AN ENTERPRISE MAP OF ETHIOPIA

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CONTENTS

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The International Growth Centre (www.theigc.org) promotes sustainable growth in developing countries by providing demand-led policy advice based on frontier research. The IGC is directed and organized from hubs at the London School of Economics and the University of Oxford and comprises country offices across the developing world. The IGC was initiated and is funded by the Department for International Development (DFID).

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ACRONYMS AND ABBREVIATIONS

APF	Addis Pharmaceutical Factory
API	Active Pharmaceutical Ingredients
BC	Building Contractor
BPR	Business Process Re-engineering
CAD	China–Africa Development
CC	Commercial Cane
CEO	Chief Executive Officer
CRBC	China Road and Bridge Construction
CRT TV	Cathode Ray Tube Television
CSA	Central Statistical Authority
DACA	Drug Administration and Control Authority
DBE	Development Bank of Ethiopia
EABMEI	Ethiopian Association of Basic Metals and Engineering Industries
EAP	East African Pharmaceuticals
EBA	Everything-But-Arms
ECX	Ethiopian Commodity Exchange
EEPCO	Ethiopian Electric and Power Corporation
EFFORT	Endowment Fund for the Rehabilitation of Tigray
EHGC	Empty Hard Gelatin Capsules
ELICO	Ethiopia Leather Industry Corporation
EMS	Environmental Management System
EPHARM	Ethiopian Pharmaceuticals Manufacturing
ERA	Ethiopian Roads Authority
ESDA	Ethiopian Sugar Development Agency
ETB	Ethiopian Birr
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FY	Fiscal Year
FOB	Freight On Board
GIS	Galvanized Iron Sheet
GC	General Contractors
GDP	Gross Domestic Product
GM	General Manager

GMP	Good Manufacturing Practice
GTZ	German Technical Cooperation
GTZ IS	German Technical Cooperation International Services
HACCP	Hazard Analysis and Critical Control Point
HDPE	High Density Polyethylene
HQ	Headquarters
HSK	Horizontal Shaft Kiln
HVA	Handles Vereening Amsterdam
ICT	Information and Communications Technology
IPO	Initial Public Offering
ISC	Initial Seed Cane
ISO	International Organization for Standardization
IT	Information Technology
JAC	Jianghuai Automobile Company
KLM	Koninklijke Luchtvaart Maatschappij (Royal Dutch Airlines)
KOSPI	Kombolcha Steel Products Industry
LDPE	Low Density Polyethylene
MBI	Modern Building Industries
MIDROC	Mohammed International Development Research and Organization Companies
MIS	Management Information System
ML	Meter Linear
MoARD	Ministry of Agriculture and Rural Development
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
MoWUD	Ministry of Works and Urban Development
MT	Metric Tonne
NGO	Non-Governmental Organization
NTO	National Tourism Organization
OPC	Ordinary Portland Cement
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PFSA	Pharmaceutical Fund Supply Agency
PIC/S	Pharmaceutical Inspection Cooperation Scheme
PLC	Private Limited Company
PPC	Portland Pozolana Cement
PPESA	Privatization and Public Enterprises Supervising Agency
QMS	Quality Management System

RC	Road Contractor
ROA	Return On Assets
SABS	South African Bureau of Standards
SC	Seed Cane
S.C.	Share Company
SCAA	Specialty Coffee Association of America
SKD	Semi-Knocked Down
SME	Small and Medium Enterprise
SNNPR	Southern Nations, Nationalities and People's Region
SOE	State-Owned Enterprise
tcp	tonnes of clinker per year
TNA	Trans Nation Airways
TTCI	Travel and Tourism Competitiveness Index
TVET	Technical and Vocational Education and Training
UAE	United Arab Emirates
UK	United Kingdom
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollar
VSK	Vertical Shaft Kiln
WFP	World Food Programme

AN ENTERPRISE MAP OF ETHIOPIA

Chapter 1

INTRODUCTION

This study describes the history and current capabilities of Ethiopia's leading industrial companies (agribusiness, manufacturing and construction). The focus is on large and mid-size firms. To motivate this focus, it will be helpful to look at the profile of Ethiopia's exports.

As Figure 1.1 shows, 78% of exports come from a handful of primary sector industries: coffee, oilseeds, khat (chat), etc. Of the remaining 22% of exports, three-quarters comes from four industries: cut flowers, leather, meat and meat products, and clothing and textiles. In each of these industries, a handful of large and mid-size firms dominate: some 31 firms account for about half of total exports.[1]

The same picture is true in respect of domestic production and sales, though this is harder to quantify, for want of appropriate statistics. About 50 or so large and mid-size firms play a dominant role in the economy; to understand the capabilities currently in place in Ethiopian industry, it is crucial to understand this small number of leading players. In what follows, for each of the main industries, we profile most of the leading firms (a total of 50 in all), and then provide shorter profiles of a typical subset of the industry's middle rank firms. The median employment level of the 50 leading firms we profile is about 500, while all but two of the others have over 100 employees. By way of comparison, Ethiopia has, in total, 43 firms with over 500 employees in the sectors covered here, and 408 with employment between 50 and 500. Our set of 50 profiled firms is selected to represent the largest firms in their respective markets or sub-markets.[2] The motivation for this focus is simple: if we want to expand capabilities, it is appropriate to ask, where did the existing capabilities of these leading firms come from?

[1] Eight firms account for over 40% of coffee exports. Nine firms account for over half of oilseed exports. Exports of khat are dominated by one firm, which has 32% of exports.

[2] In each industry, we identify the main sub-markets. For example, in coffee we distinguish specialty exporters, bulk exporters and domestic suppliers. Our set of profiled firms is chosen to be representative of the leading firms in each of these segments. One industry, cut flowers, has a large cluster of firms of similar size. Here, we choose three of the larger firms to represent the group.

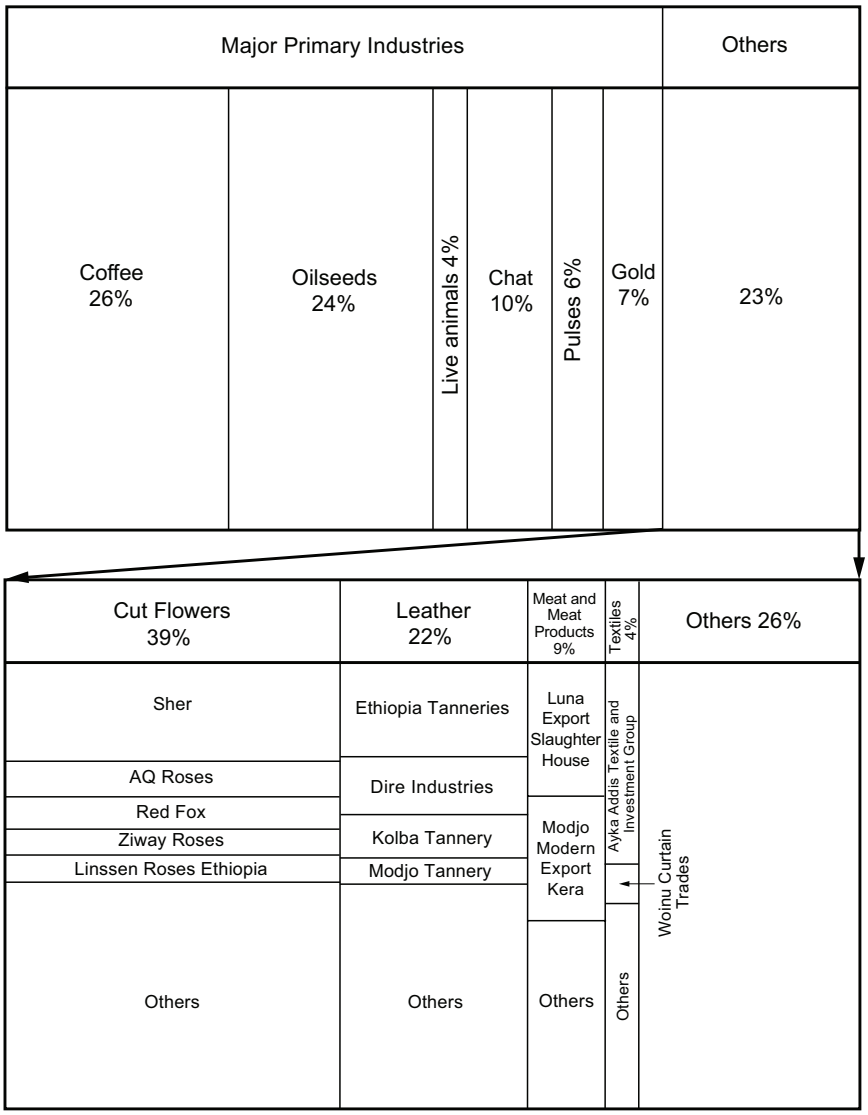

FIGURE 1.1. Leading exporters (fiscal year July 2009–June 2010). *Source:* Ethiopian Ministry of Trade and Ethiopian Revenue and Customs Authority.

The Origin of Capabilities

The first theme to emerge from the firm and industry profiles that follow relates to the origin of capabilities. There is a view that we should look to the

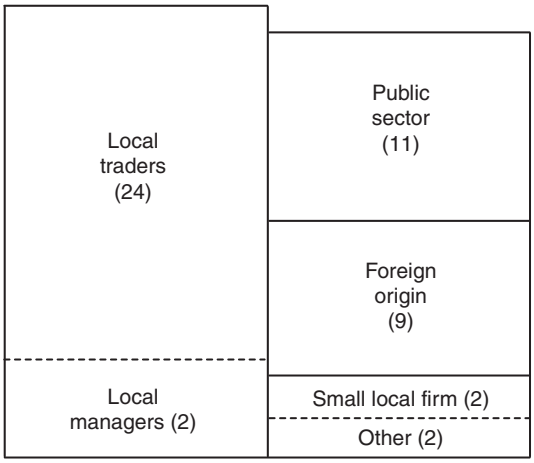

FIGURE 1.2. Origins of Ethiopia's leading companies.

'small firm' sector as the incubator of future industrial companies of mid- and large size. An examination of the firm histories that follow suggests otherwise.

A useful frame is provided by looking at the 50 leading firms profiled below. It turns out that by far the largest group, 24 out of 50, had their origin in trading companies. A further two were set up by managers who had acquired experience of their industry while working in other Ethiopian firms. Taken together, these two categories comprise half of these 50 leading firms. (See Figure 1.2.)

For example,

- Seid Kassie, the founder of SEKA, had 26 years' experience in trading.
- Alem Mengistu's family was long involved in meat trading prior to establishing Organic Export Abattoir.
- Ayele Dejene Gugsa and Nigatwa Gezahegn were raw skin traders prior to establishing the Modjo Company.
- In the clothing and textiles sector, the Crown, GG and Woinu companies were all set up by individuals who began in trading.
- Yohannes Sisay and Isayas Teklu founded the Yesu company to produce corrugated sheet steel and re-bar, having worked for many years in the trading sector.
- Solomon Wendemneh and his wife, owners of the Ahadu conglomerate, began their operations as traders.

The remaining 24 companies fall mostly into two groups: there are 11 whose origins lie in public sector enterprises of some kind, while the origins of another 9 can be traced to a foreign firm setting up a business in Ethiopia.

This suggests two questions:

(i) Why have trading companies played such an important role as an incubator of leading industrial companies?

(ii) To what extent can the role of foreign firms in generating industrial growth be enhanced by way of current and future Foreign Direct Investment projects?

In what follows, we look at these two questions in turn.

From Trader to Manufacturer

Why do so many of the leading firms emerge from the trading sector? Many observers of developing economies are dismissive of the role of traders, and feel that there is a sharp divide between import–export businesses and manufacturing firms. The first key point to emerge from this study is that the opposite is the case: the trading sector is the most important generator of leading firms – and the reasons are fundamental. Why?

The Mohan Kothari Group has been active for three generations in the import of steel to Ethiopia. A few years ago, it set up a business producing drawn wire from imported steel rod. It is notorious, in 'import-substitution' businesses of this kind, that a new business may be undermined from the outset by competition from low-price imports. What was crucial to success in this instance was a detailed knowledge of international markets. The main potential foreign competitors in this sector of the economy are Chinese firms. In the case of this product line, however, China is not a leading producer of the key input, which is steel bar of a particular specification. In fact, Chinese producers of steel wire source their key input in part from the Ukraine – as does the Mohan Kothari Group. In other words, the local firm had identified a 'safe' import substitution opportunity in which it enjoyed a level playing field vis-à-vis imported substitutes.[3]

This example points up the crucial role played by detailed knowledge and experience both of the local market and of the international market. Indeed, this kind of expertise constitutes a more important aspect of 'capability' in

[3] This example is by no means an unusual one: for a second example involving the same firm, see Chapter 15.

the present setting than does any kind of technological know-how. The technology, in many instances, is relatively easy to master.

This question of the 'relevant' capability arises once again in the market for soft drinks, and more specifically mineral water and fruit juices. During the past ten years, a small number of local producers, most notably the Access Capital Group, have successfully entered this segment. What is important to success here is not the technology of production – nor is it the often-emphasized gap between the 'product image' or 'packaging' or foreign versus imported products. The technology, in this instance, can be bought off the shelf. Agents for international equipment suppliers such as Tetra-pack will, for a fixed fee, supply and install a full production line, producing product packaged to international quality standards; and will train local employees in operating the line. So whatever, the key capability is, it is not in this instance 'technological'.

Two things are needed for success: one is the presence of, or the ability to create, a well-organized and efficient team of substantial size, a point to which we return below. The second relates to 'market intelligence': knowing what to produce, and where to position the firm in relation to existing distribution networks, and how to develop new distribution channels. It is here that the clue to the key role played by traders is to be found. Looking at the leading firms whose origins lie in long-established import–export businesses, the common thread is that the detailed understanding of market conditions, both domestic and international, is the key to identifying a viable opportunity, to understanding what is needed to meet that opportunity, and to assessing whether the existing business has, or can buy in, the capabilities needed to set up a successful manufacturing arm. Now information of this kind can of course be acquired by newcomers: the Access Capital group, Ethiopia's first professional investment company, founded by Ermyas Amelga, offers an example. It follows, in all its ventures, the route of commissioning and/or carrying out in-house a detailed market intelligence investigation in advance of making any investment. In just a few years it has grown to employ over 700 people in a series of mid-size businesses ranging from soft drinks to plastics, as well as investment banking and real estate.

It is no accident, however, that half of the leading firms have emerged from the trading sector; for this is often where the deepest and most acute knowledge of local and international market conditions is already at hand. A common and unfortunate tendency among observers of developing economies to see the trading sector as 'separate' from and irrelevant to the

growth of manufacturing industry is a mistake: the role of import–export businesses as the seed corn of manufacturing firms is fundamental.

This is, of course, not the whole story. Trading firms also enjoy another advantage, in their access to finance from their trading activity. Moreover, traders are not exempt from the general rule that a high proportion of new entrants to any industry fail within their first few years. Indeed, one common weakness of traders turned manufacturers in Ethiopia is that while their knowledge of markets is strong, they may be unwilling to invest in acquiring or buying in the production know-how required to run an efficient operation.

A second point emerges from the picture of the origins of leading industrial companies shown in Figure 1.1, which relates to the widespread view that the 'small-firm' sector forms a seed-bed for the growth of larger firms. Among the 50 leading firms, there are only two instances of firms that began life as small-scale manufacturers.

