diagram of Japanese Leather Market



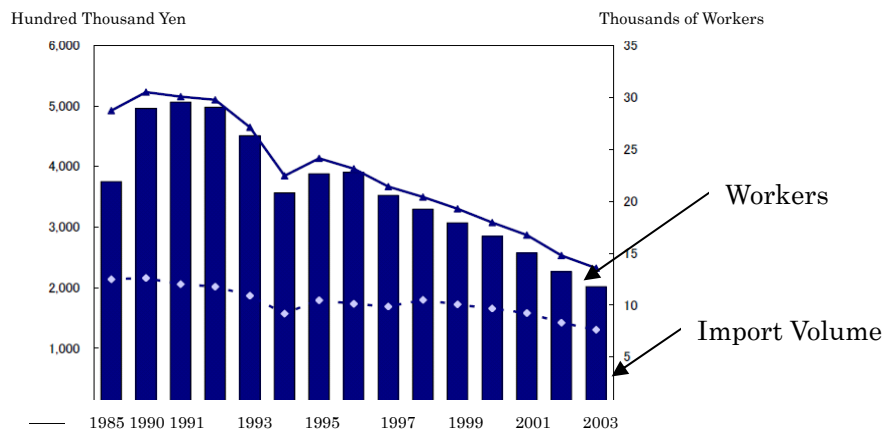
Source: p.2 Ministry of Economy, Trade and Industry of Japan, 'The Vision of Japanese Leather Industry'
Figure 6 Export Value of Japanese Leather/Leather Products

Imports

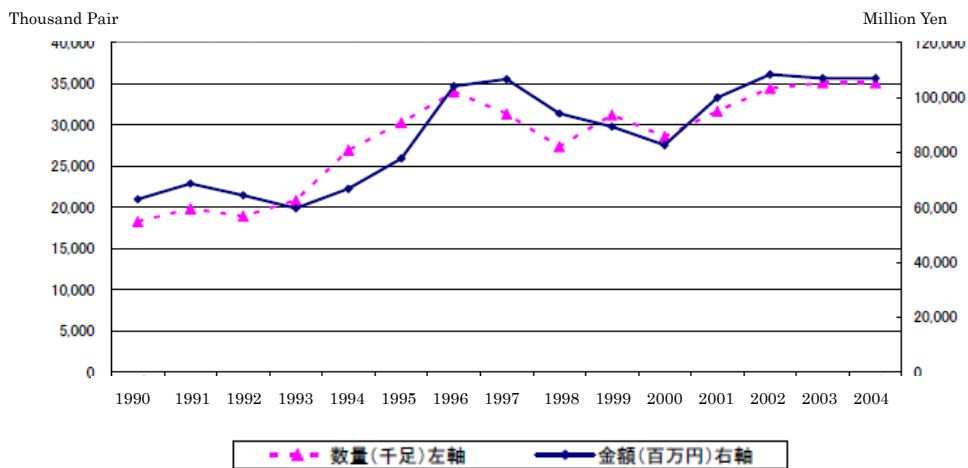
Imports of leather have been fluctuating periodically for the past 15 years, but it has been steadily high from 2001 to 2004.



Source: p.23 Ministry of Economy, Trade and Industry of Japan, 'The Vision of Japanese Leather Industry'
 Figure 7 Import Value of Leather to Japan (Million Yen/Thousand m2)

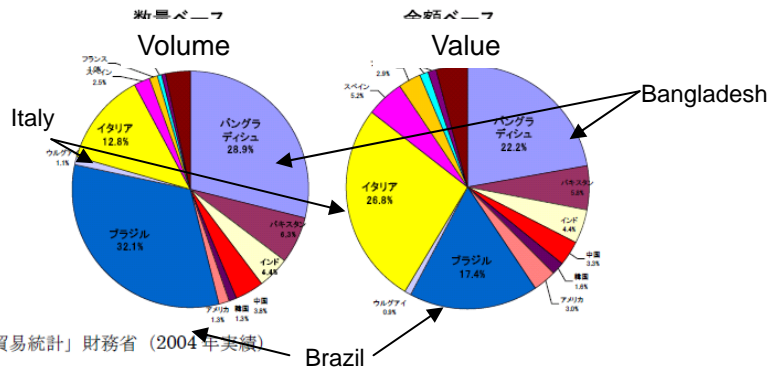


Source: p.24 Ministry of Economy, Trade and Industry of Japan, 'The Vision of Japanese Leather Industry'
 Figure 8 Export Value and Number of Workers in Leather Footwear Industry in Japan

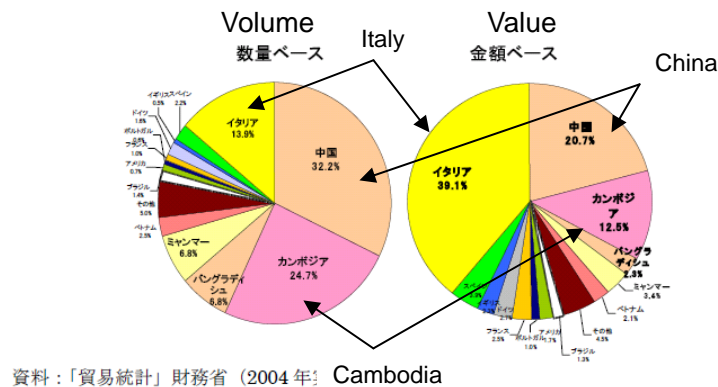


Source: p.24 Ministry of Economy, Trade and Industry of Japan, 'The Vision of Japanese Leather Industry'
 Figure 9 Import Value of Leather Footwear to Japan

Brazil, Bangladesh, and Italy are the top three suppliers of leathers to Japan and China, Cambodia and Italy are the top three suppliers of leather footwear.



Source: p.33 Ministry of Economy, Trade and Industry of Japan, 'The Vision of Japanese Leather Industry'
 Figure 10 Supplier Countries of Leather



Source: p.33 Ministry of Economy, Trade and Industry of Japan, 'The Vision of Japanese Leather Industry'
 Figure 11 Supplier Countries of Leather Footwear

The selling price by supplier is as follows: Bangladesh (lowest in price) 1,261 yen (about 10.5 US\$), China, Cambodia and Vietnam around 2,000 yen (about 16.5 US\$), Ethiopia domestic market approximately 160 birr (about 18.5 US\$). Considering the transport cost to Japan, Ethiopian footwear therefore does not have cost competitiveness in the Japanese market.

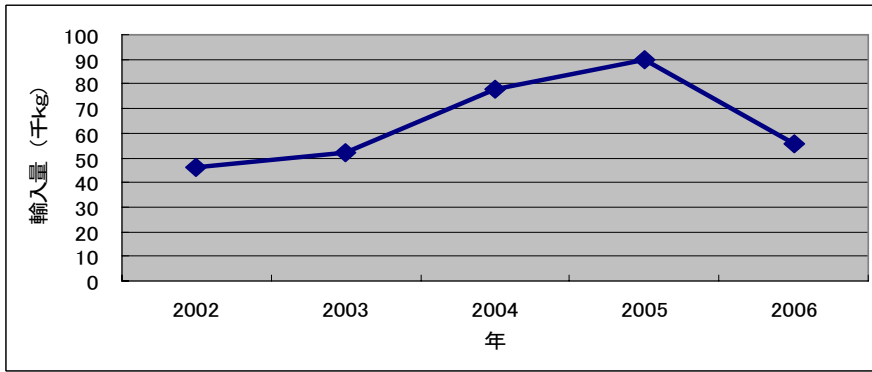
Table 6 Selling Price of Imported Leather Footwear (by Supplier)

Country	Yen	US \$
UK	13,471	112.3
Italy	10,622	88.5
(Japan)	4,826	40.2
Taiwan	2,714	22.6
Korea	2,674	22.3
China	2,214	18.5
Vietnam	2,041	17.0
Cambodia	1,934	16.1
Bangladesh	1,261	10.5

Source: p.33 Ministry of Economy, Trade and Industry of Japan, 'The Vision of Japanese Leather Industry'

Imports from Ethiopia

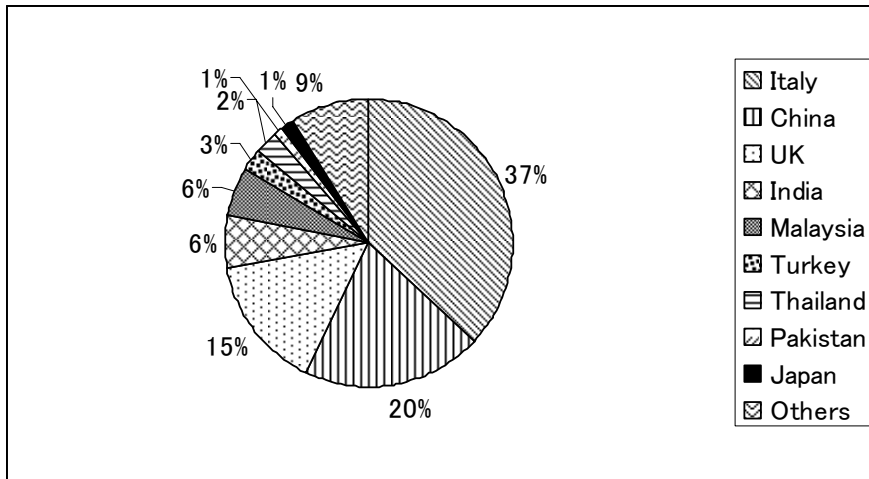
The import of leather from Ethiopia to Japan is mainly sheep skins. The import volume is from 50 to 90 tons, which was only 1.5% of import from Brazil in 2006.