A recent analysis by Mans Soderbom and his associates[4] follows a cohort of 55 new entrants to Ethiopian manufacturing in 1998, and examines the change in their levels of employment over the next ten years. Only 16 of the 55 entrants remained in business 10 years later. The most striking finding is that the typical surviving firm began life as a mid-size firm, and remained at a similar scale of operation a decade later.[5] Moreover, there is a tenfold gap in value added per head and a fourfold gap in wages between manufacturing firms employing over 50 workers and those employing fewer than 10 workers. Raising Ethiopia's GDP per capita will involve a shift of employees from the small-firms sector into mid-size and larger companies.[6]

What our analysis of the origins of leading firms suggests is that small entrants to manufacturing are different in kind, for the most part, from larger entrants. Their founders rarely have the capabilities that underpin a mid-size firm with 30–60 employees. The mid-size firm requires a range of skills in its CEO not usually present in the founders of very small businesses. Central to these skills is the organizational ability to put

[4] Mans Soderbom. 2010. Small and medium sized enterprises in Ethiopia: capabilities, job creation and growth. International Growth Centre.

[5] The median initial size of the entry cohort was 14 employees. However, the 16 firms that remained in business a decade later had a median initial employment of 37 and a median final level of 55.

[6] This is not, of course, to deny the huge and obvious present-day importance of the small-firm sector as a locus of employment in its own right. What is in question here is simply the issue of whether the small-firm sector has been the main seedbed for mid-size and larger industrial companies in Ethiopia.

together and manage successfully a well-functioning group of some 30–60 individuals. This is the skill that is necessarily present already in those mid-size trading ventures that have successfully migrated into manufacturing business – and it is this capability, together with market knowledge, that form the twin pillars of these firms' relevant capabilities – far outweighing in importance the mastery of technology. At the level of manufacturing technology involved in many of the industries surveyed here, the level of required know-how is easily bought in by hiring a number of experienced engineers and technical experts. What is more elusive, as far as the fledgling manufacturer is concerned, is knowing what to produce, how to sell it, and how to shape and manage a mid-size enterprise that will function effectively.

The lesson, then, is that the capabilities possessed by the typical small-scale enterprise are not conducive to its migration into the very different population of mid-size manufacturers; a more promising entrant is the mid-size import–export business that has not in the past engaged in manufacturing, but which has a scale of operation, and a depth of industry knowledge, that stands it in good stead as it transits to manufacturing.

Foreign Entrants

The second private sector source of Ethiopia's leading industrial companies lies with foreign companies setting up a business in Ethiopia. It is likely that this will, in the future, be an increasingly important route to industrial growth.

Many observers have lamented the poor record of sub-Saharan African countries in attracting foreign direct investment over the past two decades. This was a period in which FDI flows at the global level boomed; but the preferred destinations for such flows were China, India and Eastern Europe. Yet, notwithstanding the small share of global FDI captured by sub-Saharan African countries, the current absolute size of FDI flows to Ethiopia is sufficient to offer a potentially crucial boost to medium-term growth.

During the 1990s, the inflow of FDI projects to Ethiopia was minimal, but during the past ten years, the flow has been substantial (see Tables 1.1–1.3).

The government agency charged with overseeing the entry of foreign businesses to Ethiopia records recent projects that are in their early stages. Taken together, these projects account for a projected level of employment exceeding 26,000. To place this figure in perspective, the total level

TABLE 1.1. FDI flows, and FDI stock for Ethiopia, selected years.

	2005	2006	2007	2008
FDI flow (millions of US$)	265	545	222	93
$\frac{\text{FDI flow}}{\text{Gross fixed capital formation}}$	6.8%	20.8%	7.2%	2.3%
$\frac{\text{FDI stock}}{\text{GDP}}$	12.0%	12.0%	21.5%	14.3%

Source: UNCTAD, World Investment Report 2009.

of employment in the 50 leading firms profiled below is approximately 22,000.[7] Even making due allowance for some optimism in the forecasts of likely employment in these new ventures, it is clear that the potential level of employment is of the same order as total current employment in these 50 leading firms.

The most striking feature of the current wave of FDI projects is their wide range both in terms of country of origin, and in terms of industrial sectors. That said, there are four countries of origin that stand out as leaders: China, India, Saudi Arabia and Italy.[8]

China's FDI projects span every sector of Ethiopian industry, but there are four industries that together account for the larger part of China's investment: clothing and textiles, building materials, plastics and metals and engineering. FDI from India is focused on food processing and plastics. Italy's FDI is dominated by projects in clothing and textiles, leather and engineering and metals. Saudi Arabian FDI is widely dispersed, with food processing and clothing and textiles being the largest areas of activity. The careful monitoring and development of FDI ventures should be a key focus of policy concern over the next decade.

Export Trends

An examination of export trends over the decade 1997–2007 shows two dominant changes. The first is a large decline in exports from the leather sector, which faces a range of complex problems at several different points

[7] Since some firms were reluctant to disclose current levels of employment and turnover, all totals reported here are approximate.

[8] Indian firms are long established in many areas, including floriculture, horticulture, plastics, pharmaceuticals, and other areas. It is worth also noting the rising role played by Turkish firms, which are now active in several areas, including textiles and building materials.

in the domestic supply chain (Chapter 8). The second is a large offsetting rise in the contribution made by the cut flowers industry, whose recent establishment and rapid growth represent the most notable success story in regard to Ethiopia's exports (Chapter 5).

Import Substitution: Perils and Prospects

So far, we have focused on the origin of capabilities; it is now time to turn to the question of 'capabilities in place', and to an appreciation of what existing firms can do. Behind this question lies a long-standing policy issue: the question of 'import substitution policies'.

It is a truism that a country can do just as much for its balance of trade by increasing local production to displace imports, as it can by increasing exports. Arithmetically, this is clearly true. Whether import substitution policies are as effective as a route towards industrial development as are export promotion policies is, however, quite a different matter.

Import substitution policies received rather a bad press in the economics literature from the 1970s onwards; one pitfall with such polices is that governments may encourage firms to enter sectors where they will not be able to achieve long-run viability in an open market environment. This can lead to a highly protected and highly inefficient local industry in the longer run. Yet, notwithstanding these worries, there is at present renewed interest in this approach in certain policy circles. What our earlier comments on the Mohan Kothari Group and on Access Capital illustrate is that good policies in this area must be 'firm led' – the detailed market knowledge held by firms that bear the financial risks of entering a new business is key. Good policies are those that facilitate entry by firms equipped to spot and assess viable market opportunities, whether by easing their access to finance or removing inappropriate regulatory or other constraints. Governments do not have a comparative advantage in identifying profitable opportunities. Given this, however, it is important and valid to seek to ensure that import substitution ventures should enjoy a level playing field with export projects in relation to access to finance – a point that is in danger of being forgotten in the light of the currently popular focus on preferentially supporting export ventures.

In this context, it is of interest to ask whether where are broad areas of activity in which well-developed local capabilities are in place, but the level and/or growth of imports is or remains substantial. Here, an examination of trade statistics for the period 1980–2008 throws up a number of cases

TABLE 1.2. Number of FDI projects by industry and country.

Nationality/sector	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Algerian/ Saudi Arabian		1												1	2
American	4	1					1						1	1	8
American/ Cayman Islands	2														2
American/Channels	1														1
American/Italian	1														1
Austrian												1			1
Austrian/Sudanese										1					1
British	4	3						2						1	10
British/German/ Yemeni	1														1
British/Indian	1									1					2
British/Kenyan								1	1						2
British/Sudanese													1		1
British/Ugandan	1													1	2
Bulgarian	1									1					2
Cameroon	1														1
Canadian									1						1
Canadian/Kenyan														1	1
Chinese	3	22	5	4		1	2	6	16	12	3	2	2	14	92
Chinese/Pakistani							1								1
Cypriot									1						1
Cypriot/Slovakia														1	1
Djibouti										1					1
Dutch	1	1		1					2	1		1		1	8
Dutch/Kenyan									1					1	2
Egyptian								1	1						2
French	3								2				1		6
German	1													1	2

that might repay close investigation: tubes, pipes and hoses ($47 million worth of imports in 2008), soaps, detergents and other surface active agents ($46 million), footwear ($23 million) and wood furniture ($15 million).

The 'steel and assembly' area is harder to assess, in that the breakdown of product categories in standard trade data does not permit the kind of assessment of capabilities that is required; but there is reason to suppose on the basis of the firm profiles that follow, that considerable opportunities for broadening and deepening the range of products produced domestically now exist in this area.

Finally, there are two industries that currently suffer from large recent surges in net imports. Imports of cement totalled US$14 million in 2008. Ethiopia's building boom has led, over the past decade, to a huge rise in

TABLE 1.2. *Cont.*

Nationality/sector	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Gibraltar	1														1
Greek/Italian	1														1
Indian	3	6	1				2	14	6	1	3			2	38
Indian/Philippines									1						1
Indonesian												1			1
Iranian									2						2
Iraqi										1					1
Israeli	1								2	1				2	6
Italian	3	4	3				1		5					1	17
Italian/Norwegian									1						1
Jamaican		1													1
Japanese		2												1	3
Kenyan								2	3	1		2			8
Kenyan/Indian														1	1
Kenyan/Mauritius									2						2
Kenyan/Pakistani								1	1						2
Kenyan/Sri Lankan														1	1
Pakistani		2							1			1		1	5
Saudi Arabian	6	2	1	1	2	1	1	3	1	1		2		4	25
Slovakia									1						1
South African				2											2
South Korean		1	1						2						4
Sudanese	3	1	2					1				2			9
Swedish		2													2
Turkish		1		1				1	1						4
Turkish/Sudanese										1					1
UAE												1			1
Ukrainian														1	1
Yemeni	2						1	1		1					5
Zambian							1								1
Industry total	45	50	13	9	2	2	10	33	54	24	6	13	5	37	303

1, Food, drink; 2, cloth, textiles; 3, leather; 4, furniture; 5, stone; 6, glass; 7, paper; 8, plastics; 9, engineering, metals; 10, building materials; 11, electronics; 12, detergents/cosmetics/soap; 13, pharmaceuticals; 14, other; 15, country total.

cement imports, in spite of the presence of two leading producers, and a group of smaller players with potential for expansion. Several major projects are now in place that may close this gap over the next two years (Chapter 12). Similar problems exist in the sugar industry, where the currently planned expansions of capacity are of crucial importance (Chapter 7).

Two issues were raised by a large number of the firms interviewed in the course of this study: problems of access to medium-term finance, especially

TABLE 1.3. Projected employment in FDI projects by industry and country.

Nationality/sector	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Algerian/Saudi Arabian		607												520	1127
American	349	12					69						200	33	663
American/Cayman Islands	356														356
American/Channels	167														167
American/Italian	20														20
Austrian												50			50
Austrian/Sudanese										43					43
British	223	80						70						45	418
British/German/Yemeni	0														0
British/Indian	30									150					180
British/Kenyan								91	446						537
British/Sudanese													46		46
British/Ugandan	31													25	56
Bulgarian	5									34					39
Cameroon	150														150
Canadian									29						29
Canadian/Kenyan														5	5
Chinese	283	1676	215	63		33	30	255	743	837	27	6	124	817	5109
Chinese/Pakistani							40								40
Cypriot									20						20
Cypriot/Slovakia														836	836
Djibouti										20					20
Dutch	300	40		10					40	30		36		50	506
Dutch/Kenyan									20					80	100
Egyptian								20	40						60
French	855								75				67		997
German	15													10	25
Gibraltar	25														25
Greek/Italian	30														30
Indian	414	166	25				247	2054	300	200	91			87	3584
Indian/Philippines									10						10
Indonesian												198			198
Iranian									146						146

TABLE 1.3. *Cont.*

Nationality/sector	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Iraqi										30					30
Israeli	50								174	50				65	339
Italian	113	607	381				6		89					6	1202
Italian/Norwegian									12						12
Jamaican		12													12
Japanese		28													28
Kenyan								90	85	20		44			239
Kenyan/Indian														5	5
Kenyan/Mauritius									649						649
Kenyan/Pakistani								74	145						219
Kenyan/Sri Lankan														15	15
Pakistani		218							200			10		126	554
Saudi Arabian	1159	2156	0	50	135	615	67	414	130	10		116		108	4960
Slovakia									8						8
South African				74											74
South Korean		20	182						25						227
Sudanese	194	163	73					20				14			464
Swedish		120													120
Turkish		870		60				12	13						955
Turkish/Sudanese										20					20
UAE												94			94
Ukrainian														50	50
Yemeni	120						25	94		76					315
Zambian							10								10
Industry total	4889	6775	876	257	135	648	494	3194	3399	1520	118	568	437	2883	26193

1, Food, drink; 2, cloth, textiles; 3, leather; 4, furniture; 5, stone; 6, glass; 7, paper; 8, plastics; 9, engineering, metals; 10, building materials; 11, electronics; 12, detergents/cosmetics/soap; 13, pharmaceuticals; 14, other; 15, country total.

for mid-size firms; and limitations on the availability of land for industrial use. To avoid constant repetition, these issues are referred to within the industry and firm profiles only in those cases where they are particularly relevant.

A Caveat

A remark is in order, regarding the descriptive statistics presented above: the 50 large and mid-size firms profiled here are not a random sample from some larger population. Nor do they comprise all industrial companies above a certain size. Rather, they comprise most of the leading firms within each major segment of their respective industries. This said, there are two qualifications: the set of firms profiled is not quite comprehensive, in this regard, as it did not prove possible to access the appropriate information in all cases. Moreover, in some industries, most notably cut flowers, as noted earlier, there is a group of leading firms of similar size: here, we have profiled a representative subgroup of the leading firms.

These remarks notwithstanding, it is fair to say that the profiled firms, taken together, provide a reasonably full and accurate picture of Ethiopia's leading enterprises across this group of industries.

Chapter 2

WIDELY DIVERSIFIED FIRMS

A few preliminary remarks are in order:

- While Ethiopia has the second-largest population in Africa (ca. 80 million), it has one of the lowest levels of GDP per capita and has had one of the highest GDP per capita growth rates over the past five years.
- Before 1991, Ethiopia was managed as a communist dictatorship. Most private businesses are first-generation.
- The state plays an active role in business.
- In several of the industries we examine, endowment companies[1] play an important role.
- Major firms are often owned by families. Most managerial positions in these firms are occupied by the owners and their relatives, who exercise day-to-day control of the firms. Some owners have managed to expand their businesses and transfer day-to-day management to their foreign-educated children, who have brought varying degrees of modernization and professionalism to the firms.
- The emphasis of most larger firms is on diversification. Growing and developing a single business unit is given less priority, in part due to the limited size of the domestic market.
- Many major firms have expansion projects in place, but the lack of finance available from banks for large-scale projects (requiring more than $20–30 million) has led many firms to seek equity or technological partnerships with foreign companies.
- A recent trend towards forming firms through IPOs is creating a new group of major companies.
- Large manufacturing companies are usually highly dependent on imports of spare parts, supplies and raw materials.

[1] The term 'endowment company' refers to a company that is owned by an endowment fund. (For example, a number of companies profiled below were set up by an endowment fund established to support the development of the Tigray region.) All profits of the company belong to the endowment fund, and no dividends are paid.

2.1 Profiles of Firms

2.1.1 Ahadu

Basic details. Ahadu PLC was established in 1994 by two partners, Solomon Wendemneh and his wife, as a private limited company.

Upon its establishment, the firm was mainly engaged in general import and trading business. It currently employs about 120 people.

Ahadu has an average annual turnover of $10 million with an average total asset value of $7 million.

Background. Solomon Wendemneh and his wife were civil servants before starting their own business. Solomon started a sole proprietorship business engaged in small-scale trading and import activities. Due to the favourable environment at that time for import businesses, the size and scope of the sole proprietorship grew and they decided to form Ahadu.