Source: Hope Page of Japan Leather and Leather Goods Industries Association

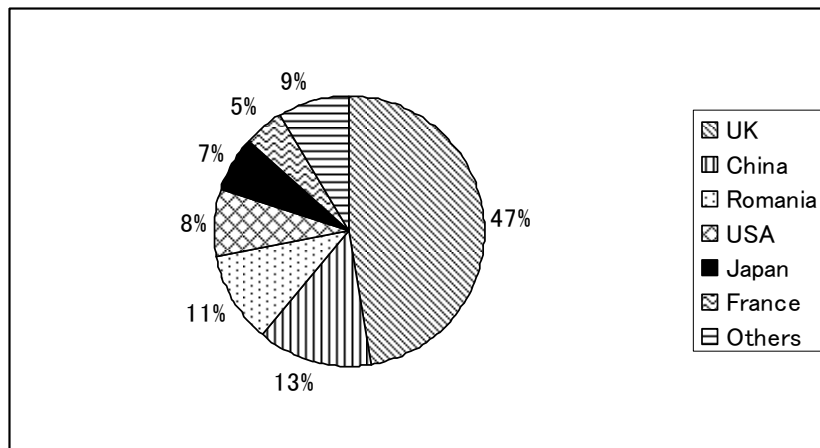
Figure 12 Import from Ethiopia to Japan (Thousand KG)

On the other hand, from the Ethiopian perspective, Japan is the 9th biggest destination for export of semi-finished skins and the 5th for finished leather. Japan is therefore an important export destination for Ethiopia.



Source: MOTI, Statistics of Export (EFY 2005/06)

Figure 13 Destination for Export (Semi-finished Hides/skins)



Source: MOTI, Statistics of Export (EFY 2005/06)

Figure 14 Destination for Exports (Finished Hides/Skins)

Generally trade of leather footwear with Japan has not yet started. TAITU has, however, experimentally exported 200 pairs of shoes to Japan and has succeeded in selling to sell them at a price 10 US\$ higher than in European Market.

Imports from Ethiopia

Japan is surrounded by countries such as Taiwan, Korea, China, Vietnam, Cambodia and Bangladesh, which provide cheap manufactured shoes. As seen above, the price of made-in-Bangladesh leather shoes is around 10 US\$, while that of Ethiopia is about 18.5 US\$. Ethiopian leather shoes have not yet the price competitiveness on the Japanese market. On the other hand, the quality of leather shoes is not yet competitive enough in the high-priced market, except that of TAITU.

The leather footwear industry in Ethiopia is in its infancy in terms of export, although it has long experience in the domestic market. It is different from the floriculture industry in that the floriculture industry is ready in terms of quality and quantity for the expansion of exports.

Japan has been sending Japan Overseas Cooperation Volunteers (JOCV) to the leather sector to improve its quality and the productivity. UNIDO, Italian Development Cooperation and USAID are actively supporting the sector, as well. From the perspective of donor harmonization, the livestock and slaughtering industry need additional donor assistance more than the leather footwear industry itself. Also, support for the associated environmental issues is needed before it causes serious damage.

At the moment, all of the parts except the leather are imported to produce a leather shoe. The development of associated industries that can supply the parts, such as buckles, would decrease the leakage of profit.

As Prof. Otsuka and Prof. Sonobe analyze, the leather footwear industry is now in a transitional period from the quantity expansion stage to the qualitative improvement stage. From the experience of industrial cluster development in East Asia, Prof. Otsuka and Prof. Sonobe emphasize the importance of highly educated managers for the industry to jump from the current stage to the upper stage. Therefore, they are planning to provide training in management, marketing and technology to the managers of the top shoe factories in Ethiopia.

Industrial clustering has been the driving force for Japanese development. Therefore, Japan has the competitive advantage in that area compared to other donors. Therefore, the Embassy of Japan will try to support the attempt of Prof. Otsuka and Sonobe as much as possible.

The Ethiopian finished sheep skin is the highest quality for golf gloves in the world and is utilized even for the world-famous golf player, Eldrick Tiger Woods. Considering the fact that the tanneries in Japan are being closed down, the promotion of export of finished hides/skins to Japan has a higher potential than that of leather footwear at the moment.

The negative image of Ethiopia has been affecting the business, as well. The Ethiopian millennium, which is the chance to change its image for the better, should be optimized. Also, when the products of TAITU start to enter the Japanese market, the image of Ethiopia in Japan would be improved. The Embassy of Japan will try to support and optimize these occasions to ameliorate the image of Ethiopia in Japan.

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Study on the Handicraft Industry in Ethiopia

(This is an English version translated by the Embassy of Japan in Ethiopia based on an original report written in Japanese)

August, 2007

Embassy of Japan in Ethiopia

1. Introduction

Ethiopia possesses various kinds of unique handicrafts because of its unique history, tradition and culture evolved by the various people of the country. The demand for handicrafts is, however, said to be decreasing because changes in life-style do not require the handicrafts for daily life any longer.

In addition, the quality of finishing and the design need to be improved to penetrate the international market, although the uniqueness is still very attractive. The handicrafts are not yet a major export item in Ethiopia, since there are only a few workshops that can produce the high quality handicrafts which satisfy international customers.

The lack of quality and attractive souvenirs is a problem for tourism development. Even at famous tourism destinations, such as Lalibela, it is difficult to find a locally-specific souvenir as most of the available souvenirs there are made in Addis Ababa. The souvenirs found in Addis Ababa are, in contrast, said to be partly imported from Kenya, which means Ethiopia is missing the opportunity to obtain foreign currency from tourists.

Handicrafts are important not only to obtain foreign currency as both export items and souvenirs but also to conserve the unique culture and maintain cultural identity. It is important to position handicrafts and find their meaning in the contemporary context to conserve the living handicraft, otherwise there will no longer be a vivid culture but a mere carcass. In this regard, it is very important to make the handicrafts commercially viable, not mere showpieces in museums.

Since handicrafts are local-specific, they create great job opportunities in the rural areas, where there is no significant industry. They also create job opportunities for women in particular.

So far, this series of studies has been focusing on floriculture, hotel and leather footwear industries. These industries are labor intensive and contribute to poverty reduction through mass job creation. On the other hand, the handicraft industry is basically a cottage industry, the scale of which is much smaller than that of the other three. Despite its scale, however, it plays an important role in income generation in the rural areas. The fact that the handicraft business can be started with a small investment is quite important for most of the population who do not have capital.

Japan has been supporting the sector through several channels, such as assigning Japan Overseas Cooperation Volunteers (JOCV) or providing equipment. Also, the Japanese Government has been promoting the One Village, One Product campaign in the least developed countries, which is deeply related to the handicraft industry.

For these reasons, the handicraft industry is being studied as the fourth theme of this series of studies. Handicrafts consist of many kinds of items but in this study, pottery and weaving will be focused on as the main items of Ethiopian handicrafts.

2. Handicraft Industry in Ethiopia

General

Since the handicraft industry is basically a cottage industry, accurate data, such as the number of enterprises, production and job creation, was not available. According to the Director General of the Federal Micro & Small Enterprises Development Agency (FeMSEDA), the job opportunities the industry creates on the whole are estimated to be 1.5-2million.

Trade of Ethiopian handicrafts started several years ago and some handicraft traders made deals with Germany, Italy, UK and France. The magnitude of the trade is, however, still very small. Even the transaction value of the biggest trader is still 2,000-3,000 US\$ per month according to MoTI, which is insignificant compared to other industries. According to FeMSEDA, the total transaction volume of handicrafts in Europe is 1.5billion US\$, most of which is captured by Indian, Pakistani and Turkish products. If the Ethiopian handicrafts could capture only a few percentage of the market, it would make a huge impact on the industry's economy. Also, the American market estimated to be 10billion US\$ is also attractive for Ethiopia and marketing should be done there.

Marketing

Marketing activities to promote Ethiopian handicrafts is done by the embassies of Ethiopia, by attendance at international trade fairs, and through web-pages. International trade fairs provide the occasion for the handicraft makers to meet buyers. The costs to join the international trade fairs are partially supported by the World Bank by a matching fund method and many handicraft makers supported by the World Bank have closed sales at fairs in Canada, Germany, UK and so on.

According to FeMSEDA, the development of trade portable site is in the planning stage to promote e-business in the future.

In general, however, the marketing capacity is still not sufficient and capacity building in marketing is a must as well as product development. Also, the diffusion of a positive image with the unique history and culture of Ethiopia is strategically important in marketing.