Current activities and products. Ahadu PLC is a holding company-type of organization overseeing different affiliated companies which are engaged in the following areas:

Ahadu pharmaceutical is engaged in the import and distribution of pharmaceutical equipments and supplies. It also owns a chain of pharmacies in the country, which are both retailing and distribution outlets.

Addis Ahadu Packaging is a company producing and supplying packaging materials to manufacturers of various products. This company is a major supplier of carton packaging to the flower export sector and has won a national award as 'The Best Export-Supporting Institution'. To fully utilize the factory's capacity and enhance better technology transfer, the technical management function is outsourced to international professionals.

Ahadu Tea is a tea processing and packaging company. In parallel with the tea processing it has a coffee plantation from which the firm processes, and plans to export, coffee.

Ahadu PLC Group owns and administers two commercial buildings.

Ahadu General Import and Trading Company.

Organization and management. Solomon Wendemneh serves as the managing director of the company. A deputy managing director manages the company in his absence.

Each technical area is headed by general managers with appropriate academic backgrounds and professional experience, directly reporting to the managing director.

There is a separate business development unit of the company which focuses on identifying and evaluating the feasibility of new business opportunities as well as performance of existing products, divisions or companies. This unit makes a study using both local and international consultants before recommending any ventures, and the final decision is taken by the management unit consisting of the top-level managers including the managing director.

Firm capabilities. Both Solomon Wendemneh and his wife are university graduates in different fields, and follow a professional and scientific management approach.

Any new investment is subject to careful feasibility studies. Furthermore, the technical feasibility of all manufacturing businesses is assessed by international consultants.

In hiring most permanent employees, the firm outsources the evaluation and screening assignment to recognized universities.

Supply and marketing chain. Ahadu uses a significant number of inputs for its affiliated companies. It has an established network of both local and international suppliers.

Personal contacts by, and peer group referral to, the owners and technical managers are the main source of information about local suppliers.

Most international suppliers were first contacted through the internet and international trade fairs.

The firm takes advantage of economies of scale by importing some major inputs in partnership with other companies that use similar items.

All sales and marketing activities are undertaken through the marketing department, which comprises people with in-depth experience of private and public enterprises in their areas.

Corporate customers for products such as packaging materials and export items contact the company directly through their established network.

For fast-moving and consumer products, in addition to wholesaling, Ahadu also uses personal selling for promotion and distribution.

Export. In the past, Ahadu exported blended and packed tea products. However, due to stiff competition both in terms of quality and price from Asian and other African countries, it was forced to limit its activity market to the local market.

Recent developments. Ahadu built two commercial buildings during the national boom in the construction and real-estate industry.

The packaging material factory is a recent venture that the company undertook, having seen the acute shortage for these products in the country in general, and in the flower sector in particular.

The firm has established a food complex which will produce flour, biscuit and confectionery products. Construction of the manufacturing plant and the installation of machinery have been finalized, and the plant will be operational in the very near future.

Development agenda. A core strategy of the firm is to follow the priority areas identified in the government's growth strategy.

More specifically, the firm plans to further shift the balance of its interests from trading towards the manufacturing sector.

2.1.2 DH GEDA

Basic details. DH GEDA Trade and Industry was established in 1997 in a form of a private limited company by Duguma Hunde.

Background. Duguma Hunde started his business as a tailor back in 1977, gradually growing as a retailer and major wholesaler of textile, yarn, garment and corrugated iron sheets for a very long period of time.

He has also worked as a sole agent and distributor for government factories producing thread, textile and garment products.

Conscious of supply shortage of most of the products he imports and distributes, Duguma decided to manufacture most of these goods locally by establishing DH GEDA Trade and Industry in 1997.

Current activities and products. DH GEDA Trade and Industry has currently seven subsidiary companies under it.

DH GEDA Flour Factory was established in 1997 with initial capital of $1 million and annual production capacity of 375,000 quintal of wheat flour. The factory produces three different grades of wheat flour and has 66 employees.

DH GEDA GIS Factory established in 1997 with initial capital of $1.5 million produces four different gauge assortments of galvanized iron sheets. The factory has annual production capacity of 20,000 tonnes of galvanized iron sheets.

DH GEDA Zemilli Paint Factory was established in 1998 with initial investment of $2 million producing paints, glues and tile adhesives with 200 employees and annual production capacity of 9 million litres of over 150 different colours of paints.

DH GEDA Blanket Factory was established in 2002 with initial capital of $2 million and a daily capacity of producing over 2,000 blankets.

DH GEDA Dyeing and Bleaching Factory was established in 2006 with a total initial investment of $2.5 million. The factory is engaged in dyeing of acrylics and bleaching of pure cotton.

DH GEDA Real Estate and Construction was established with initial capital of $3 million in 2006.

DH GEDA Tower is a 16-floor building and separate entity established in 2006, where the HQ of DH GEDA's corporate office and many other local and international companies are located. The tower was constructed by the sister company, DH GEDA Real Estate and Construction.

Organization and management. Each of the subsidiary companies of DH GEDA are separate legal entities established in a form of private limited companies. DH GEDA Trade and Industry serves as a corporate office in managing the companies. The founder's children play key roles in managing the individual companies.

The foreign purchases and wholesale trades of each company are made through the corporate office.

Firm capabilities. A strong delegation system, particularly in technical areas, accompanied by a strong control system has helped Duguma to establish and profitably run the several businesses within the group.

Supply and marketing chain. DH GEDA has its own wholesale outlets, established over a period of 25 years, to distribute all of its products to distributors and retailers.

Export. Most products of the company are import-substitutes and the firm does not currently have any export-oriented business.

2.1.3 East African Holdings

Basic details. East African Holding S.C. was first established as a PLC in 2005 by Buzuayehu Tadele and his family. It was then re-registered as a Share Company in 2007. Currently, it has more than nine affiliated and joint venture companies with more than 5,000 employees.

The total turnover of all the affiliated and joint venture companies for the FY2008/09 was about $39 million including distribution outlets.

History. Buzuayehu Tadele came from a family with a very long business background. The family had various trading and manufacturing companies; the founder's father was a major local trader and an exporter of coffee in the imperial regime. When the communist administration came into power in 1974, the family's business was nationalized and Buzuayehu left the country.

He returned during the last years of the communist regime, when a mixed economic system was introduced, and became involved in various businesses, beginning with importing and packing tea for the local market, and then establishing a tea processing factory.

Current activities and products. East African Holding S.C. is engaged in manufacturing, agriculture, agro-processing, printing and packaging, real-estate and import and export sectors. The firm has nine affiliated companies and joint ventures:

East African Group (Eth) PLC manufactures fast-moving consumer goods in a modern industrial park located in the Dukem area, 40 km southeast of the capital. Its businesses span food, chemicals and a printing and packaging plant. East African Group (Eth) PLC organizes, processes and export coffee, tea, pulses, oilseeds and spices to buyers in Germany, France, Holland, Italy, the United States, China, Japan, the Middle East and others.

East African Agri-business PLC invests in agricultural production and processing industries. It constitutes a tea factory with an installed capacity of 1,500–2,000 tonnes of tea per annum. Currently, it is in the process of exporting its products to Dubai, Yemen and other Middle Eastern countries. The firm plans to diversify further into palm oil and coffee.

Berchaco Ethiopia PLC is engaged in producing import-substituting fast-moving products, including nail polish, shampoo, creams, lotions and other personal care products.

Ethio-Asian Industries PLC is engaged in the production of laundry and toilet soaps and detergents.

East African Real Estate Development PLC introduces a line of 'interlocking' bricks for the construction industry. It is also involved in real-estate development in Addis Ababa.

Anbessa Flour and Pasta Factory PLC manufactures pasta and macaroni.

Derba-East Africa Coal Mining PLC is a joint venture company formed recently by Derba MIDROC Cement PLC and East Africa Mining Corporation PLC to engage in the extraction of coal. The exploration process had

been completed and now it is under the process of obtaining a mining licence.

Bizenu Investment PLC was formed to engage in various investment activities including import/export, dry cargo transportation and the distribution of cement products from National Cement S.C.

National Cement S.C. was established in 2006 by East Africa Group under the joint venture agreement with PPESA.

National Cement is in the process of establishing a new greenfield cement plant with a capacity of 3,000 tonnes of clinker per day.

Cosmar East Africa Business PLC is a joint venture entered into with a Dutch and Indonesian company, with the objective of producing quality decorative and skin care cosmetics.

Organization and management. East African is structured in a form of share company and all the subsidiaries are organized in a form of PLCs owned by shareholders of East African S.C.

Mulugeta Gebremedhin manages the company on behalf of the founder and managing director of the company.

The HQ of the company serves as a corporate office for all subsidiaries. It carries out the following major activities:

- Strategy design.
- Fund mobilization and allocation.
- Disposal of fixed assets and business segments.
- Budget approval and control.
- Performance appraisal.
- Reviewing and selection of external auditors.
- Marketing strategy, image development and contract manufacturing.
- Research, advisory and consultancy.

The company is highly decentralized and each subsidiary is treated as an autonomous and independent profit centre.

Firm capabilities. East African S.C. makes its strategic decisions based on its research and development department organized under the corporate office. The firm has a modern and well-defined organizational structure and with highly experienced staff. It operates a continuous human resource development system.

Supply and marketing chain. The company imports more than 150 types of raw materials and inputs for its affiliated companies.

At corporate office level, there is a commercial unit accountable for maintaining specialized suppliers and raw materials and other inputs. This unit also serves as an international watchdog in following international price trends for major commodities to be purchased or sold.

For bulk purchases, local or international competitive bidding is used to select appropriate suppliers. The price offered by the supplier is cross-checked against the international price of the commodity before making the final decision.

East African Holding S.C. has a highly developed distribution system. In the past, the firm's affiliated trading company distributed all products produced by the subsidiaries. Currently, however, the firm has now moved to a co-ownership scheme by forming independent trading units.

Export. The aim of East African is to produce high-value-added goods that can substitute for imported items, and to develop export sales market.

Currently, several affiliated companies export products, including agricultural commodities, to the Middle East. The firm is Ethiopia's leading tea exporter.

Cosmar East Africa Business PLC plans to produce high quality personal care products for both the domestic and regional markets.

2.2 MIDROC Ethiopia

Background. MIDROC (Mohammed International Development Research and Organization Companies) is owned and chaired by Sheikh Mohammed Hussien Ali Al-Amoudi, an Ethiopian-born Saudi investor with an investment portfolio spanning many countries. MIDROC Ethiopia is a private Investment Group with 41 companies operating in agriculture & agro-industry, construction, hotels & tourism, manufacturing, mining, oil & gas distribution, real-estate development, transport (including air transport), trade & commerce, health care and education & training. The companies under the investment group are classified into three categories under MIDROC Ethiopia Group Companies, MIDROC Ethiopia Technology Group and MIDROC Ethiopia Affiliate Companies.

The total investment of the group exceeds $1 billion and employs more than 15,000 people.

Brief description of companies under MIDROC Ethiopia Group

Addis International Catering PLC: started operation in 2008; is engaged in providing catering services to all airlines operating through Addis Ababa Bole International Airport and with an eventual plan of extending its services to major conferences and events.

Ethio Agri-CEFT PLC: established in 1997; is an agricultural production and processing firm established by acquiring large coffee farms and previously state-owned tea plantations and grain farms.

Ethio-Leather Industry (ELICO): established in 1997 by merging three state-owned companies acquired from the Privatization Agency. The company is engaged in the production of finished leather garments and articles.

Kebire Enterprise: established in 2001; with the objectives of carrying out agricultural and agro-industrial production, manufacturing, mining and construction, tourism, communication and IT businesses.

Lame Dairy PLC: established in 2007; is engaged in the production of dairy products (pasteurized milk, butter, cheese and yogurt, among others).

Unlimited Packaging PLC: established in 2004; is engaged in the production of various types of die-cut and regular slotted boxes, with different designs and quality.

MAMCO Paper Products PLC: established in 1994; is engaged in producing toilet tissue, facial tissue, napkins, kitchen towels, adding-machine rolls, A3-size ruled sheets, photocopy papers, exercise books and writing pads.

Star Soap & Detergent Industries PLC: established in 1996; is engaged in the production of laundry soap, toilet soap, liquid detergent, powder soap and bar soaps.

MIDROC Ethiopia Construction PLC: established in 1993; is engaged in a wide range of construction undertakings of various scales.

MIDROC Energy House Electro-Mechanical Services PLC: established in 1999; provides electromechanical engineering services contracting – design, manufacturing, installation and erection, as well as maintenance of electromechanical systems.

Sheraton Addis: established in 1998; is a member of Starwood Hotels & Resorts Worldwide Inc.

MOHA Soft Drinks Industry S.C.: established in 1996; is a soft drink bottling company producing global brands such as Pepsi, Mirinda Orange, 7-Up, Mirinda Tonic, Mirinda Apple (all Pepsi Brands) and Kool (Bure Kool and Tossa bottled water products.)

Pharmacure Pvt. Ltd Co: established in 1998; is engaged in producing pharmaceutical products, mainly for the local market.

Mugad Travel PLC: established in 2005; is a travel agency providing services such as Airline Reservation and Ticketing, Airport Assistance, UAE visa processing and Cargo handling from UAE.

National Mining Corporation PLC: established in 1993; is engaged in prospecting, exploration, development, production and processing of minerals, dimension stones and mineral products.

Each of the MIDROC Ethiopia group companies is legally established and autonomous. Sixteen of these companies are organized under the MIDROC Ethiopia Technology Group, under the direct leadership of the Office of the Chief Executive Officer as shown below.

MIDROC Gold Mine PLC: started operation in 1998; is engaged in exploration, mining, production and marketing of gold. It is the largest exporting firm in the country.

ELFORA Agro-Industries PLC: established in 1997; is engaged in poultry, livestock, meat processing and crop production activities targeting both the domestic and the export market.

Wanza Furnishings Industry PLC: established in 2003; is engaged in producing wooden and metal household and office furniture and electric poles for the local market.

Daylight Applied Technologies PLC: established in 2003. Originally, an electric bulb factory, it is now active in computer assembling and maintenance, glass and lighting products and the manufacture of electrical appliances.

Modern Building Industries (MBI) PLC: established in 1995; is engaged in the production and marketing of paints, non-metallic fillers, hydraform blocks and different types of PVC and concrete tiles for the domestic market.

Huda (residential and office buildings): established in 1997; is engaged in real-estate development activities, buying and/or construction of buildings for different purposes and construction consulting services and design works.

Addis Gas and Plastics Factory PLC: established in 1993; is engaged in the production and selling of gas and of various plastic products.

Trust Protection and Personnel Services PLC: established in 1995; is engaged in providing protection and other professional personnel on contract; and providing safety and fire equipment marketing and services for interested organizations.

Addis Home Depot PLC: established in 2003; is engaged in trading and distribution of building materials, construction goods, home appliances and related products.

Trans Nation Airways (TNA): established in 2004; is engaged in providing domestic and international passenger and cargo air transport services.

Rainbow Exclusive Car Rental and Tour Services PLC: established in 1999; is engaged in car and tour services.

Summit Engineered Plastics PLC: is engaged in the production of P.P. bags, poly sheets, poly bags, hessian cloth and crate.

Blue Nile P.P. and Craft Paper Bags Manufacturing: established in 1993; is engaged in the manufacturing of P.P. bags, hessian cloth, carpets, conduits and ropes.

United Auto Maintenance Services PLC: established in 2007; is engaged in auto maintenance services and selling of different type of spare parts for vehicles.

Kombolcha Steel Products Industry (KOSPI) PLC: established in 1999; is engaged in manufacturing and selling various types of metal and engineering products.