Authorities of the Ethiopian Government

FeMSEDA (Federal Micro and Small Enterprises Development Agency) was established as a subordinate organization of the Ministry of Trade and Industry to develop micro and small enterprises. Its activities are i) provision of relevant information and consultations, ii) provision of training, and iii) production and sales at its workshops.

FeMSEDA has many workshops, such as pottery, bamboo wares, metal processing, garments, weaving, dyeing, silverwork, horn carving and wood carving and basically produces commercial goods at the workshops. On request, it provides training to those who are running micro-small enterprises. The fee for training is about 150 birr per month (about 17 US\$) and it has been accepting approximately 3,000 trainees annually, according to the Director General.

Japan sent six JOCVs to FeMSEDA from 1993 to 2003 in wood carving, garment and bamboo ware. Also, a lot of equipment has been provided to the wood carving workshop by the Japanese Government. The chief of the garment section has been trained in Japan with support from the Japan International Cooperation Agency (JICA).

FeMSEDA has also received support from China and Korea for the bamboo ware and garments, respectively, but currently donor support is not actively provided.

ETTE (Ethiopian Tourist Trading Enterprise) started its operation as a duty free shop as well as a production/sales company for handicrafts. Now, it consists of i) Gift and Arts Production and Sales Department, which produces and sells handicrafts, ii) Sales Department (basically duty free shops), and iii) Food Processing Department. It has approximately 900 employees, 100 of which are handicraft workers. It produces and sells nine kinds of handicrafts, such as painting, bamboo ware, pottery, and textiles.

The biggest supporting agency for ETTE is JICA, which has been sending 16 JOCVs, e.g. in pottery, bamboo ware, photography, marketing and design, since 1968. A lot of equipment has been provided as well.

The handicrafts produced by ETTE are mainly for the domestic market and they are also utilized for interior decoration of Ethiopian restaurants and hotels in Addis Ababa.

Trading is not done consistently. ETTE has had trade deals with Austria and UK, once for each, with a substantial volume, but beside these, it sporadically sells items to individual buyers who like the decoration for the Ethiopian embassies or for overseas Ethiopian restaurants.

Since the quality and quantity of products of ETTE are sufficient enough compared to other trading craft makers, additional effort to promote trade may improve the financial status of the department.

Case Studies

MUYA: MUYA was established in 2004 and has been growing as a major handicraft center with its quality and design. It produces and sells mainly pottery and woven goods. It has approximately 120 potters and weavers and is planning to hire an additional 500 weavers.

The designer, who is one of the founders of the center, traveled around the country to collect traditional designs of various peoples for nine years before opening the center and all of the products of MUYA have some motifs from these traditional designs. The 14 huge tapestries hanging from the ceiling of the international airport in Addis Ababa are also made by MUYA and their motifs are taken from the traditional designs of 14 peoples in Ethiopia

50 % of its products are exported, 25% are sold at the duty free shop in the airport, and 25% at the domestic market. The destination for exports is Austria, Israel and USA.

Kechene Women's Pottery and Pottery Cluster: Kechene Women's Pottery was established with support from a Canadian expert and ETTE at the beginning of the the 1990s and now 34 women are working there. It does not have any shop in Addis Ababa city but it sells its products to retail sellers or through bazaars. It does not have trade relations because of the lack of capacity, according to them.

Many small potteries exist and form a cluster around the Kechene Women's Pottery. Exact data is not available but it is said that 90% of Jabana, a traditional coffee pot, sold in the whole country are produced in this area. They also target only the domestic market.

The common problem of Kechene Women's Pottery and the small potteries around is that they do not have a modern kiln and burn clay pots with cow manure in a hole dug in the earth, which does not reach high temperatures and the pottery burned in this way is fragile and less colorful. One small pottery said that 1/3 of the production is returned as defective.

Addis Gebeya Weavers Association: There are many weaving sheds around the Kechene Women's Pottery as well, which form a cluster. It is said that there are approximately 40,000 weavers in Addis Ababa. Addis Gebeya Weavers Association consists of 240 weavers and there are about another 30 similar associations of weavers in Addis Ababa.

Most of the weaving is also for the domestic market. The working conditions for weavers are very tough. Wages are about 3 birr (about 0.3 US\$) per meter and 8-10 meters can be produced for 14 hour work per day, which is equivalent to 24-30 birr (about 3 US\$) per day.

On the other hand, there exist some international markets. One of them is the community of the Ethiopian Israelis, who have immigrated to Israel. They order traditional shawls periodically at a high price, 50 birr per meter, which is 16 times the domestic market. Despite the high profit, however, the Association seems not to promote trade actively.

Ethiopian Women Exporters' Association: Ethiopian Women Exporters' Association was established in 2000 with support from the EU. The members then numbered 18, which has grown to 44 at the moment. The production of members is not limited to handicrafts and they also produce sesame, flowers, cotton and so on. There are many sectoral associations, such as for flowers or oilseeds, but this is the only association which deals with cross-cutting issues for exporters.

At the moment, GTZ is supporting the association to strengthen its capacity.

The chair of the Association explained that the handicraft industry is not meant for mass production because being handmade makes goods valuable and therefore, it is difficult to respond to the demand of the international market in terms of volume. If the handicraft makers share the work, it is possible to get an order in quantity as well, and in this way, a win-win situation can be created. Formulating the cooperative structure is important to overcome the nature of handicraft that it cannot be produced on a large scale and to make a profit for all.

3. Donors' Activities

USAID (AGOA)

The United States has ratified the African Growth and Opportunity Act (AGOA) with many African countries and Ethiopia is one of them. AGOA allows African countries which have ratified the act to have tax exemption on 6,000 listed items. As a result of this kind of effort, the total export volume from African countries to the States has jumped threefold in seven years compared to 2000.

Since the trade between Ethiopia and the United States was less advanced compared to other African countries, the VEGA Ethiopia AGOA + Project, which focuses only on promoting trade and not on productivity/quality improvement, started in 2005. As a result of the project, the trade volume from Ethiopia to the United States in 2006 exceeded 7million US\$ and is expected to be eightfold in 2007 compared to 2001. Only items such as garments, flowers, plants, nuts and coffees are being exported at the moment but the higher value-added items such as processed food, jewelry, and light industry products are potential export items in the future.

The American market for handicrafts is estimated to be 10billion US\$. If Ethiopia can obtain even a small part of the market, it will bring about a big economic impact.

UNIDO

UNIDO is supporting weaving, leather/leather products and food related entrepreneurs in service improvement and marketing. As crystallized in the TAITU project, which was described in detail in the Study on the Leather Footwear Industry in Ethiopia, UNIDO is also linking entrepreneurs to strengthen their capacity by cooperation, as well.

World Bank

The World Bank has financed the Cultural Heritage Project with 5million US \$ from 2003 to 2007. The project consists of three components; i) collection of data, ii) conservation and effective utilization of cultural heritage, and iii) improvement of quality and variety of handicrafts.

The objectives of component iii) are; a) conservation of traditional techniques of handicraft making, b) diversification of souvenirs, and c) expansion of domestic/international markets. The phenomenon of handicraft makers who lost their jobs due to the decrease of demand in Addis Ababa and become beggars forms the background of the project. Component iii) intends to re-train those handicraft makers and improve the design and quality to expand the market domestically and internationally, which eventually would generate income for these workers and at the same time conserve the traditional skills of handicraft making.

The project sites are Addis Ababa, Harar, Gondar, and Aksum. In each city, the project rents historically important buildings and forms them into handicraft centers.

The project invited trainers from Ireland, UK, Philippines and so on, and provided training not only on handicraft making techniques but also on marketing, cost calculations, and computers.

As a result of the project, the design and quality of handicrafts have improved and the outcome of the project was exhibited at international fairs in Frankfurt in February 2006, in New York in August 2006, and in Birmingham in September 2006. The Ethiopian handicrafts obtained a good reputation and received some orders. Unfortunately, the production line was not yet well prepared and could not meet the orders. However, it is now ready to receive orders at the coming fair in Frankfurt in the fall of 2007.

4. Issues

Finance

Commercial banks in Ethiopia require collateral for double the value of the credit. Therefore, businesses which do not have valuable buildings as collateral, such as the handicraft makers, cannot get loans easily.

In addition to this, there is a gap between credit from micro-finance institutes, which finance small projects below 5,000 birr, and that of commercial banks, which finance above 50,000 birr. The credit many of the handicraft makers need ranges from 5,000 to 50,000 and they cannot find any financial institution which can furnish them with funds.

The problem of the financing gap has been pointed out for a long time and the Banking Association has launched a survey on the issue. Based on the result of the survey, Abyssinia Bank, Dashen Bank and Awash Bank have started to finance the micro-finance institutes, specifically for projects with a scale ranging from 5,000 birr to 50,000 birr.

Quality of Raw Material

A handicraft maker interviewed during the survey imports silken threads from Italy and wool from South Africa, while it purchases cotton and clay from the domestic market.

As for silk, however, several projects are on implementation and JICA indirectly supports one of them which is located in the southern part of Ethiopia through supporting the research in producing silk in the area. Linking the project's outcome to these handicraft makers who need high quality raw material must be useful for both projects and the buyer.

Information Sharing

As mentioned above, many business chances seem to be missed due to the lack of information. Simply connecting the suppliers to the buyers brings about a big impact.

Packaging

The quality of packaging prepared in Ethiopia does not meet international standards. Therefore, the handicraft traders import packaging from abroad. This leads to the profit flowing abroad and diminishes profitability. The quality of packaging is mentioned as a problem in the floriculture and hotel industry as well. The improvement of packaging quality makes a cross-industry impact.

Image of Ethiopia

The negative image of Ethiopia as a country with poverty, starvation, floods and drought, has been repetitively pointed out as a problem in all four industries, which this series of studies focused on. To promote any kind of Ethiopian product in the international market, the improvement of the Ethiopian image is a must.

Equipment

Most potteries do not have a kiln and they use the traditional method of burning, which does not provide enough heat to make the pottery strong and colorful from glazes. The traditional color cannot be produced by modern kilns but to diversify the products and to improve the strength to promote exports, the introduction of kilns is necessary.

Establishment of Cooperative System

Cooperation among enterprises is not yet formulated. Since the handicraft industry is basically a cottage industry, it is necessary to cooperate not to lose business chances and to receive orders on a large scale from the international market. Cooperation can create a win-win situation for the producers as can be seen in the success story of TAITU. Also, FeMSEDA is the key organization of GOE in the development of micro-small enterprises. FeMSEDA is expected to take a leading role to coordinate micro-small enterprises.

Donor Coordination

Since the handicraft industry is based on small scale business, support from international donors is also on a small scale. Therefore, though there are many supports on the ground, it is not clear which donor does what and where.

Information sharing somehow exists within a sub-sector, such as within the pottery sector and the weaving sector, but it does not happen across sub-sectors. It is important to figure out the common issues in the whole sector and to try to tackle them all together in order to make 'Ethiopian-made' handicrafts recognized and promote trade in the international market.

5. Way Forward

Information Sharing/Cooperative Organization

The biggest problem in the handicraft industry is the lack of information. This is not only among enterprises but also among donors. Lack of information sharing causes many businesses chances to be missed and makes projects inefficient. To solve this kind of problem, the Embassy of Japan is planning to hold a donor meeting to share information in the area of handicrafts. To share information of handicrafts as a whole, across the sub-sectors, will provide an occasion to figure out the common issues to promote trade of handicrafts and try to find solutions.

Also, cooperation among craft makers is important to obtain orders on a large scale. It cannot be created by donors' activity, but stressing the importance of cooperation may help to raise awareness among craft makers.

Simply bridging the producers and the buyers brings about a big economic impact. Since a lot of foreign aid is in the area of productivity/quality improvement, the outcome of projects can also be linked to the buyers in the private sector, which would make projects more effective.

Technical Assistance

Much technical assistance has been provided in the sector so far but each assistance was on a small scale and not well integrated to maximize its outcome. To make the assistance more effective, and not fragmented, we should crystallize the support around the One

Village, One Product Campaign, which the Japanese Government has been promoting in the least developed countries. For example, a kiln was provided to a women's pottery in Gondar and a JOCV was sent to improve the quality of the pottery by utilizing the kiln. Additional technical assistance can be continuously provided to make high quality pottery and eventually to make pottery the village's unique product.

Much technical assistance has been provided to FeMSEDA but has stopped since 2003. Considering the important role FeMSEDA plays in handicraft industry development, a follow-up study should be carried out to see the outcome of Japanese assistance and if necessary, additional support should be provided not to waste the previously provided assistance.

Equipment Provision

Japan has been providing much equipment to FeMSEDA, ETTE, the pottery in Gondar and so on. A follow-up survey on the utilization of the equipment should be done to check if the equipment is effectively utilized and whether further assistance is needed to make the previous support more effective.

Promotion of trade makes a big impact on the economy but on the other hand, it is important to develop the domestic market as well. In line with the growth of the Ethiopian economy, the demand and purchasing power of Ethiopian for quality pottery or weaving must increase. The increase of domestic purchasing power in return improves the quality of handicrafts further and eventually pushes up the trade volume. Therefore, the provision of support in the development of domestic market is as important as the promotion of trade.

Reference:

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- FeMSEDA Web Page (<http://www.telecom.net.et/~femseda/>)
- VEGA Ethiopia AGOA+ Project Web Page (<http://www.vegaalliance.org/>)
- EthioMarket Web Page (<http://www.ethiomarket.com>)

Study on the Investment Climate in Ethiopia

(This is an English version translated by the Embassy of Japan in Ethiopia based on an original report written in Japanese)

December, 2008

Embassy of Japan in Ethiopia

1. Introduction

The series of studies on four selected individual industries, i.e. floriculture, hotel, leather shoes and handicraft industries, has revealed these industries have been substantially growing in Ethiopia. For example, the export of flowers has been accelerated, many hotels are under construction/plan reflecting the economic growth and increase of tourism, and the export of leather shoes has been launched with strong support from the Government of Ethiopia.

Although it is a fact that we are observing a buoyant economy in Ethiopia, we cannot deny that this is still fairly fragile. It is a must to create a conducive environment in order to make the growth sustainable. Particularly, changes in the taxation and finance system, land tenure system, and human resource development are the crucial cross cutting issues for industrial development in the country.

Also, the industrial growth in Ethiopia has so far depended on sporadic successes of individual entrepreneurs, which is not a solid phenomenon yet. These individual success stories are observed dotted around and are not linked to each other in order to multiply the effect. For example, due to lack of information, a handicraft center imports silken threads from Italy despite silk production having started in Ethiopia. Just simply linking these sporadic emerging industries would bring about a bigger economic impact in the country and make industrial growth more solid. It is also one of the roles of the Government of Ethiopia to create systematic opportunities for suppliers and buyers to meet.

Therefore, this report will focus on a national strategy, plans and investment climate which are the important cross cutting issues and important to make industrial development sustainable.

2. National Development Plan and Frameworks in Ethiopia

Ethiopia has so many plans that they cannot all be referred to here but the major ones are picked up as below.

	Comprehensive Framework	Sectoral Development Plan
Long-term	<ul style="list-style-type: none"> • Agricultural Development Led Industrialization (ADLI) 	
Mid-term	<ul style="list-style-type: none"> • Plan for Accelerated and Sustained Development to End Poverty (PASDEP) 	<ul style="list-style-type: none"> • Road Sector Development Programme • Education Sector Development Programme • Health Sector Development Programme • Water Sector Development Programme • Food Security Programme • Industrial Development Strategy • Micro and Small Enterprises Development Strategy
Short term	<ul style="list-style-type: none"> • Annual Progress Report (APR) 	<ul style="list-style-type: none"> • Sectoral Annual Action Plans

ADLI, which is the most fundamental development framework for Ethiopia, emphasizes the importance of the industrialization of agriculture and the promotion of the export of agricultural products considering the fact that 85% of the population is engaged in agriculture. Following the ADLI, PASDEP sets 5-year targets by sub-sector.

PASDEP, which is a five year development plan (2005/06-2009/10), sets as its overall goal that Ethiopia becomes a middle-income country in 20-30 years. Three goals are set over five years to achieve the overall goal; i) making the agricultural sector modern and productive with enhanced technology and enabling the industrial sector to lead the economy, ii) making economic development sustainable and securing social justice, and iii) increasing the per capita income of citizens. In light of the interests of this series of studies, it should be noted that ‘tourism’ and ‘trade and industry development’ are highlighted in PASDEP as important sectors to achieve the goals as well as another 12 sectors including agriculture, education and health.

When the final version of PASDEP was distributed, development partners commented that it is substantially well prepared and basically coherent with the MDGs, but its emphasis is too much on detailed target values. The development partners stressed that it is important to improve the investment climate to achieve the goals rather than simply setting target values.

The Industrial Development Strategy may cover the PASDEP’s lack of attention to the investment climate. It was prepared in 2002 in Amharic and an unofficial English version is available. It scrutinizes the issues of i) macro economy, ii) financial system, iii) non-bank financial system, iv) infrastructure, v) human resources, and vi) institutional arrangements, and it identifies the directions the government shall take. As to the financial system, it identifies the capacity development of the National Bank of Ethiopia, strengthening

mid/long-term loans, improvement of the international payment system, and amelioration of information sharing system enabling appropriate investments as important issues to be improved. On the other hand, the non-banking financial institutions are also mentioned to enhance the mobilization of capital, although the Stock Market is regarded as gambling and will not be allowed in the near future.

Micro and small enterprises form the majority of businesses in Ethiopia rather than mid-large scale industries. Therefore, the enhancement of micro and small enterprises is crucial for the economic development of the country. The Micro and Small Enterprises Development Strategy was prepared in 1997 and the Micro and Small Enterprises Development Agency (FeMSEDA) was established in the following year. The strategy aims at improving the business environment for micro and small enterprises by the development of appropriate laws/regulations, creation of incentives such as tax exemption, promotion of partnerships such as joint ventures, the provision of training for entrepreneurs, and the improvement of access to adequate technology/market/information/finance and so on.

Japan has been providing support to FeMSEDA, i.e. sending Japan Overseas Cooperation Volunteers (JOCV), providing equipment and inviting trainers to Japan for the training of trainers (TOT).