2.2.1 MIDROC Technology Group

Background. MIDROC Technology Group comprises 16 companies of which 11 were acquired through privatization.

The Technology Group is headed by Dr Arega Yirdaw, who is a childhood friend of the owner with more than 20 years of engineering experience in the United States. Sheik Mohammed personally contacted Dr Arega to come back to Ethiopia and manage a group of companies.

MIDROC Gold is the largest company within the Technology Group and is headed by the CEO of the Technology Group.

Due to the absence of a holding company law in the country, the CEO has become a legal partner in each company under the technology group, with full authority to assign general managers to each company.

Capabilities. The owner of the MIDROC Group is known for his strong philanthropic and social activity in the country. This has created a tendency to perceive the technology group as a financially self-sustainable philanthropic organization, and this has adversely affected the potential of the company.

Most of the privatized companies are overstaffed, equipped with outdated machinery. Due to this the group is undergoing a gradual transformation, particularly in replacing older staff members with younger employees, and establishing a modern management style.

At present the company's focus is on long-term growth rather than maximizing short-term profit. It has a strong succession plan where the CEO alongside other senior mangers coaches four successors by assigning four companies to each. Through this there is a plan to create a lasting, productive and ethical organizational culture.

The group operates with established administrative and operational manuals designed to international standards but with local conditions in mind. The CEO was personally involved in developing the manuals and procedures and is also closely involved in ensuring their fairness and applicability.

Companies with the group support each other in the areas of human resources, procurement, contributing ideas in problem solving, and in sharing best practices.

MIDROC Technology Group has good access to both finance from the primary investor, and to bank loan for capital projects. Bank credit is chiefly used to finance working capital. Dashen Bank, which is owned by relatives of Sheik Mohammed, is a very close business partner.

Most business ideas and strategic decisions come from the executive bureau. The CEO has a personal management philosophy of ensuring that at least 50% of his time is allotted to new business development.

In 2008/09, the Technology Group acquired Unity University, the first private higher education institution in the country, and is trying to use this institution to enhance its human resource development and succession program.

Recent developments. Strategic shifts have been made in some companies by assessing their performance and market competitiveness. Daylight Engineering, which was originally established to manufacture incandescent bulbs, faced stiff competition from bulbs imported from China. Therefore, it was decided to partly shift the production line into a bottle factory, to supply a Pepsi soft drink factory owned by the MIDROC Group.

Some of the companies under the Technology Group were established after observing strong growth in domestic demand. These include Home Depot, United Auto maintenance, *Mechare* Clinic, Trans Aviation and Rainbow Transport Service.

Development agenda. Within five years there is a plan to replace the present management profile, which is mix of older and younger managers, by well-educated and experienced younger managers.

There will be an appraisal of, and strategic shifts within, some companies which are becoming less competitive. For example, wood furniture manufacturing is now facing tough competition from imported products from China.

Organization and management. The CEO has full operational and financial autonomy in managing all the companies under the group. In major investment and expansion decisions he consults the owner before making decisions.

At the executive bureau there are audit, legal and ethics units that ensure the smooth operation of these functions in all the companies within the technology group.

2.2.2 ELICO

Basic details. Ethiopia Leather Industry Corporation (ELICO) was established in 1997 when the owner, Sheikh Mohammed Hussein Ali Al-Amoudi, bought three state-owned enterprises from the Ethiopian Public Enterprises and Privatization Supervisory Agency.

The firm mainly produces finished glove leather from sheepskin, finished goat suede leather, cow crust and leather garments.

ELICO has an annual turnover of $10 million with asset and capital balances of $13 million and $17 respectively and employs close to 1,200 workers.

Since establishment, ELICO has not reported any profit due to a considerable loss carried forward from the past. However, this showed a significant improvement when the annual loss declined to ($224,000) in 2009 compared with a loss of about $1.3 million in 2007.

History. The decision to invest in the leather sector was made by the investor following a government measure prohibiting the export of raw skins and hides and introducing incentives for leather processors and exporters.

For the first two years since establishment ELICO was engaged in the production of semi-processed products such as pickled sheepskin, wet blue hides and wet blue goatskin. It has subsequently started to produce a larger volume of higher-value-added and finished products.

Current activities and products. Currently, the company produces finished glove leather from sheepskin, upper/lining leather from sheep and goats, finished goat suede leather, cow crust, and leather garments for the export market. It also produces other finished leather products (ladies' purses, wallets, belts, etc.) for the domestic market.

Organization and management. The company is headed by a general manager who oversees the operation of each of the three privatized enterprises, which have been reorganized as production units.

Firm capabilities. Having been in the business for more than a decade, the firm now has a well-established customer network and a good reputation for quality products.

ELICO faces high employee turnover and has lost most of its trained professionals to competitors who offer higher salaries and benefits.

It also faces difficulty in timely delivery of its products to customers, mainly as a result of procurement challenges and high rejection rates of raw hides and skins, which can reach 90%.

Supply and marketing chain (firm-level). The company gets its major inputs, sheep and goat skins and hides, from the local market through collectors and suppliers. Most suppliers deliver the raw materials using their own transportation. ELICO uses its own vehicles to transport hides and skins acquired from suppliers who do not have their own delivery facilities.

ELICO finds its most important customers at leather fairs. In addition, it gets a list of prospective buyers from various embassies, and these are contacted by direct visits.

It uses eight sales outlets in the capital to supply finished leather products to the local market.

Export. In June 2009, the firm earned export revenue of about $6 million (ETB75.3 million), which accounted for 60% of the total annual sales. The major export destinations of ELICO are Italy, China, Japan, Egypt and lately some African countries.

Recent developments. The firm recently introduced a new, environmentally friendly, form of effluent treatment. This has had a positive impact on its export activity.

Development agenda. ELICO plans to improve its profitability and to take advantage of the recent decline in local prices of skins and hides.

In addition, the firm is also introducing a new organizational and management structure.

2.2.3 Pharmacure

Basic details. Pharmacure PLC was established in July, 1998, by Sheik Mohammed Hussein Ali Al-Amoudi and MIDROC Ethiopia. Initially, the company planned to produce various types of pharmaceuticals and medical supplies.

The firm became operational in February 2003, producing large volume parenterals or intravenous fluids.

Pharmacure currently has 109 employees.

History. In 1998, Sheik Mohammed decided to establish Pharmacure PLC with the aim of diversifying his investment portfolio in Ethiopia, and with a social objective of contributing to the health sector.

Pharmacure aims at supplying quality essential medicines at fair prices.

Current activities and products. Pharmacure currently produces intravenous fluids and supplies to the domestic market.

Organization and management. The company is headed by a general manager and his deputy who directly oversee the various production and support departments.

Firm capabilities. Pharmacure has the largest installed production capacity for intravenous fluids in the country and uses best practice technology.

Its purpose-built and internationally accredited production and management system has established it as one of the country's leading firms in terms of manufacturing practice.

It was the first local pharmaceutical producer to receive a certificate of competence from the Drug Administration and Control Authority (in 2003).

Supply and marketing chain. Chemicals are imported from short-listed and validated international suppliers.

Primary packaging materials such as PVC sheath are also imported, while corrugated carton boxes are sourced locally.

The company's major customers are the state-owned PFSA and other private distributors. The company delivers its products directly to its customers.

Development agenda. The company is now looking for partnerships with prominent multinational manufacturers in order to acquire the necessary technological capacity to proceed to its second phase. The

second phase involves planned expansion into alternative dosage forms of pharmaceuticals, veterinary products, health care products and related activities.

2.2.4 National Mining Corporation PLC

Basic details. National Mining Corporation was established in 1993 with an initial paid-up capital of $12 million when Sheik Mohammed Hussein Ali Al-Amoudi and his brother Hassen Hussein Ali Al-Amoudi bought the Ethio-Libyan joint Mining Company from the government.

The marble factory is situated in the Awash region, 225 km from the capital, which offers water resources and appropriate infrastructure. The quarries are situated around Harar and Beninshangul, 332 km and 875 km respectively, from the factory.

Since its establishment, the firm has been engaged in producing dimension stones, and exports 25% of its products. National Mining has 400 employees.

History. Sheik Mohammed decided to acquire the company when the Ethiopian and Libyan governments, the former owners of the company, put it up for sale.

Current activities and products. National Mining currently produces marble, granite and limestone in various shapes and sizes to customer order, including sky blue marble, one of the company's most prestigious and expensive lines.

Standard sized stones are also produced for stock, and to meet off-the-shelf orders in peak times.

Organization and management. National Mining is led by a general manager and deputy general manager. There are four departments of finance, marketing, administration & operations and research & development reporting to the deputy general manager. All operational decisions are made by the general manager and his deputy.

Firm capabilities. National Mining owns one of the largest marble mining factories, and processes a considerable reserve of high-quality marble.

It has a well-trained workforce and up-to-date machinery and technology.

The firm is currently operating at an annual capacity of 4,500 cubic metres of quarry stones and 60,000 square metres of finished stones.

Supply and marketing chain. The firm's major inputs are stones, water, diesel and electricity. Almost all inputs are found locally. Spare parts are imported once or twice a year from manufacturers.

Since most sales are made on advance orders, no marketing intermediaries are used. Products are directly shipped to the warehouse in the capital, from which all customers collect their orders. National Mining requires a 50% advance on orders.

Export sales are directly transported to the Port of Djibouti and payments are made through bank letters of credit.

In dealing with first-time customers, the firm sends product samples as a basis for negotiation on price. Large and institutional customers send their technical experts to choose and decide on raw materials before placing orders.

Export. National Mining exports 25% of its products, mainly to Italy and Taiwan and occasionally to Kenya.

Development agenda. National Mining has acquired land for expansion and has exploration projects for gold and base metals in the southern and northern parts of the country.

The firm is also in the process of participating in a joint venture with a state-owned soda ash factory.

2.2.5 Agri-Ceft Ethiopia

Agri-Ceft. Agri-Ceft Ethiopia was established and started its operation in 2005 by producing and exporting coffee. In 2007, it acquired various state-owned grain farms and tea plantations and started producing and marketing maize and tea.

It employs about 2,400 permanent employees and up to 18,000 daily labourers.

The firm is headed by a prominent coffee specialist who acts as general manager. There are various operational units (farms), including two tea plantations, a coffee farm, a flower farm, two cereal farms and a horticultural farm. These farms are spread across different regions; Amhara, SNNPR, Oromia and Addis Ababa have their own managerial staff.

Despite the existence of various MIDROC affiliated companies engaged in the supply of inputs used to the company, Agri-Ceft procures its major raw materials (fertilizers, seed and chemicals) from the local market through an open bidding system. It directly imports some inputs, and most of the packaging for its flower exports.

The firm uses different marketing units for its different products. The cereals are supplied to licensed wholesale grain traders through an open bidding system, whereas the firm itself distributes its tea products.

Agri-Ceft is planning to start producing essential oils for the export market.

The firm had a reported annual turnover of $20.6m in FY2007/08.

Chapter 3

COFFEE

3.1 Sector Profile

Background and overview. Coffee is Ethiopia's largest export item, contributing about 35% of total foreign exchange earnings and 25% of GDP. Ethiopia is the largest producer and exporter of coffee in Africa and plays an important role in the international coffee market.

Ethiopia, the birthplace of coffee arabica and arguably the world's oldest coffee exporter, was the world's fifth largest coffee producer and eighth largest coffee exporter in 2007.

The varieties of distinctively flavoured coffee beans produced in Ethiopia, in order of their contribution to the country's export, are Jimma, Wolega-Gimbi-Lekempti, Sidamo, Yirgacheffe and Harar. These coffee types are internationally recognized and marketed either in blend or as 100% Ethiopian products, and they command high prices.

In FY2008/09, out of the total 480,600 tonnes of coffee produced, more than half was locally consumed. An estimated 800,000 farmers cultivated ca. 520,000 ha land, of which 63% was in the Oromia region, 36% in Southern Nations, Nationalities and People's Region (SNNPR) and 0.8% in the Gambella region. Smallholders represent 95% of total production in a low-input, low-output system, making Ethiopian coffee production naturally 'organic', while state-owned and private-investor plantations account for 4.4% and 0.6%, respectively.

There are 700 washing stations, owned by private individuals, farmers' cooperatives or state enterprises, comprising an estimated total annual processing capacity of about 91,000 tonnes of washed coffee. It is estimated that 80% of these are operational.

Coffee generates a considerable number of jobs on-farm, in the processing plants (washing stations and hulleries) and in the transport sector, and is a very important source of casual employment for many low-income individuals, most of them women.

The government favours the export of high grade coffee, and restricts its sale on the domestic market (where it commands a higher price). In early

2009, the government suspended the trade licences of six major exporters and 77 domestic traders who were accused of hoarding coffee from the export trade due to a decline in the international price level. It is estimated that export earnings from these exporters alone accounted for more than half of the national foreign export earnings from coffee.

Profiles and lines of business of large firms. Based on their processing and exporting volumes, coffee processing and exporting firms can be classified as either large or mid size. Over 60 coffee exporters can be considered as 'large' firms. These include:

Moplaco Trading Company (premium, specialty exporter) was established in 1971 and is engaged in the processing and the export of different coffee varieties such as premium, specialty, conventional and roasted. The firm annually sells 8,000–10,000 tonnes, more than 95% of which is destined for Japan, Germany, the United Kingdom and the United States. It employs 130 permanent and 1,000 casual individuals (during peak season).

Robera PLC (bulk, commodity exporter) was established in 1994 and is engaged in the processing and/or the export of nine coffee varieties such as sun-dried green, washed green, roasted and grounded. The firm annually processes 6,000 and 12,000 tonnes of green and washed coffee, respectively. It exports all of its products, primarily to Germany, Japan and the United States. It employs 43 permanent and about 350 temporary workers (during peak seasons). The firm has annual sales of about $5.7 million.

Great Abyssinia PLC (domestic roaster) was established in 2002 and is engaged both in the processing of coffee and in other business activities such as bottled water manufacturing and importing. The firm sells all its coffee in the local market and distributes to households and local businesses. It has about 1,000 employees.

Profiles and lines of business of mid-size firms. The activities of firms in the 'mid-size' group are confined to roasting, grinding and distributing coffee to the local market. They use coffee supplies that are rejected for export by the ECX. The mid-size firms include Yeshi Coffee, Kaffa Coffee and Alem Coffee.

Small-scale, informal and peripheral activities.

Small-scale coffee producers. Small-scale coffee producers, who together employ about 1.3 million people and produce 95% of the country's coffee.

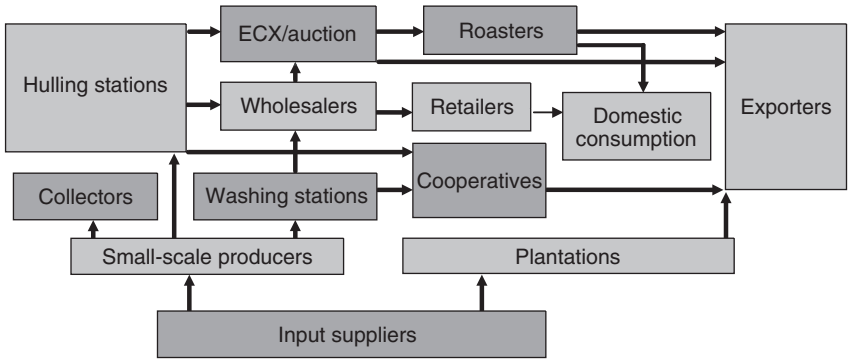

FIGURE 3.1. Coffee supply chain. *Source:* Ethiopian Agro-industry Strategy, coffee subsector, UNDP.

These producers vary greatly in their operations depending on the size of their holdings.