Privatization is also crucial for the improvement of the investment climate. In Ethiopia, a privatization program has been ongoing since 1994 under the supervision of the Ethiopian Privatization Agency. 220 public enterprises were chosen to be privatized, 169 of which have been privatized so far. However, the slowdown of privatization in recent years makes the implementation behind schedule and this situation is one of the concerns international development partners have.

3. Investment Climate

General

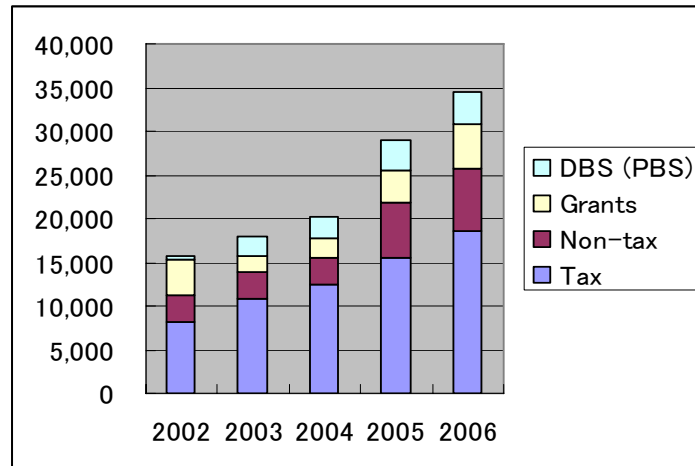
Due to the efforts of the Ethiopian Government, the investment climate in Ethiopia has been gradually improving. The Index of Economic Freedom the Heritage Foundation annually updates improved by 1.1% in 2007 compared to the previous year. Also, Ethiopia is 97th among 175 countries in the Index of Doing Business prepared by the World Bank, which is relatively high for a developing country.

According to the Climate Investment Study conducted by the World Bank, total factor productivity has been improved in all sectors except the garment sector compared to 2002. The access to finance has also improved compared to the same year.

The remaining issues are the financial system and the land tenure system. Each index that different international organizations set shows different views, but these two issues gain commonly low grades regardless.

Taxation

The Ministry of Revenue was established in 2001 to take over the ongoing tax reform from MoFED. A new income tax law was enacted in 2002 and VAT was introduced in 2003. VAT registration has been increasing at a faster rate than expected. As a consequence, tax revenue has been increasing substantially.



Source: based on MOFED 2006/07

Figure1 Revenue (mil Birr)

The main taxes related to business are mentioned below. Ethiopia's weighted average tariff rate was 13.5 percent in 2002. Compared to Kenya (7.5%) and Tanzania (8.2%)¹, it is not minimal, but is not as heavy as Sudan with 19.6%, where one of the greatest economic growths in Africa has been observed.

Table 1 Main Tax

	Tax	Rate
1	Corporate Income Tax	30%
2	Turnover Tax	2-10%
3	Excise Tax	10-100%
4	Custom Duties	0-35%
5	Income Tax	0-35%
6	Withholding Tax	2%
7	Value Added Tax	15%
8	Export Tax	-
9	Royalty Tax	5%
10	Dividend Tax	10%

Source: Ethiopian Investment Agency, 'Ethiopia: A Country Well Placed To Prosper', Addis Ababa, 2006

Investment Procedure

Burdensome and time-consuming procedures were often mentioned as a major concern hindering investments in Ethiopia but a "one window service" has been launched by the Ethiopian Investment Agency and the procedure has been drastically streamlined. At the

¹ The Heritage Foundation, Index of Economic Freedom (<http://www.heritage.org/index/country.cfm?id=Ethiopia>)

moment, it officially takes approximately 3 weeks to obtain a business license as seen in the table below, while practically it takes much less.

Table 2 Investment Procedure

	Stage	Agency	Days
1.	Investment permit	Ethiopian Investment Agency	5 Days
2.	Business registration	Ditto	2 Days
3.	Registration of technology transfer agreement, if any	Ditto	2 Days
4.	Approval of duty-free capital goods	Ministry of Revenue	1-2 Days
5.	Approval for opening foreign currency account	National Bank of Ethiopia	1 Hour
6.	Approval for opening foreign loan/supplier's credit	Ditto	7 Days
7.	Registration of investment capital	Ditto	2-3 Days
8.	Tax registration	Federal Inland Revenue Authority	1 Hour
9.	Work permit	Ethiopian Investment Agency	2 Days
10.	Business license	Ditto	2 Days

Source: p.52, UNCTAD, 2004, *An Investment Guide to Ethiopia*

Financial Institutions

Financial Institutions can be classified into three, i) banks, ii) non-banks, and iii) micro-finance institutions.

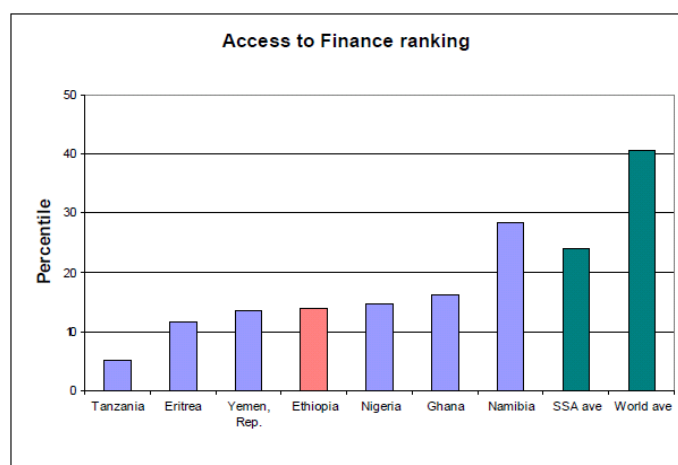
Banks. There are eleven banks in existence in Ethiopia at the moment, i.e. three public, seven private and one cooperative bank. Ethiopian private banks are not active in mid/long-term loans, firstly because their limited capital, which is partially caused by a shortage of savings, does not allow them to tie the little capital they have to one project for the long-term and secondly because information on the project and the borrower is not substantial enough to enable them to make a clear judgment on the feasibility/profitability/risk to finance them so that they have to minimize the lending risk by avoiding long-term commitments. Mid/long term loans are, however, crucial for Ethiopian economic growth. Therefore, the public banks (Commercial Bank of Ethiopia, Development Bank of Ethiopia and Construction and Business Bank) are engaged in mid/long term loans.

At the moment, banks are concentrated in urban areas, though banking services should be available in rural areas as well for private sector development at the regional level. The Oromiya Cooperative Bank and growing micro finance institutions are playing important roles in rural areas covering the absence of private banks.

The Oromiya Cooperative Bank was funded by cooperatives, unions and individuals. It finances unions and cooperatives but not individuals. Since this bank has achieved a great success and contributed to the development of the Oromiya Region, the Federal Cooperative Commission is planning to establish the same kind of bank in the Amhara and Tigray regions as well.

The Banking Association was established in 2001 and all eleven banks are its members. The Association aims at; i) promoting cooperation among banks, ii) conducting surveys relevant to the financial sector, iii) providing training for bankers, iv) raising issues to law makers on relevant laws/regulations and v) raising awareness of the masses about the financial sector.

Regardless of the effort of banks, access to finance is still the biggest issue for private sector development in Ethiopia. As a result of Ethiopian banks requiring high collateral, 182% of the credit on average, small scale enterprises and new types of businesses which do not have assets cannot meet the lending terms. Consequently, Ethiopia ranks low in access to finance compared to Sub-Sahara African countries.



Source: Nebil Kellow, First Consult PLC, 'Investment Climate and Competitiveness: Improving Access to Finance, Finding from the World Bank 2006 Investment Climate Assessment (ICA)', presentation at Accelerating Private Sector Led Growth in Ethiopia: Investment Climate and Competitiveness Conference, 27-28 June 2007

Figure 2 Access to Finance Ranking

The Ethiopian Government's policy is that it will not allow the liberation of banking until domestic banking matures. However, the development partners insist that the backwardness in overseas remittance procedures and credit card services hinders international investment and therefore deregulation of the banking system is a must in the near future to attract more investment. Also, liberation of finance is a requisite for WTO admittance.

Non-banks. The Industrial Development Strategy admits the importance of a Stock Market but considers that the situation in Ethiopia is still not ready to accept and exploit a Stock Market system. The Prime Minister, Mr. Meles also negatively considers a Stock Market as a gamble. Some people established a private Stock Market several years ago but it was closed down by the government, according to informal sources. After all, there is no Stock Market existing in Ethiopia at the moment.

The Ethiopian Government sporadically issues treasury bills and therefore there exists a

treasury bill market. However, it has a poor interest of less than 1%, due to the high demands of private banks which have high liquidity.

There was no venture capital in Ethiopia for long because the tax rate for it was very high, which has been discouraging the investors. However, the first venture capital company has been recently formed by Diaspora.

Options to mobilize capital from the non-bank financial sector are fairly limited in Ethiopia, which hinders private sector development. Therefore, the Financial Capacity Building Project of the World Bank considers the establishment of a corporate bond market important².