Women's cooperatives. Women are often organized as cooperatives to wash coffee beans in villages.

Local traders. Coffee is traded in the domestic market by various types of small traders, in markets and in small shops.

Supply chain. Coffee in Ethiopia is produced by small-scale farmers and a few large-scale, SOE plantations. The agricultural inputs (fertilizers) are supplied by state- or privately owned enterprises and cooperatives to large-scale plantations that produce plantation coffee (which accounts for some 5–10% of the country's total production).

Small-scale farmers account for about 90–95% of the country's total production. They are engaged in collection of forest coffee (which grows freely in state-owned forests), semi forest coffee (grown on private land and receiving little or no cultivation) and garden coffee grown on small plots (typically half a hectare).

Most small-scale coffee farmers are members of primary cooperatives and unions and are exempted from being required to sell via organized auctions.

The remaining bulk of coffee goes to ECX to be standardized, graded, branded and traded in an auction. Various coffee brands are then traded with authorized traders (buyers and sellers) at ECX. The final step is cleaning and blending, to bring the coffee into compliance with the export standards required by international buyers.

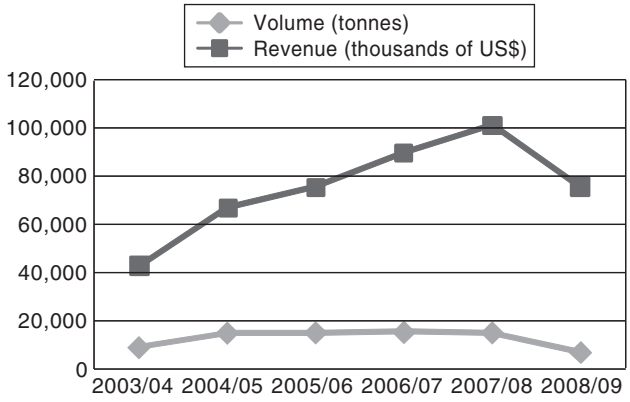

FIGURE 3.2. Coffee export trend. *Source:* Ethiopian Export Performance for 1995–2001, Ministry of Trade and Industry.

Rejected coffee is sold in the domestic market. Roasters buy the coffee to roast, grind, pack and sell both in the domestic market and in export markets. The final outlets for coffee in the local market is in the form of green beans, roasted beans, ground coffee or coffee drinks sold through retailers, supermarkets and coffee shops or bars. Locally sold and consumed coffee tends to be of lower quality.

The various stakeholders in the supply chain are required to have specific licences for their respective functions (see Figure 3.1). For instance, collectors have to sell to suppliers who deliver their coffee to the auction at ECX but are not permitted to export it, and exporters are only permitted to buy coffee from the auction.

Export status, trend and potential. Ethiopia is among the top ten coffee exporters in the world with a global market share of about 3.2%.[1] Ethiopia exports washed, unwashed and roasted coffee; with the average share of washed coffee being constant at 26% between FY1998/99 and FY2007/08.

Coffee exports have declined from ca. 171,000 tonnes in FY2007/08 to ca. 134,000 tonnes in FY2008/09. This decline reflected the recent economic slowdown, and perhaps also the withdrawal of the licences of those coffee exporters who were alleged to be hoarding coffee.

The bulk of current Ethiopian exports go to Germany, Saudi Arabia and Belgium (27%, 19% and 10%, respectively). The majority of coffee is exported in the form of green beans to be roasted in destination countries.

[1] In 2007, Ethiopia exported 156,150 tonnes of coffee and was ranked eighth in the world.

Difficulties in the export market include poor quality coffee bags, a low supply of washed coffee, the lack of an export strategy and lack of export promotion.

Policy context. Coffee is Ethiopia's flagship export product and is considered of strategic national interest.

Coffee is one of the priority products identified by the government within its economic strategy, and is a high-value cash crop. There is a plan to increase coffee production to 500,000 tonnes per year by 2015 by increasing the land under cultivation from the present 450,000 ha to 592,000 ha, with a view to increasing the volume of exports from 171,000 to 350,000 tonnes.

The Ethiopian Commodity Exchange (ECX) was established in 2008 as a platform for trading agricultural commodities including coffee in an efficient way and is supported by the government. The ECX handles most of the coffee trade activities except the export by state-owned coffee plantations and cooperatives, which enjoy a waiver in respect of participation in ECX auctions.

The Government of Ethiopia (GoE) requires all export standard coffee to be presented and traded in the exchange market at the prevailing price and treats selling export standard coffee in the domestic market as an offence.

A new development in regard to speciality coffee is a plan for the Specialty Coffee Association of America (SCAA) to work with the ECX. This measure aims at connecting farmers directly with international buyers. The government is also intent on finding ways of marketing specialty coffee that are fair to small producers.

Three of the Ethiopian coffee brands (Harar, Yirgacheffe and Sidamo) are protected trademarks owned by Ethiopia in 29 countries; Ethiopia selects the global distributors and sets the conditions for sale.

Competitiveness. Despite Ethiopia's overall volume of production and exports, yields amounting to 0.79 tonnes/ha are low compared with other countries such as Vietnam and Brazil, which produce 2.14 tonnes/ha and 1.27 tonnes/ha, respectively.

Coffee is produced in more than 50 developing countries; in 2005/06, 54% of world production was accounted by the three main coffee producers (Brazil, Colombia and Vietnam).

Ethiopia produces only arabica coffee, while many other countries also produce robusta coffee. Brazil's production of arabica is about seven times larger than that of Ethiopia.

Ethiopia's coffee production is relatively strong compared with some of its African peers, but compares unfavourably with Brazil and Vietnam (Table 3.1).

TABLE 3.1. Benchmarking Ethiopia's coffee production.

	Arabica			Robusta		
	2006/07	2007/08	2008/09	2006/07	2007/08	2008/09
Brazil	36,000	27,650	38,850	10,700	11,450	12,600
Colombia	12,164	12,515	10,500	0	0	0
Vietnam	500	400	470	19,000	17,933	19,200
Ethiopia	**4,650**	**4,200**	**4,500**	**0**	**0**	**0**
Kenya	867	699	884	2	1	1
Cote d'Ivoire	0	0	0	2,847	1,600	2,150
Uganda	400	400	400	2,100	2,100	2,300

Notes: Coffee production measured in thousands of 60 kg bags.
Source: United States Department of Agriculture.

Ethiopia has a competitive advantage in the international coffee market due to its wide range of varieties, unique flavours and its traditional organic shade-grown production by small-scale farmers. In order to improve its global competitiveness, the industry needs to improve in three areas:

Efficiency. Ethiopia is a relatively low-cost producer of coffee; however, the export marketing process needs to be improved.

Product quality and consistency. Improving the quality and consistency of the taste of the coffee will result in higher prices.

Response to specialty coffee demand. Conducting end-market analysis and seeking out international specialty coffee outlets can further improve performance in export markets.

Challenges.

Coffee production. The industry is currently dominated by small holders, and few commercial farms have attained economies of scale and high efficiency for low-cost coffee production. Poor harvests and post-harvest practices, a shortage of improved cultivars, inadequate storage facilities, low levels of technical knowledge among farmers and a lack of coordination in the industry are among the key limiting factors in coffee production.

Coffee processing. Most smallholders are located far away from processors. Poor drying and storage facilities, lack of technical skills and knowledge among processors and poor infrastructure (roads, electricity and communications) are some of the problems among processors.

Coffee roasting, grinding and packaging. There is very little export of roasted coffee (231 tonnes in 2007/08) since Ethiopian roasted coffee is

not popular in the major importing countries, and the global market in roasted coffee is dominated by multinationals. There is also a lack of skills and experience in coffee roasting, grinding and packaging.

Coffee marketing. The coffee supply chain includes various middlemen and brokers who have minimal formal business skills. Low supplies of washed coffee and the poor quality of coffee bags also adversely affect the marketing.

Low productivity. As noted earlier, Ethiopia produces 0.82 tonnes of coffee per hectare, which is relatively low compared with other major coffee producer and exporter countries.

High local compared with international price. As noted above, the domestic price of coffee is higher than that in the international market, tempting traders to sell in the domestic market. The government reports that illegal domestic coffee trade significantly reduces export volumes.

Rationale for selecting the profiled firms. Moplaco is one of the most highly regarded of the large firms, and is renowned for its speciality coffee.

Great Abyssinia is of particular interest since the owners follow a different business model to other large producers.

Robera is a typical representative of the larger coffee companies.

3.2 Profiles of Major Firms

3.2.1 Moplaco

Basic details. Moplaco Trading PLC was established in 1971 by Yanni Georgalis and other family members, all Ethiopian nationals with Greek and French origins. Currently, there are five shareholders, two children of the founder of the company, Heleanna Georgalis and Irene Georgalis, and three other shareholders, who are all Ethiopian nationals.

The firm is engaged in coffee preparation and export. It has 130 permanent employees and hires up to 1,000 seasonal employees.

Moplaco annually exports an average of 8,000–10,000 tonnes of coffee. The average asset value and capital of the firm are estimated at $3 million and $2 million, respectively.

History. The Georgalis family have been involved in the industry for generations. The coffee processing and export business began with the current owners' grandfather, who was a traditional coffee trader more than one hundred years ago.

Yanni Georgalis transformed the business by modernizing its operations and moving into the export of coffee. He expanded the business by developing new lines of activity, manufacturing plastic bags and shading nets for coffee and vegetable producers.

For his achievements in the sector, he has received several awards both from the local and international community.

When Yanni Georgalis passed away, his daughter Heleanna Georgalis took over the management of the company. She decided to limit the firm's operation to coffee and coffee-related products, concentrating on maximizing the quality, depth and volume of coffee processing.

Current activities and products. Moplaco Trading PLC processes and exports premium coffee, speciality coffee, conventional coffee and in small-scale, roasted coffee.

Organization and management. Heleanna Georgalis is the ultimate decision maker; a general manager advises, and makes decisions in her absence.

Firm capabilities. The firm's headquarter is located in Dire Dawa. It has coffee preparation and processing facilities at two sites in Addis Ababa. Additionally, it has similar facilities in Dire Dawa and Cheleklektu.

The firm uses a traditional internal control system and the use of ICT is minimal.

Moplaco's products have been positioned as premium quality and are mostly sold at a premium price. The company's facilities are rated among the top five in Africa.

Most employees have been with the firm for more than 20 years. The company is now introducing new administrative systems to exercise control and credibility.

The firm holds equity investments in different institutions to protect itself from inflation and from adverse trends in the coffee sector.

Moplaco, in partnership with other coffee exporters, has acquired a jute bag manufacturing company from the government to ensure timely and quality supply of the bags for its coffee export.

Supply and marketing chain. The main input of the firm, raw coffee, is purchased through the ECX.

Moplaco uses a very large and well-established customer database that has been built up by the family over 56 years. They enrich and update this list by participating in trade fairs, and by adding new private contacts made by the owners.

The firm tries to differentiate its products through packaging design and branding. Some of the internationally registered coffee brands of the company include Stag, Cafe Tgreto, Tana-Ko, Park Mountain, Red Wolf, Gebena and Anfilo.

Export. Over 95% of the company's exports are to Japan, Germany, the United Kingdom and the United States.

Recent developments. In addition to the export of washed coffee to the international market, the firm has recently started roasting and supplying coffee to local cafeterias and restaurants.

Development agenda. Moplaco Trading used to own an organic coffee farm before it was nationalized by the previous regime. It plans to continue its effort to procure a coffee plantation, in order to ensure its quality and maintain a continuous supply of coffee.

A modern marketing system and a company website are under development.

3.2.2 Great Abyssinia

Basic details. Great Abyssinia PLC was established in 2002 by three Ethiopian brothers in the form of PLC.

The firm is engaged in processing coffee and in manufacturing bottled water and soft drinks. It employs more than 1,000 people.

The average annual turnover of Great Abyssinia is $7.7 million, with average total assets and capital of $12 million and $5 million, respectively.

Great Abyssinia does not currently export.

History. Before the establishment of Great Abyssinia, the eldest brother operated as a sole proprietor for more than 10 years, mainly in coffee roasting and grinding, tea blending and the production of tiles. He acquired coffee rejected from the export market and distributed it to different businesses and households locally.

In 2002, he joined with his two brothers and formed Great Abyssinia with an initial capital of $4 million and 300 employees.

The firm, in addition to maintaining the existing businesses of the sole proprietorship, has diversified its operation to other lines of activity.

Current activities and products. Great Abyssinia is now engaged in various areas including those undertaken by the former sole proprietorship enterprise.

Newer activities include small-scale import and distribution, bottled water manufacturing, a printing press, real estate and construction, and production and distribution of tissue paper.

The main focus of the firm is to develop import substitution manufacturing activities.

Organization and management. Great Abyssinia does not have a formal and strictly applied organizational structure. The top-level management comprises the three shareholders, who make most policy and strategic decisions.

Firm capabilities. The company pursues an aggressive credit-sale policy to local cafes and has been able to secure a large market share as a result. Similarly, it also provides a 'one-stop-shop' for cafes in providing them with coffee, tea, sugar and water, all under the Abyssinia brand.

The background and personal traits of the three shareholders is one of the sources of Great Abyssinia's capabilities. The eldest brother has strong entrepreneurial skills, whereas the second has an academic and practical background in sales and marketing. The third brother is an engineer by profession, and oversees the overall technical and operational aspects.

Supply and marketing chain. Great Abyssinia uses various inputs which are partly locally sourced. These include raw coffee and tea, PET (a plastic manufacturing raw material) and paper.

The owners use a broad and established network of contacts in making local purchases. Coffee, their main input for the coffee roasting business, is purchased from the export-reject market, since trading in the coffee auction market is open only to exporters.

The owners of the firm have created and maintained good relations with foreign suppliers through visits and international trade fairs. Regularly imported inputs are mainly acquired from these suppliers.

The firm is one of the few coffee companies with a large sales force. Its team comprises 100 marketing and sales personnel. Each sales person has his or her own geographical territory, and is evaluated and rewarded on the basis of performance.

In addition to its own sales force, the firm also uses agents and wholesalers to market and distribute its products regionally.

Export. The firm once tried to export its roasted and packed coffee to Europe, but was not as successful as expected. This may reflect differences in taste for roasted coffee arabica (the Ethiopian variety) between domestic and international consumers.

Recent developments. Abyssinia Springs, a subsidiary of Great Abyssinia PLC and the second water bottling plant to operate in the country, is undertaking a major expansion project with an investment of $8.5 million on 50,000 ha of land. When completed, the production capacity of this plant is expected to be equivalent to the total of all existing water bottling plants in the country.

Great Abyssinia PLC has also acquired a state-owned pulp and paper factory to expand its tissue production.

A new organizational structure and decision-making system is currently being introduced.

Development agenda. The company's shareholders currently aim to increase their presence in the food and drinks manufacturing sector.

In order to diversify its investment and take advantage of the booming construction sector, Great Abyssinia PLC is currently constructing two hotels and a number of residential villas in the capital.

3.2.3 Robera

Basic details. Robera was established in 1994 by Abraham Teressa, an Ethiopian national, and his family in the form of a PLC. It is located in the capital.

The firm was established with an initial capital of about $370,000[2] and is engaged in processing and export of coffee. It currently employs 43 permanent and about 350 temporary people (during coffee export season).

Robera has an annual turnover of about $5.7 million, with estimated assets and equity of $1 million.

Background. The shareholders have been engaged in the coffee business for more than 35 years, previously as a small-scale coffee collector selling to coffee exporters, and eventually became a coffee exporter. As an exporter, the firm was at first involved in the export of green coffee.

The firm also has a licence to export other commodities.