Micro-finance Institutions. At the moment there are 27 micro-finance institutions, 8 of which have activities in regional areas covering the absence of the large commercial banks as mentioned above. The micro-finance institutions can be classified into three types; i) run by regional government, ii) developed from NGO, and iii) founded by individuals and for-profit. There is only one example of the later type, Agar, which is newly established. For sustainability, micro-finance institutions also should be able to be self-supported in the future.

All types of micro-finance institutions are under the supervision of the National Bank of Ethiopia (NBE). The National Bank of Ethiopia issues the license for the establishment of micro-finance institutions and they have an obligation to hand in monthly reports to the bank. Also, the NBE provides annual operational guidance to the institutions.

The number of loans approved by micro-finance institutions has been increasing to reach 1.5 million clients, 2.3 billion birr credit, in 2005. Micro-finance institutions are the major financial providers in the regions, while private banks operate mainly in urban areas. However, micro-finance institutions have been expanding their operation to finance the urban poor as well for the last couple of years.

Conventionally, the size of micro-finance loans was less than 5,000 birr per loan, while that of commercial banks was 50,000 birr. There was a gap for middle size loans, between 5,000 and 50,000 birr, where there was no availability of funds from any institution. However, a new attempt to solve this issue has been taken so that commercial banks finance micro-finance institutions to up-scale their finance to cover the neglected middle size loans.

Though micro-finance institutions are playing an important role in regional areas, they do not cover the pastoral areas, such as Afar, Gambella and Somali REgions, yet. The Association of Ethiopian Micro-finance Institutions (AEMFI) is conducting a survey to

² The World Bank, Project Appraisal Document on a Proposed IDA Grant in the Amount of SDR 10.3 Million (US\$ 15 Million Equivalent) to the Federal Democratic Republic of Ethiopia for a Financial Sector Capacity Building Project, May 23, 2006.

explore the possibility to operate in these areas.

Micro-finance institutions are suffering from a lack of capital due to the rapid expansion of services and growth of demand according to informal sources. In 2006/07, only one fifth of the demand could be financed due to lack of capital. Skilled manpower is another issue. The AEMFI provides training for micro-finance institutions, but skilled/trained human resources are undersupplied.

Land Tenure System

The issue of land property rights started in 1975 when the Mengistsu Administration nationalized all land, commercial buildings, and surplus houses. The Meles Administration made a great effort to solve the problems and almost 400 cases with Italian and American investors had been solved by 1995. However, approximately 50 cases with French, German, Greek, Norwegian and British investors remained, which has slowed down additional foreign investment in Ethiopia. MIGA (Multilateral Investment Guarantee Agency) has arbitrated since 2000, and most of the cases were solved by 2004³.

However, land property rights are still restricted in Ethiopia. Most of the land is national with a few limited exceptions, which discourages foreign investors. Also, land cannot be considered as collateral for loans, which is another problem hindering private sector development, according to the Banking Association. However, the Government of Ethiopia does not have any intention to change the system in the near future.

On the other hand, some investors in Ethiopia consider the land system advantageous. Since the Government of Ethiopia leases the land for a significantly low price for the long-term⁴ in the case of export-led investment, the investor does neither need to prepare capital to purchase the land nor take a risk to lose the investment on the land.

The land registration and land management system also have some problems. The Ethiopian Government launched the Urban Good Governance Package in 2006, which includes a Land Development and Administration System Improvement Sub-program. This sub-program is expected to solve the problems by improving the land leasing, registration system as well as human resource development.

Competitiveness

The Competition Law was enacted in 1991, which prohibits collusion and fraud, and imposes clarification of consumer information on producers. However, there are some issues of the law, e.g. there are some articles which hinder fair competition, one of which admits price control by the Government. Another issue is that any regulation on merger and

³ Norimichi Igawa, 'Improvement of Investment Climate and Private Sector Investment in the Context of Development—*Kaihatsu ni Okeru Toshikankyo kaizen to Minkantoshi*', presentation at 45th Workshop on Development and Aid Trend of FASID, 14 October 2005 (dakis.fasid.or.jp/report/pdf/handout45.ppt)

⁴ The details are available in *Factor Costs* issued by Ethiopian Investment Agency.

acquisition cannot be found in the law⁵.

The Ethiopian Trade Practice Investigation Commission was established in 2004 to arbitrate conflicts of enterprises over unfair competition. Since then, 50-60 cases have been brought to the Commission, about half of which have been solved so far. The cases are about misuse/abuse of trademarks, monopoly competition, collusion and so on. No case about unfairness of access to land/finance has been observed, so far.

Although the Government of Ethiopia has been making a great effort to improve competitiveness, still there are concerns among development partners that liberalization should be pushed forward further to make the environment of competition fairer because many sectors, e.g. not only banking and telecommunications but also the import and wholesale businesses⁶, are still limited to domestic investors only.

WTO Accession

The Ethiopian Government applied for WTO accession in January 2003. After the investigation, WTO identified the requisite conditions for Ethiopia to join. The Ethiopian Government and WTO agreed on the requirement and signed the memorandum in June 2007.

Responding to the efforts of the Government of Ethiopia, development partners are providing support to accelerate Ethiopia's WTO accession. For example, USAID has been sending international experts to the WTO Accession Department of MoTI, and the EU finances the Trade Capacity Building Programme, which aims to enhance the capacity of relevant officers of MoTI.

A Common Fund was established to finance surveys and common activities related to trade promotion by IMF, International Trade Center, UNCTAD, UNDP, WB and WTO, following the Integrated Framework for Trade-Related Technical Assistance adopted in the High-Level Meeting on LDCs' Trade Development in 1997.

To join WTO, deregulation of telecommunications and banking is considered as a must, but the Government of Ethiopia opposes it to protect its domestic industry.

⁵貿易業務調査委員会委員長 Harka Haroye 氏インタビュー及び USAID, Ethiopia Commercial Law & Institutional Reform and Trade Diagnostic, Executive Brief: Report Summary and Recommendations, Jan 2007 による。

⁶ UNCTAD, 2004, An Investment Guide to Ethiopia, Appendix 1

4. Diaspora

The number of the Ethiopian Diaspora is estimated to be 1-2 million with half of it living in North America. Many of the Ethiopian Diaspora have been very successful in their host countries and their experience/expertise could be great assets for the mother country's development, as well.

Recently, the investment in Ethiopia by the Diaspora has been significant. The Government of Ethiopia realizes its importance and allows several privileges for Diaspora investors, such as tax exemption. The economic impact of the Diaspora's investment is estimated to have reached 2 billion birr so far in the areas of agriculture, construction, education, health, industry, real estate, and hotel/tourism.

The Ethiopian Expatriate Affairs⁷ have been dealing with Diaspora issues at both federal and regional level to attract more of the Diaspora to the country.

Regardless of their strong desire to invest, however, most of the Diaspora cannot take a step forward to commence business in the mother country due to lack of information on market/investment regulation/procedures. To meet the needs of the Diaspora, Diaspora Business Center and web-page that provides all necessary information to start business in Ethiopia, will be opened. The Center will also provide opportunities for investors to gather, such as trade fairs or Diaspora conferences. Prime Minister Mr. Meles also supports the idea and many development partners such as WB, USAID, GTZ and the Embassy of the Netherlands will provide support to the establishment of the Center, as well. The Embassy of Japan is also planning to provide information about the Japanese private sector.

5. Conclusion

Ethiopia possesses the second largest population in Sub-Sahara Africa, 77 million, which could provide the necessary workforce for labor-intensive industries. Although its purchasing power is still low, the domestic market of such a large population has great potential for growth in the future. Half the land of Ethiopia is highland with gentle weather raging from 10-20°C throughout the year, which is suitable for agriculture and attractive for the tourism industry also. Corruption is less compared to other Least Developed Countries, although it is still an issue to be tackled. Also, the crime rate is very low and Addis Ababa is a very safe city.

In addition to the relatively good investment environment mentioned above, the Government of Ethiopia realizes the importance of private sector development and is trying to improve it further. The Government of Ethiopia has a series of policies and strategies, i.e. PASDEP, ADLI and an Industrial Development Strategy, to enhance industries by free

⁷ http://www.mfa.gov.et/Ethiopians_Origin_Abroad/Ethiopia_Origin.php

competition and to promote modern and commercial agriculture by the industrialization of agriculture.

The Diaspora, which is estimated to have reached the million mark, with strong financial power and interests in investment is another asset for Ethiopia's development. The Government of Ethiopia is also aware of their importance and is taking measures to optimize their financial power and expertise.

The issues are, however, the weak and closed financial sector, lack of property rights, weak infrastructure, and shortage of skilled manpower. Also, transportation costs are relatively high because Ethiopia is landlocked. Although the Government of Ethiopia is taking measures to solve these problems, more efforts are expected to improve the financial sector. Also, telecommunications is another sector to be improved.

Natural disaster and the regional situation are external threats for investors. Particularly political stability is important not only for foreign investment but also for ODA and the instability of the region is a destabilizing factor for Ethiopia's development.