Current activities and products. Robera is engaged in the processing and export of nine varieties of sun-dried green coffee, washed green coffee, roasted coffee and grounded coffee.

The firm has an annual production capacity of processing 6,000 tonnes of green coffee and 12,000 tonnes of washed coffee. Its roasting machinery has an annual production capacity of about 120 tonnes in a single shift.

[2] Calculated at the then (1994) exchange rate of ETB6.25.

Organization and management. The firm is led by the owner, who is the general manager and is assisted by the deputy general manager. Department managers and section managers are responsible for their departments and sections: administration & finance, business development & marketing and the promotion & value-added section.

Firm capabilities. Some 35 years of involvement in the sector has enabled the firm to create trust among coffee buyers in the international market. Robera is currently trying to create a link between coffee and tourism based on sales of traditional coffee in its own outlets.

The owner's extensive experience in handling to processing coffee has enabled the firm to focus on building up its niche market in quality roasted coffee. However, most of its exports are currently of green coffee.

Supply and marketing chain. Coffee is purchased through the ECX. Packaging material is mainly imported from China. The firm has developed its clientele over the years and mostly trades with trade houses based on sales contracts. The firm uses its own vehicles for distribution.

Export. The firm exports all of its products. Its main export markets are Germany (50%), Japan (30%) and the United States (10%).

Recent developments. The firm did not have a formal organizational structure until May 2009. It has since then restructured its organization by hiring consultants, and is going through various training exercises and is developing its systems.

Development agenda. The firm is discussing ways of extending its roasting and export business as a joint venture with investors in Turkey, Germany and Israel.

Chapter 4

OILSEEDS AND PULSES

4.1 Sector Profile

Background and overview. A suitable climate and a wide range of altitudes, from below sea level to more than 4,500 m above sea level, have enabled Ethiopia to grow more than 146 types of crop, among which are oilseeds and pulses. Oilseeds and pulses are the second biggest export commodity after coffee, accounting for over 20% of export earnings between FY2004/05 and FY2008/09. In FY2008/09, the total export revenue from the sector reached $445 million, compared with $162 million in FY2004/05.

High-yield oilseed varieties were developed by the Ethiopian Agricultural Research Organization as early as the 1960s. Between 1974 and 1982, oilseeds and pulses had a combined share of about 10% of export revenue.

Currently, oilseeds and pulses are mostly grown by small- and medium-scale farmers and, to a limited extent, by large-scale commercial farmers. In 2007, an estimated 800,000 ha of land was used for oilseed production of 0.5–0.6 million tonnes; 80% of this was produced by small-scale farmers, on land holdings of less than 5 ha.[1]

The oilseeds and pulses industry comprises both firms mainly engaged in exporting, and those engaged in the processing of oilseeds and/or the production of edible oil.

Oilseeds in Ethiopia include sesame (the major one), niger seeds, ground nuts, rape seed, safflower, linseed, castor seed, pumpkin seed and mustard seed. Pulse seed varieties include horse beans, chickpeas, haricot beans, lentils, dry peas, vetches and mung beans.

Profiles and lines of business of large firms. At least 36 firms operate in the oilseeds and pulses industry. Almost all, with the exception of few that invest in other areas, are engaged in exporting oilseeds and pulses. Kabew trading, Al-Impex Ethiopia, Ajib Omar Ismail, Bajiba PLC and Yegenet PLC are among the largest firms in the industry.

[1] Wijnands, J. H. M., J. Biersteker and R. Hiel. 2007. *Oilseeds Business Opportunities in Ethiopia*. The Hague: Ministry of Agriculture, Nature and Food Quality.

Al-Impex Import Export Enterprise was established in 1996 by an Ethiopian entrepreneur. It procures most of its export products from the ECX and uses its internal market intelligence unit to assess international market trends. The firm employs about 175 people and has on average an annual turnover of about $11 million.

Kabew Trading PLC was established by an Ethiopian and an American investor of Ethiopian origin in 2000. It is run by the Ethiopian partner, Melku Bera. In addition to exporting of oilseeds and pulses, the firm also imports edible oil and other fast-moving products. The firm procures its export commodities from the ECX and the local market. Referral from existing customers is the primary means of finding new customers, apart from those who directly contact the company through internet links. Kabew has an annual turnover of about $12 million.

Lines of business of mid-size firms. Oil millers collect oilseeds (mostly niger seeds, linseed, sunflower and cotton seed) from middlemen and produce mainly edible oil and other by-products which are used as animal feed. Oil millers are found all over the country but are highly concentrated in areas where the oilseeds are easily available such as Addis Ababa, Nazareth, Akaki, Gonder, Bahir Dar and Dire Dawa. A 2006 study indicated that the annual production capacity of these enterprises amounts to about 40 million litres per year.

Some of the prominent edible oil producers include Digafe Shinqut Edible Oil, Jemil Ahmed Edible Oil Factory, Mamo & His Sons Edible Oil and Esmael Abdela edible oil factory.

Cleaning service providers are enterprises providing cleaning services to the oilseed exporters and sometimes to the edible oil producers. They also provide crushing and processing services for exporters. Most of these enterprises are run by business people who acquired knowledge of the industry as collectors or exporters.

Most exporters have integrated this service into their line of activity to avoid paying fees to external service providers.

Small-scale, informal and peripheral activities. Small-scale farmers are the major players in this industry. Some 3 million farmers, without access to modern production methods, account for more than 80% of the total oilseed production.

Small oil millers operate in urban and semi-urban areas throughout the country. Their production capacity amounted to about 20 million litres per year in 2006. The bare-footed manual labourers spread the seeds on floors inside or outside the miller's premises and separate impurities using manual instruments, standing and walking on the seeds in the process.

The edible oil produced is collected in metal tankers, and quality and standard checking are usually not in operation.

Supply and marketing chain. Oilseeds are produced by small-, medium- and large-scale farmers in Tigray, Amhara, Oromia and the Benishangul Gumuz regions. Mechanized methods are limited to some large-scale commercial farmers. This reflects the lower yield per hectare of the commodity compared with other cash and cereal crops and the large initial investment it requires.

In general, the oilseeds produced in Ethiopia are either exported (sesame and niger seed) or used as an input for the production of edible oil (niger seed, linseed, rape seed, sun flower, safflower and ground nut).

Most of the marketing is done by wholesalers and retailers, with the exception of some large-scale exporters who buy the oilseed directly from producers. When the ECX becomes fully operational, it is planned to be the only market through which the seeds will be traded. Small-scale producers mostly supply their produce to large collectors who own large warehouses and have access to finance, enabling them to pay in advance for the commodities before they are harvested. These collectors commonly pay the advance through post-dated cheques, exposing the producers to default risk when the commodity price falls.

Most exporters acquire the commodities from these collectors, who usually have some bargaining power in setting prices and in hoarding the commodities.

The local edible oil producers procure oilseed either from the middlemen or directly from farmers and process it into unrefined edible oil. These millers sell their products to retailers, who in turn sell it to rural and/or low-income consumers.

Export status and trend. Oilseed producers are mostly located in lower-income countries including Sudan, China, India, Ethiopia and Nigeria. Most international buyers are based in high-income countries, and they aim to add value and resell at a higher price. The latter countries include Japan, the United Kingdom, the Netherlands, Germany, Israel, Italy, France, Belgium and South Korea. As of 2004, more than 110 countries were engaged in the business.

Oilseeds and pulses constituted 16% and 6% of Ethiopia's export revenue respectively in FY2008/09. Sesame and niger seed are the major exported oilseed crops.

Exporting is mostly done by large business enterprises that either own commercial farms or collect produce from small- and medium-scale farmers. The country exports three sesame varieties with distinct qualities that

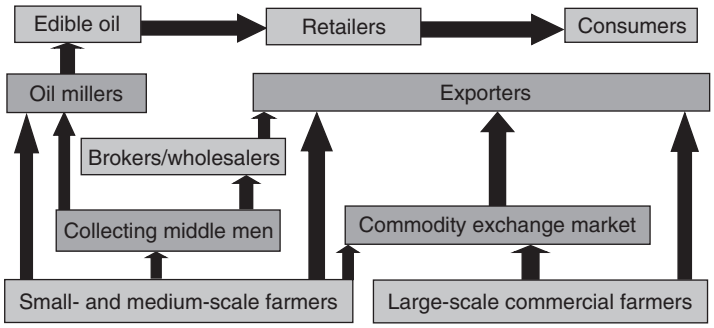

FIGURE 4.1. Oilseed supply chain. *Source:* Adapted from company interviews and from Wijnands *et al.* (2007).

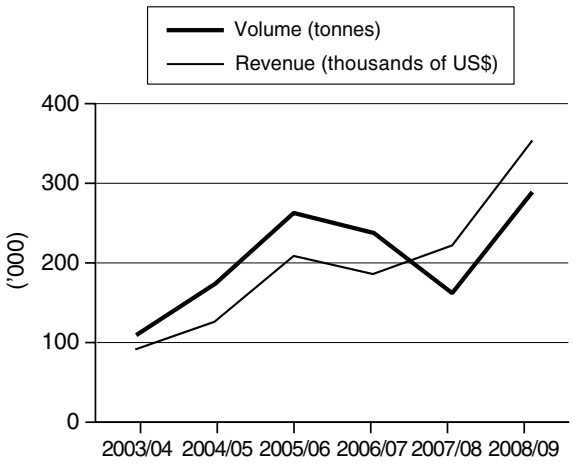

FIGURE 4.2. Export trends: oilseeds. *Source:* Ministry of Trade and Industry.

are popular in the international market: humera (whitish colour), gondar (oil content) and wellega (flavour).

Oilseeds are exported to more than 40 countries, the major destinations being China, Israel, the United States and Saudi Arabia. The volume of oilseed exports have been declining since FY2005/06 due to various production and marketing problems. However, total revenue was maintained owing to an increase in international prices.

Pulses are exported to more than 30 countries, the major importers being Sudan, the Netherlands, Yemen, the United Kingdom, the United Arab Emirates, South Africa and Saudi Arabia.

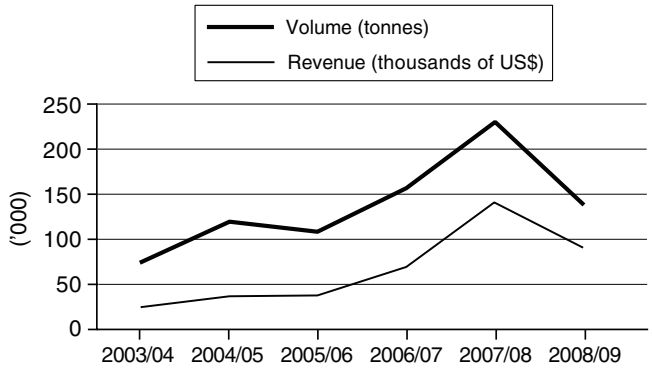

FIGURE 4.3. Export trends: pulses. *Source:* Ministry of Trade and Industry.

Policy context. The previous government's plan (1985–94) for foreign trade was targeted at expansion and diversification of export markets by reducing the share of agricultural products (coffee hides and skins, oilseeds and pulses) from 74% to 35% by the end of the plan period.

There were some incentive schemes for exporters, such as a preferential interest rate of 6% on bank loans (as compared with 8% for importers).[2] The effects were, however, limited, and were determined by unfavourable export taxes, an overvalued exchange rate and the dominance of SOEs over private businesses. The share of oilseeds and pulses in export revenue remained very low at 3.5%.

The present government regards the oilseeds and pulses industry as a priority sector. Specific targets have been set in terms of the area of land to be cultivated, the volume of production and the level of productivity. By 2010, it is planned to improve yields for oilseeds and pulses to 7.8 and 12.6 quintals per ha, as compared with 4.2 and 9.66 quintals per ha respectively in FY2004/05.

The present policy includes incentives such as export credit guarantees that offer credit with no collateral or with a maximum of 50% collateral, and foreign exchange retention schemes.

Competitiveness. Ethiopia's sesame seed (especially the humera type) is known for its high quality and exporters can charge a premium price.

There are abundant natural resources, a wide range of altitudes (below sea level to 4,500 m above sea level), a favourable climate, low-wage labour and fertile land.

[2] Nega, T. 2005. Export performance and the case for diversification in Ethiopia. Unpublished Report.

Yields are as high or higher than those of similar producing countries (Wijnands *et al.* 2007).

Challenges. Some of the major factors behind the declining trend of production since 2005/06 are:

- Lack of high-yield varieties: most of the seed varieties used in Ethiopia are low-yield varieties.
- Lack of adequate financial services and credit: most payments are made through post-dated cheques, exposing payees to serious default risks. There is a severe shortage of credit for operating and expanding businesses, since land cannot be used as collateral.
- Strong competition in the global market has left the sector vulnerable to high risk and very low profit margins.
- Companies that procure products directly from farmers located in the countryside face security problems in settling payments, as they have to physically transfer cash to the farmers' sites.
- Middlemen (wholesalers, retailers and brokers) play a prominent role in the industry's supply chain, and transaction costs are high. The situation should improve with the development of the commodity exchange market.

Rationale for selecting profiled firms. Belayneh Kinde and Guna Trading are leading export earners in the sector.

Al-Impex, Kabew and Bajiba are typical oilseeds exporters owned and run by local entrepreneurs.

4.2 Profiles of Major Firms

4.2.1 Belayneh Kindie Import Export

Basic details. Belayneh Kindie Import Export was established in 2005 as a sole proprietorship by Belayneh Kindie with a capital of $345,000.

The firm is mainly engaged in the export of oilseeds and occasionally imports various food items. It employs more than 175 people.

The average annual turnover of the firm is currently about $34 million (ETB425 million), 95% of which is generated from oilseeds exports. The average value of the assets of the firm is estimated to be $6.4 million.

History. Belayneh Kindie started as a small-scale trader of butter and honey between the countryside and Addis Ababa, and in supplying consumable commodities to rural households.

In 2000, he began wholesaling and the distribution of honey and butter. After a few years, he partnered with other friends to supply oilseeds to exporters, by buying from rural areas.

He subsequently established Belayneh Kindie Import Export as a sole proprietorship in 2005 and had become one of the largest oilseeds exporters in the country by FY2008/09.

Current activities and products. Currently, Belayneh is engaged in the export of oilseeds through its import and export company. He also owns a transport company, which has over 24 heavy trucks, and a transiting and logistics enterprise.

Organization and management. All operational and support units are headed by qualified professionals. Since the firm is run by a sole owner, most decisions, especially on procurement and pricing, are made promptly at a unit level in consultation with the owner.

The firm has a bonus scheme for its employees, which leads to high loyalty and low turnover. Key personnel, mostly close family members of the owner, work on a profit-sharing basis.

Firm capabilities. The firm's warehousing system is sizeable but wholly manual. It is now planned to improve the warehousing system by installing a modern and automated system that can supply accurate and up-to-date information on quantity and quality of stocks.

Supply and marketing chain. The competitive strength of Belayneh Kindie lies in its purchasing system, which is run by experienced and trustworthy individuals who are closely supervised by the owner. This enabled the firm to minimize the risk of embezzlement in the procurement process, an area where many exporters face problems. It also owns the majority of storage and oilseeds preparation facilities.

The firm has also built a strong relationship with banks over time, which gives it easier access to credit.

The firm uses local and international brokers to access export customers. Referral from existing customers and other players in the sector has helped the firm to develop its list of potential customers. Attending various international trade fairs and exhibitions has also enabled the firm to obtain new customers.

Export. During FY2008/09, Belayneh Kindie exported about $32 million worth of oilseeds to different customers in the Middle East, Europe and Asia.

Recent developments. Belayneh Kindie has recently added an import business to its activities, with the aim of enhancing profitability.

Development agenda. The firm plans to widen its range of operations in the future. In particular, it plans to acquire full ownership of warehousing and procurement facilities in all the major purchasing sites of exportable commodities.

4.2.2 Guna Trading House

Basic details. Guna Trading House PLC was established in 1992 by sister companies of EFFORT with an initial capital of $23 million.

The firm is mainly engaged in import and export of different commodities. It employs more than 200 full-time employees and more than 2,000 contract labourers.

The average annual turnover of Guna is $80 million, with $40 million (ETB500 million) generated from the export market. It has total assets of about $48 million.

History. EFFORT, as part of its decision to invest the endowment fund in a range of profitable areas, established Guna Trading House as an import/export and distribution wing. When first established, it was mainly engaged in the import of fertilizer and re-bars and the export of sesame and coffee.

Current activities and products. At present, Guna is mainly engaged in exporting coffee, oilseeds, pulses and natural gums. It also imports industrial chemicals and construction materials such as re-bars, timber and bitumen.

Organization and management. The firm has operational autonomy, where the general manager makes higher-level decisions. For major capital investments, adding or dropping product lines and other strategic issues, decisions are made at board level in the presence of the CEO of EFFORT.

Since the firm is owned by the endowment fund, it has significant corporate accountability, resulting in formal and lengthy decision-making procedures regarding capital investment. This is particularly relevant in the export business, where fast decision making, based on the latest market information, is sometimes needed.

Firm capabilities. Guna has a separate research and business development department which is responsible for evaluating the performance of different existing products and departments in addition to identifying and analysing new business opportunities.

It has built up strong goodwill in terms of product quality and in the meeting of supply contract requirements, especially among corporate clients.

Its deliveries are handled in part by its own fleet of vehicles, but most are outsourced.

Supply and marketing chain. Guna actively participates in business association meetings, exhibitions and trade fairs, with the aim of building and expanding its customer base for export activity. Customer links provided by embassies and the Ministry of Foreign Affairs also help in finding customers.

Export. In FY2007/08 and 2008/09, Guna was ranked as the number one exporter of oilseeds; its major export market is the Middle East (mainly Saudi Arabia, but also Turkey).

Recent developments. Rapid growth in the construction sector has created a huge demand for re-bars, and Guna is expanding its business accordingly. In addition, it has entered into a contract to supply bitumen asphalt to Sur Construction and has begun supplying bitumen in an open market.

4.2.3 Kabew Trading

Basic details. Kabew Trading PLC was established in 2002 by an Ethiopian national, Melku Bera, and an investor and a US-based investor of Ethiopian origin, with an initial capital of $15,000.

Melku is based in Addis Ababa, and acts as the general manager of the firm. Since its establishment, Kabew has engaged in the processing and export of oilseeds and pulses and the import of various foodstuffs and edible oil.

The firm has an average annual turnover of $12 million.

History. Kabew Trading was engaged in import and distribution of used cars until 2003. It has since expanded its range of imported products into fast-moving foodstuffs, edible oil, re-bars and corrugated steel sheets.

The firm is now the second largest exporter of pulses in the country.

Current activities and products. Kabew is mainly engaged in the processing and export of oilseeds and pulses using its own warehouse and preparation facility. It also imports various foodstuffs and edible oil to distribute to local wholesalers.

Organization and management. Kabew is directly run by Melku Bera, who is involved in day-to-day decision making, with some assistance from marketing personnel and purchasing agents at different sites.

Firm capabilities. The firm regards strong customer trust earned by strictly meeting trading terms and conditions as the core of Kabew's success.

Supply and marketing chain. Kabew's main inputs are exportable oilseeds and pulses acquired directly from the local market, through middlemen or the ECX. Procurement agents or employees gather information at major production sites. The final purchase decision is by the owner.

Export. The Middle East, particularly Saudi Arabia, is by far the largest destination for exports. Occasionally, the firm exports to China and Turkey.

4.2.4 Bajiba

Basic details. Bajiba was established in 1975 by Abdurahman Omar Bajiba, an Ethiopian national, in the form of a sole proprietorship and was later restructured as a PLC. The shareholders are the founder and his sons. The firm is located in the capital.

The firm is engaged in processing and exporting pulses and oilseeds. It has about 50 permanent employees (and more than 300 contract employees during the export season).

In FY2007/08, the firm had an annual turnover of about $2.6 million. The total assets and equity are valued at about $1.6 million.

Background. The founder was initially engaged in salt trading and eventually in local trading of pulses and oilseeds, mainly for exporters. Later, Bajiba decided to move into exporting.

The sole business was changed into a PLC in 1978, the shareholders being the founder Abdurahman Omar Bajiba and his sons.

Current activities and products. Bajiba is engaged in processing and exporting of pulses (kidney beans, haricot beans and chick peas) and oilseeds (sesame and niger seeds).

Organization and management. The firm is run by a general manager, who is one of the shareholders. In addition, it has various departmental managers in administration, finance, operation and warehousing.

Apart from the general manager, shareholders are involved only in strategic decisions.

Firm capabilities. The firm has modern cleaning machineries with three processing lines to clean three commodities at the same time with a daily capacity of 200 tonnes. In addition, it has a storage capacity that exceeds quality assurance system requirements.

Despite this, the firm uses a traditional management system, without a modern planning and budgeting system. Unlike other similar firms, the firm does not have a dedicated market intelligence unit.

Supply and marketing chain. Pulses and oilseeds are sourced mostly through middlemen or agents. Other sources include direct purchases from farmers, small village traders and cooperatives.

The firm supplies well-established export clients, with whom it has developed relationships over a 20-year period.

Export. The firm exports all of its production; the main export destinations are Saudi Arabia, Jordan and Turkey.

Recent developments. The firm's exports have been decreasing in recent years, as local prices are higher than the international price.

The firm has recently acquired new machinery in order to improve the quality of its export products.

4.2.5 Al-Impex

Basic details. Al-Impex Import Export Enterprise was established in 1996 as a sole proprietorship by Alula Gebremichael, an Ethiopian national.

It is mainly engaged in exporting oilseeds, pulses, spices and coffee and importing fast-moving consumer goods. It has more than 75 employees.

Al-Impex has an average annual turnover of more than $16 million with an average total asset value of 2.5 million.

Background. After leaving college, Alula established Al-Impex on the basis of his own assessment of alternative business opportunities which require minimal initial capital.

The firm began by importing fast-moving and consumable goods to the country and exporting locally produced cosmetics products to neighbouring countries.

After trying various business activities, Alula identified the export potential of sesame and the implications of the government's strategy in supporting the sector.

Al-Impex started exporting sesame in 2002 by using the government's Export Credit Guarantee Scheme and customers' advance payment to finance its shipments to international customers.

Current activities and products. Al-Impex has three major lines (divisions). The export division is engaged in purchasing, processing and export of oilseeds, pulses, spices and coffee. The import division is engaged in import and distribution of fast-moving consumer goods. The third division works by creating strategic alliances with foreign institutions to participate in sizeable government and private tenders in various areas.

Organization and management. Alula is the managing director of the company, overseeing overall operations. The firm has organized and appointed managers to each major line of business with a performance-based reward system. Each core division is operationally autonomous, with its own budget and performance evaluation.

Firm capabilities. Professionalism and an organizational system led by a young and dynamic director are seen as the key features of Al-Impex's capability. The firm has an International Market Intelligence Unit, which studies trends in harvest and in the quantities and prices of commodities.

Al-Impex aims to become a multinational commodity trading hub in the region.

The firm is trying to automate and modernize its overall operation, but the shortcomings in ICT infrastructure in the country is seen in the company as a serious challenge.

Supply and marketing chain. The major inputs of the firm are exportable agricultural commodities. Al-Impex is a founding member of the ECX and procures most of its exchange-traded commodities from ECX using its own floor representatives. In addition, it also purchases products directly from farmers or the local market through its own purchasing employees or brokers (for products that are not included in the ECX).

In managing its exports, each export location has its own manager.

Most export customers approach the company through the internet and through referrals by existing customers. In most cases, the firm has orders beyond its capacity (which is constrained by logistical problems, and by the supply of quality products in sufficient quantities).

Export. Currently, China, the Middle East and Turkey purchase more than 90% of the firms' oilseeds and pulses. The main export destinations for the firm's coffee export are Germany, the United States and the Netherlands.

Recent developments. Al-Impex recently restructured itself into three major divisions, for which clear goals were defined. This enables it to take better advantage of the opportunities offered by large-scale infrastructure projects.

Development agenda. Al-Impex plans to strengthen its international connections and also expand more towards high-value-added commodities.

A feasibility study is also underway to establish a commercial farm to grow sesame and other oilseed commodities.

Chapter 5

FLORICULTURE

5.1 Sector Profile

Background and overview. Floriculture is the newest of Ethiopia's export industries, having grown very rapidly over the past five years to become the country's fourth largest export industry.

The Ethiopian floriculture industry began in the 1980s when state-owned farms started exporting cut flowers to Europe. Up to 1991, there were only two active enterprises, Horticultural Development Enterprise and Upper Awash Agro-Industry Enterprise, both state-owned.

The modern Ethiopian flower industry took off in 2005 when a number of foreign firms (mostly flower producers from Kenya) and local businesses began production, encouraged by the government's aggressive promotion of the industry.

The flower types produced in Ethiopia comprise roses, field flowers and flower cuttings. Roses are the major flower type, and are produced by more than 80% of the firms, accounting for 60% of the total cultivated land. Field flowers account for 26% of the cultivated land, while cuttings are the smallest category. (See Annex 1 on page 179 for a list of varieties of each category.)

There are about a hundred flower producers and exporters cultivating a total of about 1850 ha of land, mostly located within a radius of 200 km from Addis Ababa International Airport, the only cargo outlet to export markets. Most of the firms are either fully foreign owned or are joint ventures with foreigners.

The industry now employs more than 50,000 people, on a permanent or temporary basis.

The main market for Ethiopian flowers is the Netherlands (which accounts for 80% of revenue), followed by Germany (8%) and the United States (3%). Export earnings from the sector reached $131 million in FY2008/09.

Profiles of large and mid-size firms. All large and mid-size firms in the floriculture industry are engaged in the production of flowers for export. Local demand for flowers is very small.

Golden Roses Agro Farms Ltd, one of the pioneers in the Ethiopian floriculture industry, was established in 1998 by five British nationals. The firm is engaged in the production and export of over 20 varieties of roses and has a weekly production capacity of 2 million stems. The firm uses direct marketing channels. It has an estimated annual turnover of about $6 million.

AQ Roses PLC was established in 2006 by a Dutch family who were in the flower business in the Netherlands. The firm is engaged in the production and export of 12 varieties of roses and has a production capacity of 1.6 million stems per week. The firm markets its flowers through its own sales and distribution company in the Netherlands. It has an average annual turnover of about $10–12 million.

Small-scale, informal and peripheral activities. Peripheral activities include the production and local sales of ornamental plants and flowers. The business is dominated by small-scale and informal businesses, located mostly in the capital and nearby towns.

Supply and marketing chain. The supply chain for roses is illustrated in Figure 5.1.

The main inputs – seed varieties, fertilizers and pesticides – are mostly imported from the international market. The roses are planted in greenhouses after selection (based on expert advice) of a particular variety.

Exports are routed via airfreight, mainly on Ethiopian Airlines, but also on foreign carriers (KLM and Lufthansa).

Export status, trends and potential. Total international trade flows in cut flowers is valued at more than $50 billion, and more than 70% of this is accounted for by imports into EU countries. Ethiopia accounts for about 5% of the EU market.

In FY2008/09, $130.7 million was generated from the export of 1.3 trillion flower stems to a total of 63 destination countries, the major ones being the Netherlands, Germany, the United States and Japan.

The time trend of exports is shown in Figures 5.2 and 5.3. Ethiopia's rank in the top exporters list rose from 24th in 2001 to 5th in 2007.

Policy context. Floriculture is one of the areas identified by the government as a priority sector. Current targets include utilizing a total of 2,000 ha of land for flower production and creating 70,000 jobs.

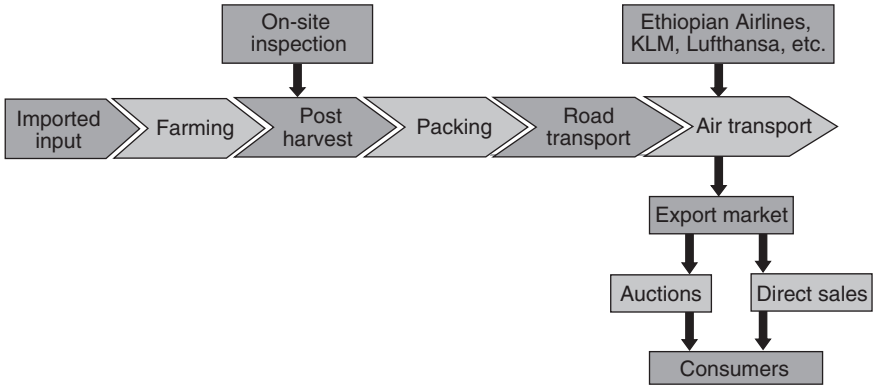

FIGURE 5.1. Supply chain: roses. *Source:* Compiled from Zewdie (2007) and company interviews.

Exporter incentives, such as an export credit guarantee scheme that offers credit (with collateral requirements ranging from 0–50%) and foreign exchange retention schemes, have aided the growth of the industry.

Competitiveness. The Ethiopian floriculture industry has a competitive advantage in the global market as the country is rich in the required natural resources (altitude, temperature, water resource, soil type) and has a low-wage labour force (50–60% lower than that of its leading local competitor, Kenya[1]).

There is strong global competition in the global market, with a very low profit margins, and less efficient firms in the sector are operating at a loss. Due to an increase in the level of production by competing countries, African exporters generally incurred an annual average price decline of 10% from 2002 to 2007.

Although sales prices for Ethiopian flowers are higher than those of Kenya (Africa's leading exporter), Ethiopia enjoys lower yields than the Kenyan industry, producing 1.7 million marketable stems per hectare against Kenya's 2.2 million.[2]

Foreign-owned firms have a wider knowledge and expertise in the international flower industry than local firms, and have the advantage of

[1] Zewdie, B. 2007. Export marketing customs and bank clearing operations of floriculture in Ethiopia. Unpublished Report.

[2] Jooste, F. 2007. Development strategy for the export-oriented horticulture in Ethiopia. Unpublished Report.

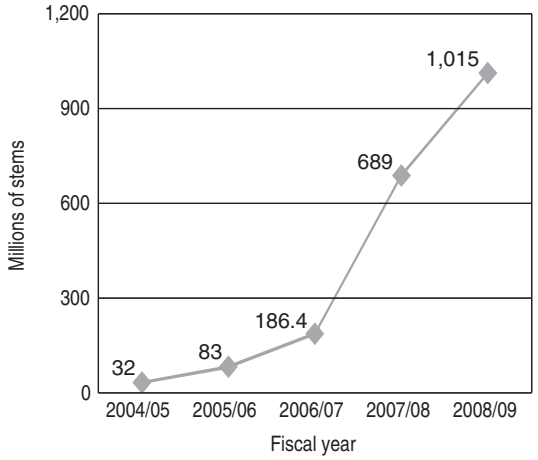

FIGURE 5.2. Export volume trends. *Source:* Ministry of Trade and Industry.