On the other hand, there are many opportunities for Ethiopia to enhance its development, e.g. commitment of development partners increasing their assistance to Africa, increase of international conferences and tourism, increasing fair trade activities, and increasing interest in organic products. Many opportunities are, however, being missed due to the lack of information at the moment. Therefore, it is necessary to create an information sharing system linking producers and buyers. The Diaspora Business Center mentioned above, which is creating a space for producers and buyers to meet online, is an important attempt in this regard.

Summarizing these points, the SWOT (Strength, Weakness, Opportunity and Threat) chart can be drawn as follows.

Table 1 SWOT Analysis

<p>Strength:</p> <ul style="list-style-type: none"> • Domestic market with big population, Privileged access to EU and US market • Safe environment, relatively little corruption • Cheap and abundant labor • Natural and cultural resources, Adequate weather for agriculture and tourism • Diaspora with financial power and interests in investment 	<p>Opportunity:</p> <ul style="list-style-type: none"> • Increase of international conferences and tourism • Increase of international assistance to Africa • Increase of fair trade activities • Increase of international awareness of organic products
<p>Weakness:</p> <ul style="list-style-type: none"> • Weak infrastructure, Lack of skilled workers • High transportation costs • Delay of privatization • Restriction on international investment • Difficulty in access to finance • Lack of property rights • Lack of financial services • Lack of information on investment/market 	<p>Threat:</p> <ul style="list-style-type: none"> • Flood, Drought • Regional Situation

Source: Modified by the Embassy of Japan in Ethiopia based on UNCTAD, 2004, *An Investment Guide to Ethiopia*

To improve the business environment, Japan can provide technical assistance for the capacity building of MoFED, MoTI, and MoR, to improve financial policies and the land tenure system. Also, infrastructure construction is crucial as a back-bone for growth. More directly, enhancement of trade with Japan, which offers a huge market, is another important factor both for the Ethio-Japan relationship and for Ethiopia's development.

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Recommendations

Following the Findings of the Series of Studies on Ethiopian Industries

(This is an English version translated by the Embassy of Japan in Ethiopia based on an original report written in Japanese)

February 2008

Embassy of Japan in Ethiopia

1. Introduction

The Ethiopian economy has been rapidly growing as seen in the two digit GDP growth that has been recorded for the last three years. In addition to the stunning macroeconomic figures, we are observing rapid changes in day-to-day life in Addis Ababa, such as the construction boom and increase of traffic.

The Government of Japan has been trying to support making this economic growth sustainable through its ODA, the promotion of Japanese private sector investment in Ethiopia and political dialogue. In this regard, the Embassy of Japan considers it important to understand the economy in Ethiopia in order to make our support appropriate and strategically effective.

In addition, Ethiopia is fascinating as a growing market for the Japanese private sector. The establishment of strong ties between Ethiopia and Japan in regard to trade is a benefit not only for Ethiopia but also for Japan. Therefore, the Embassy of Japan has recognized the need to widely disseminate information about the economy in Ethiopia to the Japanese private sector.

Against this background, the Embassy of Japan has conducted a series of studies on industries in Ethiopia, focusing on four main industries, i.e. floriculture, hotel, leather shoes and handicrafts, and the investment climate as a cross-cutting issue. The Embassy of Japan has shared the findings of the studies with Japanese stakeholders, i.e. JICA (Japan International Cooperation Agency), JETRO (Japan External Trade Organization) and the Japanese private sector and exchanged ideas how Japanese support on private sector development in Ethiopia should proceed in the future. Incorporating the ideas from these stakeholders, this last report on the series of studies will discuss the way forward for Japanese support in the sector.

Please note that this report only focuses on the issues which can be tackled in the short-medium term. The issues which require long-term measures, such as roads, electricity, water supply and ICT, will be discussed on a different occasion. Also, the negative image of Ethiopia, e.g. poverty, starvation, drought, and flood, was mentioned several times in the previous reports as a big problem that hinders Ethiopian products from entering international markets. This also requires long-term PR activities and therefore will be out of the scope of this report.

2. ODA (Official Development Assistance)

To develop the private sector in a sustainable manner, comprehensive support throughout the three phases of the value chain, i.e. production, logistics and marketing, is required. The following paragraphs will discuss potential ODA support for each step for the four areas studied in the previous reports.

Floriculture

The development of floriculture, or more widely of horticulture, has been supported by the Government of the Netherlands and USAID and it has been improving sufficiently in regard to both quality and quantity. Also, both development partners are supporting the improvement of logistics, although further amelioration is needed in terms of chilled transportation and packaging.

Therefore, Japan will focus on promoting the export of Ethiopian flowers to the Japanese market rather than providing technical assistance in production and logistics in addition to the other development partners' support. To promote Ethiopian flowers in the Japanese market, JETRO has been inviting Ethiopian farms to Flora Expo Tokyo, which is held annually. Also, the African Fair will be held at Yokohama in May 2008, near Tokyo, prior to TICAD IV and Ethiopian products will also be exhibited there. The Embassy and JICA will share the information about industry in Ethiopia with JETRO, which has no branch office in Addis Ababa yet. Also, the Embassy and JICA will provide up-dated information to the Japanese private firms visiting Ethiopia to explore potential business opportunities.

Hotels

The hotel industry itself cannot be supported by ODA. However, the study found that five star hotels in Ethiopia purchase most of their foodstuff from the domestic market, although the domestic products still cannot fully meet the international standard in regard to quality and stability of supply. Thus, this is the area where ODA has been and will be providing support.

Linking the products which were improved by international assistance to the hotel market creates win-win-win situation for the poor, the hotels and development partners- i.e. the poor finds the market to sell their products, the hotels find higher quality products and the development partners make the projects more effective.

However, due to lack of information, buyers and producers cannot find each other and many business chances have been missed. The Government of Ethiopia and many development partners are constructing commodity exchanges at the moment to improve the situation.

Japan has a successful experience in a modified style of commodity exchange, which is called '*Michi No Eki – Station on Road*'. This is an information center where much of the local information, e.g. on local history, historical sites and local products are available. In addition to local information, *Michi No Eki* sells local products on the spot. This attempt has been very successful and contributed to local revitalization in Japan. It was also successfully applied in some South East Asian countries. JICA is planning projects to improve logistics by exploiting the successful experience of Japan in cooperation with the Government of Ethiopia and other development partners working in this field.

On the other hand, tourism itself is still in its infancy in Ethiopia although it possesses eight UNESCO World Heritage sites. Tourism is one of the sectors that is supported by the World Bank's new Country Assistance Strategy (CAS) and it is expected to be a leading industry in Ethiopia. Japan also plans to cooperate with the other development partners in this sector.

In regard to tourism development, Addis Ababa has the potential to be an international convention city because it hosts the Commission of the African Union (AU) and the United Nations Economic Commissions for Africa (UNECA) which has a state-of-the-art conference center (UNCC), although the potential is little exploited. The Addis Ababa Tourism Committee is going to promote Addis Ababa as an international convention city in cooperation with top class hotels and will create a Convention Bureau in the Committee. The Bureau is looking for assistance from development partners, firstly in financing for the Bureau's activities, e.g. attending international fairs, and secondly in the improvement of the associated businesses, e.g. capacity building for tourism related personnel and quality improvement of agri-products. This is a good example of PPP (Public Private Partnership) and Japan is willing to support this initiative, which is spontaneously emerging from the private sector itself.

Leather Shoes

Productivity and quality improvement has been actively supported by UNIDO, Italian Cooperation and the Embassy of India. Therefore, Japan will not offer additional support on top of these.

On the other hand, Professor Otsuka of GRIP/FASID has conducted a survey on the cluster development of the leather shoe industry and examined its potential for future development. The study shows the similar patterns between the cluster development in Ethiopia at the moment and that in East Asia in the past. His theory, abstracted from the cases in East Asia, shows that training for the top managers, but not for the workers, who will lead the industry is very effective for cluster development. Since Japan has experienced successful cluster development in many sectors, we will focus on cluster development, particularly in the leather shoes sector based on its potential, to share our experience.

However, according to the study of the Embassy of Japan, the quality as well as the price of Ethiopian leather shoes is not competitive enough for the Japanese market yet. Therefore, the promotion of leather shoes to Japan is not appropriate yet. Instead, we see a higher potential in promoting the trade of tanned skin/leather since tanneries in Japan has been closed down recently and the import of skins/leather have been increasing. To improve the quality of Ethiopian skins/leather, quality improvement in slaughtering and tanning is also important. Since Japan has an advanced technique in tanning, the provision of training by Japanese artisans could be very effective as well.

Handicrafts

Handicrafts in Ethiopia are mainly sold on the domestic market and the quality as well as quantity of most handicrafts does not meet international standards. Japan has been supporting the quality improvement of handicrafts by sending JOCVs. Pottery is particularly the sub-sector where Japan has a competitive advantage and a project in Gondar to support a women's pottery center has yielded great results. At the Farmers Festival held at Awasa in January 2008, the potteries JICA supported gained great popularity among Ethiopian people. Additional technical assistance in sending an artisan will be important to develop the center further.

The problem in the handicrafts sector is that development partners' support is not optimized although there are many small projects. This is because there is no coordination system among development partners. For example, there are many quality improvement projects for weavers but no one knows who is working where because each project is so small. By cooperating with other development partners, such as GTZ, UNIDO, USAID and Italian Cooperation, the small projects can be more effective to link the products to the international market.

Others

Cultivation of the domestic market is as important as that of the international one. This can be done in various ways but one of the indirect ways could be the creation of new customs by cultural exchange. For example, the Embassy of Japan organized a Japanese traditional flower arrangement show in September 2007 as a series of events for the Ethiopian Millennium. Introduction of the custom to enjoy flower arrangement may create new demands on flowers and pottery. The Embassy of Japan will create cultural exchange events which can be linked to other ODA projects to enhance the Ethiopian economy.

Micro-finance is another area where Japan is considering providing support. In 2007, JBIC (Japan Bank for International Cooperation) sent a team to explore the possibility of supporting micro-finance institutes (MFIs) in Ethiopia. The team discovered that MFIs in Ethiopia are fairly advanced and are playing an important role in MSE (Micro Small

Enterprises) development. However, these institutes are suffering from lack of capital as they could finance only 20 % of the potential demand.

The MFIs are expanding their services from agriculture in the rural areas to MSE in urban areas including small craft centers. By strategically financing MSEs in cooperation with other technical assistance provided by development partners, a synergic effect can be expected. Finance for MFI by JBIC has not yet materialized but it is important to share the information among stakeholders from its initial stage to make the project adequate.

Quality of packaging should be stressed as a cross-cutting issue. Particularly for the floriculture industry, the quality of packaging in Kenya is far more advanced compared to that of Ethiopia, in that they pack the flowers at the airport into small bunches with barcodes in Euros attached, which can be displayed immediately at retail shops. Also, hotels would like to purchase products from the domestic market but the low quality of packaging forces them to import fancily packed products from the international market. Improvement of packaging quality would affect many sectors and bring about substantial economic impact.

3. Private Sector Investment

Private sector investment plays an important role as well as ODA in the economic growth of Ethiopia and the enhancement of Ethio-Japan relationship. However, Ethiopia has not seen the Japanese private sector investing in the country for a long time after the Derg took power. There had been several Japanese private firms in Ethiopia before the Derg took over but all withdrew with the advent of the new administration of the Derg and have not come back, even after its collapse.

After this long interval, two Japanese private firms launched their businesses in Ethiopia in 2007; one is a coffee roasting factory and another travel agency. This reflects the recent economic growth of Ethiopia but the opportunity is not fully exploited yet and there is still a much bigger potential for the Japanese private sector to invest in Ethiopia.

In the following section, the potential of private sector investment in the four sectors selected in the series of studies will be examined.

Floriculture

The export of flowers to Japan started in 2006 and has rapidly increased to reach approximately 4million stems for 11 months in 2007, which makes Ethiopia the fourth biggest exporter of flowers to the Japanese market following Korea.

Yr.	India	Kenya	Korea	Ethiopia	Vietnam	Colombia	Holland	Ecuador	Others	TOTAL
'07	29,985	9,922	8,528	3,895	3,097	2,782	2,113	1,996	2,367	64,690
'06	39,436	11,368	13,794	1,019	4,236	2,720	3,094	2,506	4,211	82,389
'05	37,026	3,956	19,031	0.260	3,828	2,625	3,783	2,866	5,969	79,089

Table 1 Exporters of Flowers to Japan (2005 – 2007)

Although there is some fluctuation of prices due to change of exchanges in the rate, still the Japanese market is very interesting for Ethiopian farmers because the price in the Japanese market is 10% higher than that in the European market on average. Also, diversification of the market is a must to change the too much dependence on the European market in that 70% of Ethiopian flowers are exported to the Dutch Auction.

However, the flowers are exported via Dubai to Osaka/Nagoya, which are the second and third largest Japanese cities respectively, because there is no direct flight between Ethiopia and Japan at the moment. Although Ethiopian Airlines has been making a great effort to start a service from Addis Ababa to Narita, Tokyo since 1972, it is not still realized due to the lack of capacity of Narita Airport. Since direct flights between the two cities is important to enhance the business relationship, the Embassy of Japan in Ethiopia will also try to support the entry of Ethiopian Airlines into a service to Japan in cooperation with the Embassy of Ethiopia in Japan.

On the other hand, there is a new freezing technology which enables flowers to be kept fresh for a month. This technology was developed by a Danish firm and has already applied to ship flowers from Vietnam to Japan. By shipping, transport costs can be substantially cut because a ship can deliver a far larger volume compared to an aircraft. However, another problem would have to be solved, preventing damage to flowers during the three day road transportation from Addis Ababa to the Djibouti port.

Also, the packaging quality should be improved to be competitive enough with Kenya, as mentioned above. Customized packaging for the Japanese market could be one area where the Japanese private sector could contribute.

Flowers are not the only potential export commodity. Other products, such as tea and spices, could be exported to Japan if they satisfy the Quality Product List, which the Government of Japan maintains.

Tanned Skins/Leather

The quality of Ethiopian tanned skins and leather is internationally recognized, particularly as material for golf gloves. The golf gloves of the worldwide famous golf player, Tiger Woods, are made from Ethiopian sheepskin.

However, the export of skins and leather to Japan is still insignificant, only 1.5% of the volume of those from Brazil to Japan. Considering the quality and price of Ethiopian skins and leather, there is a big business opportunity which is not yet exploited.

Tourism

To increase Japanese tourists to Ethiopia, information dissemination about Ethiopia is a must. The webpage of the Embassy of Japan in Ethiopia¹ as well as cultural exchange events would reveal to potential Japanese tourists the positive aspects of Ethiopia, e.g. unique culture and long history, other than the repeated image of poverty and natural disasters. These attempts would gradually change the image of Ethiopia. Also, information sharing with the newly established Japanese travel agency in Addis Ababa is crucial.

Handicrafts

The export of handicrafts is still insignificant statistically but is sufficient enough to bring about impact for the small-scale craft makers. Also, considering the limited capacity of handicraft makers, the small-scale deal is appropriate at the moment. The way to make the scale of the business adequate is to create a space for producers and buyers to meet and arrange a deal, one by one, according to their capacities. Therefore, Japan will optimize the occasions of the African Fair held at Yokohama in May 2008 by exhibiting Ethiopian handicrafts, and the JETRO Trade Tie-up Promotion Program², where producers and buyers can meet on the web-site.

4. Political Dialogue

Financial Services

Ethiopia rates low in access to finance among Sub-Sahara African countries. This is partially caused by the high collateral required to obtain loans, which is 189% of the credit on average. This is problematic for MSE and new kinds of businesses which do not have enough assets to obtain the necessary finance.

On the other hand, from the view point of banks, it is too risky to finance MSE and new kinds of businesses because the company's profile and financial standing are often not well enough recorded to allow them to judge the feasibility of the business.

Therefore, capacity building for bankers to make adequate investment decisions as well as

¹ <http://www.et.emb-japan.go.jp/>

² <http://www3.jetro.go.jp/tpppoas/index.html>

for entrepreneurs to prepare appropriate business plans with financial recording is necessary to solve the current problem.

Liberalization of the financing sector is often mentioned as a solution, but the Government of Ethiopia does not intend to deregulate it for the moment to protect domestic banking. We should not forget the success story of Japanese protectionism to enable domestic banking to grow internationally competitive and that liberalization is not the gospel to solve the problem. However, it is also true that the financial sector is the bottleneck for the growth of all the other sectors in Ethiopia at the moment. Considering the speed of the Ethiopian financial sector's development and the opportunity cost for protecting the financial sector by constraining the other sectors, its liberalization could be worth considering.

Land System

Lack of ownership discourages some foreign investors from Ethiopia, though not all. For example, a big Asian company has decided not to invest in Ethiopia due to lack of land ownership according to an informal source. Stable land ownership is important for attracting more investors.

MSE support

According to the World Bank, investment in Ethiopia has been increasing, but when looked at closely the breakdown of the data shows that the share of public investment has been significantly increasing compared to private investment. This situation is not sustainable for private sector development.

The Government of Ethiopia has been improving the investment climate and the FDI, and investment in the selected sectors has been increasing. The next step is to strengthen the MSEs and create an environment which enables MSEs to flourish. The improvement of ICT, as well as access to finance for MSEs, is a must.

5. Conclusion

Comprehensive improvement at all levels of the value chain, i.e. production, logistics and marketing, is required to make private sector development sustainable. To assist in making it possible, cooperation between JICA, JBIC, JETRO and the Embassy is crucial to make each support/project complementary. Also, information sharing with the private sector is a must to expand the market and promote trade between the two countries.

In addition, since comprehensive support is not possible solely by Japan, it is important to cooperate with other development partners.

One Village One Product (OVOP) is a development concept to add value to products by localization. OVOP first revitalized Japanese rural economies and was then successfully

applied in South-East Asian countries such as Thailand. By applying this concept, the market expectation can be captured and fed into product development.

Therefore, Japan will make the OVOP concept the center of its support for private sector development in Ethiopia and will provide comprehensive support throughout production and logistics to marketing.