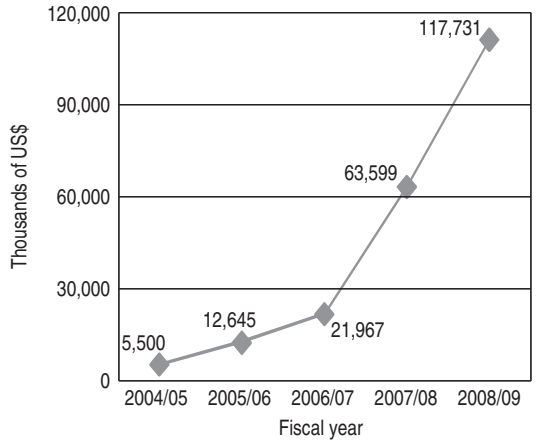

FIGURE 5.3. Export revenue trends. *Source:* Ministry of Trade and Industry.

using direct sales channels (allowing them to produce and export more varieties). Local firms sell through the auction market rather than through direct sales.

Challenges. Airfreight charges with the major carrier (Ethiopian airlines) have increased at certain times, depending on cargo space availability, while other carriers (KLM, Lufthansa, etc.) charge relatively high prices generally.

Import dependence for inputs such as pesticides and high-yield variety seeds forces firms to expend a considerable amount of their working capital in importing these in bulk.

Unavailability of competent service providers such as freight forwarders, clearing agents, storage/warehousing facilities and insurance provisions for post-harvest losses. In addition, there are no cargo service facilitators to coordinate handling between various exporters to maximize cargo space utilization.

Absence of large-scale packaging manufacturers leads to relatively high costs in importing packaging materials.

Underdeveloped transportation system. Trucks with cooling services are limited in number and outdated. In addition, there is a scarcity of airfreight cargo space.

Bureaucratic product inspections are carried out on the farm, in contrast to other exporting countries where inspection is carried out on export consignments.

Rationale for selecting profiled firms. Red Fox, AQ Roses and Golden Roses are among the top exporters in the industry.

5.2 Profiles of Major Firms

5.2.1 AQ Roses

Basic details. AQ Roses PLC was established in January 2006 in the Zeway region, 160 km from the capital. AQ Roses is a family-owned company formed by Vim Ammerlaan and his two sons, all Dutch nationals. The firm is actively managed by the two sons.

AQ Roses is engaged in the production and export of various varieties of roses. It has about 1,100 permanent employees.

AQ Roses is highly profitable, making a return on its assets of 20%. It has an average annual turnover of $10–12 million with an average total asset value of $10 million and a net profit margin of 15–20%.

Background. Vim Ammerlaan has been in the rose production and trading business for more than 30 years in the Netherlands.

The family owns a flower farm in the Netherlands, and decided to expand their capacity by building an additional flower farm, AQ Roses, on 40 ha of land in Ethiopia, taking advantage of the opportunities and incentives put in place by the government.

Current activities and products. AQ Roses is solely engaged in production and export of 12 varieties of roses with a production capacity of 1.6 million stems per week or 80–90 million stems per annum.

Organization and management. The firm has a simple organizational structure where at least one of the three shareholders is always available on the farm, making all the necessary decisions instantly.

There is no formal and bureaucratic decision-making structure. Most production and logistics decisions are taken by local farm managers and one of the shareholders. All sales and marketing decisions are taken by Vim Ammerlaan, who has an in-depth knowledge of the Dutch market.

Firm capabilities. AQ Roses has managed to maintain a high degree of product quality and charges a premium price by focusing on roses as a business. This strategy has allowed the firm to operate profitably in the industry even though price has recently been declining due to oversupply.

The extensive experience of the owners in the flower industry has enabled the firm to easily find export markets.

There is a strong management mix between the shareholders who have international experience and the local managers who have an in-depth knowledge of the domestic production environment.

Supply and marketing chain. The major inputs of the company are fertilizers, chemicals and packaging boxes, which are fully imported from abroad. The firm makes use of its well-established relationships with suppliers to purchase the major production inputs and mostly procures these inputs on a credit basis (which is not permitted for domestic companies).

AQ Roses has its own sales and distribution company in the Netherlands. It sells its products on a retail basis using its network, allowing the firm to obtain the best possible price for its export. The firm also uses the auction market.

Export. The firm exports all of its production to the Netherlands, where its affiliated distribution company is located.

Recent developments. Since the company has been in operation for only three years, there have been no major developments in recent periods except for continual quality improvement and human resource development programmes.

Development agenda. AQ Roses plans to make additional investments to improve its post-harvest technology and produce better products with a view to becoming more competitive within the global floriculture industry.

Furthermore, the two sons are planning to invest in different areas in Ethiopia and are evaluating various business opportunities.

5.2.2 Red Fox PLC

Basic details. Red Fox Ethiopia was established in 2003 by Günther Dümmen, a German entrepreneur who has long experience in the flower business, and his son, Tobias Dümmen. The family also owns production sites in Costa Rica and El Salvador.

The firm is engaged in the breeding and export of unrooted young plants. It has 1,300 employees, 450 of whom are seasonal workers employed on a contract basis for three to four months at a time.

The firm was initially established with a capital of $2.79 million.[3]

History. The Dümmen family joined the young-plant business in 1963. The decision to invest in Ethiopia came about after considering the cheaper labour costs, the incentive packages offered by the government, the lower crime rates compared with other flower-growing African countries and the good climate.

Red Fox Ethiopia started operation on eight hectares of land in Koka, a town 95 km from the capital. The firm was initially engaged in exporting ornamental products and unrooted cuttings in its early years of operation. The factory's acreage has increased in a series of steps to reach to 35 ha in 2009.

Current activities and products. Red Fox Ethiopia produces unrooted cuttings for export. It exports more than 150 varieties of unrooted young plants.

Organization and management. Günther Dümmen serves as the chairman of the group and his son as a CEO overseeing the operation of the family's investments in Costa Rica, El Salvador and Ethiopia.

There are four professionals from abroad with long-established, international experience in the industry who manage the production department. The information systems department is also managed by a foreigner. The owners plan to slowly and smoothly replace them with local professionals.

Firm capabilities. The owners' experience in the international market is the firm's greatest asset. This has helped the firm to have a competitive advantage both in input procurement and marketing.

[3] Calculated at the then (2003) exchange rate of ETB8.62.

In addition, the firm holds intellectual rights on breeds of various varieties.

Red Fox controls the end-to-end and supply chain by having its own importing company, and transportation services and distribution networks in the international market.

The presence of a well-established customer network enables the firm to book orders in advance and to produce accordingly, resulting in minimal wastage and price fluctuation risk.

An international production quality expert from head office visits the firm at least once a month to oversee production flow and ensure that quality is maintained.

Supply and marketing chain. Chemicals and fertilizers are fully imported from abroad, while packaging materials and plastic bags are procured from local manufacturers.

The major portion of the firm's output is sold to customers who book in advance. It has sales offices in the United States, France, Italy and Germany. It sells through wholesale, direct retail and auctions.

To transport its products to the airport cargo terminal, the firm uses its own delivery trucks. For air shipment, Red Fox uses Lufthansa Airways.

Export. All of the firm's products are destined to the export market, mainly to the United States, France, Italy and Germany. In 2009, it has exported 127 million cuttings, generating export revenue of $10 million.

Development agenda. Red Fox plans to strengthen its market leadership and consolidate its special expertise in producing unrooted young plants.

The firm is in the process of acquiring additional land so as to increase its total acreage to 65 ha. In addition, it plans to diversify by engaging in the production of fruit, in partnership with another firm that has adequate knowledge and experience of the sector.

5.2.3 Golden Rose Agro Farms Limited

Basic details. Golden Rose Agro Farms was established in 1998 by five British nationals of Indian origin in the form of a PLC.

The firm started its operation with an initial capital of $3 million on 7 ha of land in the Tefki region, 45 km from the capital, and has expanded to 20 ha. It has more than 500 employees.

Golden Rose has an average annual turnover of $6 million with average assets and capital value of $8 million and $7 million, respectively.

Background. The owners were engaged in manufacturing and trading businesses in Uganda and the United Kingdom before they established Golden Rose in Ethiopia.

Taking full advantage of the (then limited) investment incentives, following an evaluation of the viability of the business, they decided to engage in the industry.

Golden Rose was the first highland floriculture farm in Ethiopia to join the floriculture industry and has experience that enabled it to make efficient use of the input supply chain. It imports and distributes chemical inputs to other flower-producing companies.

Current activities and products. Initially, Golden Rose was engaged in production and exporting with a capacity of 700,000 stems per month. Currently, it has increased its production capacity to about 2 million stems of roses per month with more than 20 varieties.

In addition to cut roses, the firm has expanded its operation into the production of flower packaging products and mother plants.

Organization and management. The highest decision-making unit in the company is the shareholders assembly. Most operational decisions are taken by the general manager, who is also one of the partners.

Shareholders' approval is required for major decisions.

Firm capabilities. Experience of over 10 years in the sector enabled the owners to evaluate and integrate related businesses such as flower packaging and mother plants.

The owners do not intervene in the technical and production areas, and this has given production personnel operational independence with regard to decisions on production methods and product quality.

As a result of a rapid decrease in the global selling price coupled with rising transportation costs, the firm has been operating at breakeven or loss for the past two years. If it were not for the current weakness of international demand, the company would be well placed technically and financially to meet a larger level of sales.

Supply and marketing chain. Major production inputs are imported. These include chemicals, fertilizers, packaging materials and plastic sheets (greenhouses). It has started producing flower packaging materials for its own consumption as well as for sale to other flower producers.

Most inputs are imported in large quantities, purchases of small quantities being uneconomic. This forces the firm to hold large inventories.

High cargo fares are regarded as a serious problem.

Marketing chain. Golden Roses uses a direct marketing approach as opposed to the auction route used by most local flower exporters. The firm directly supplies its products to retailers in target countries, bypassing multilayer marketing channels. This approach, however, involves a higher credit risk.

Export. The firm exports its products to Germany, Norway, Saudi Arabia, Oman, Dubai, Switzerland and the United Kingdom. Germany takes the largest share (more than 40%) of the country's export.

Recent developments. After the expansion project into packaging and mother plant production, the company has not been involved in any major expansion or development project.

Golden Roses has invested heavily to become a 'Fair Trade Certified' company, by proving itself as an environmentally and socially friendly company. The firm believes that this will enable it to win niche markets with the potential to earn premium prices.

Development agenda. The company is waiting until the global problems prevailing in the industry improve before formulating a strategic plan for the future. There is a view that some form of government intervention may ease the current problems faced by the industry.

Chapter 6

FOOD PROCESSING

6.1 Sector Profile

Background and overview. Food processing is among the oldest of Ethiopia's manufacturing industries. Bakeries, grain and oil mills were in operation as early as 1906 and the first food factory, Kaliti, was established in 1938.

In FY2006/07 there were 330 large- and medium-scale firms in the food processing industry, employing about 36,000 people, which amounted to 26% of all employees in the manufacturing sector.

The food processing industry can be broken into eight major subsectors:

Sugar manufacturing is the leading subsector, accounting for 53% of sales revenue and 57% of employment in the food processing sector. This industry is the subject of a separate industry profile.

Meat processing and exporting is the leading export subsector. Processed meat products comprise canned and frozen meat. In FY2008/09, about $27 million was generated from the export of meat and meat products.

Wheat-based products manufacturing consists of flour, macaroni, spaghetti and biscuit manufacturing, and involves about 200 firms.

Fruit and vegetable processing is dominated by a state-owned firm that produces orange marmalade, tomato paste and tomato juice.

Edible oil production is carried out by mid-size and small-scale businesses that produce vegetable butter, edible oil and cheese for the domestic market.

Dairy products in Ethiopia include yogurt, cheese and butter, mostly produced by small-scale farmers and households.

Grain milling is practiced by numerous small-scale businesses located in villages throughout the country.

Bakeries are mostly small-scale businesses and the subsector is the second largest in terms of employment, after sugar.

Profiles and lines of business of large firms.

Wheat-based products manufacturing. There are about 200, mostly large-scale, firms that produce flour[1] for the local market and as an input (backward integration) for the production of macaroni, spaghetti and biscuits. Some of the large firms in this line of business are Kaliti Food Complex, Dire Dawa Food Complex, Brothers Biscuit and Flour Factory and NAS Foods PLC.

Dire Dawa Food Complex is a state-owned firm established in 1987. It produces wheat flour (200,000 kg per day), pasta and macaroni (110,000 kg per day), and biscuits (20,000 kg per day). The firm has an estimated annual turnover of $20 million.

Nas Foods PLC was established in 2000 as a PLC. The company is the leading biscuit manufacturer (50,000kg/day) in the country with annual sales of about $15-20 million. It has 850 employees.

Processing of meat and meat products. There are about 15 firms engaged in the exporting of meat and meat products, mainly to the Middle East and Yemen. Some of the leading firms in this line of business are ELFORA Agro Industries, Luna Export Slaughter House, Helmex PLC and Modjo Modern Export Abattoir PLC.

Luna Export Slaughter House PLC was established in 2003 and is engaged in the slaughter and export of lamb and mutton (800 sheep and goats per day) to the Middle East. The firm has about 300 employees. It has an estimated annual turnover of $5 million.

Organic Export Abattoir was established in 2006 in the form of a PLC. The firm exports lamb and mutton and has a capacity of producing 300tonnes/day. It has estimated annual sales of $2 million.

Processing of fruit and vegetables. About five firms are engaged in this line of business. However, the state-owned Upper Awash (Merti Agro Industry) is the dominant firm, producing orange marmalade, tomato paste and tomato juice. It has about 13,300 employees.

Edible oil manufacturers. There are about a hundred mid-size firms and a larger number of small-scale businesses engaged in the production of edible oil, vegetable butter and margarine, throughout the country. Large firms include Addis Modjo Edible Oil PLC, Hamaressa Edible Oil Factory and Nazareth Edible Oil Factory.

Production of dairy products. There are fewer than ten large firms producing milk and milk products (butter, yogurt, cheese, etc.).

[1] Wheat flour, except for a few that have 2–4% of their capacity devoted to maize milling.

Lines of business of mid-size firms.

Bakeries. As of FY2006/07, there were 141 bakeries, of which five were publicly owned, with more than 50 employees each.

Soft drinks. One interesting development involves the appearance during the past few years of over a dozen mid-size firms in the soft drinks (fruit juices and mineral water) area, which has led to a substantial fall in imports of soft drinks. The Access Capital Group is particularly active in this area, both in juices (Piko) and mineral water (Real Water).

Most subsectors of food processing have a fringe of small and mid-size firms.

Small-scale, informal and peripheral activities. The informal and small-scale food processing activities contribute a significant share of the total processed food supply in Ethiopia. These include:

Small-scale grain mills. A huge portion of medium- and low-income earners' grain demand is met by small-scale mills that are dispersed throughout the country. Households buy grains (teff, wheat, maize, pulses) from nearby markets and take them to the mills for processing.

Local cereal snacks. Products such as 'kollo' and 'kocho' are supplied by small-scale businesses.

Bakeries. Apart from the mid-size bakers noted above, there are many small-scale bakeries in most areas of the country that bake and supply bread and other local products.

Fruits and vegetables. A large number of small-scale and informal businesses, often located around schools, universities and business areas supply fresh vegetables and fruit juice.

Dairy products. Households located on the outskirts of cities supply milk, yoghurt and cottage cheese.

Supply and marketing chain.

Manufacturing of flour, macaroni, spaghetti and biscuits. Wheat, the main raw material for flour mills, bakeries and producers of macaroni and spaghetti, is procured from various markets including the ECX, middlemen and collectors, and directly from the producers.

There are three end markets for wheat flour: medium- or high-income-earning consumers mostly living in cities, factories that use flour as an input (manufacturers of biscuits, macaroni and spaghetti) and institutional buyers (such as labour unions and the military).

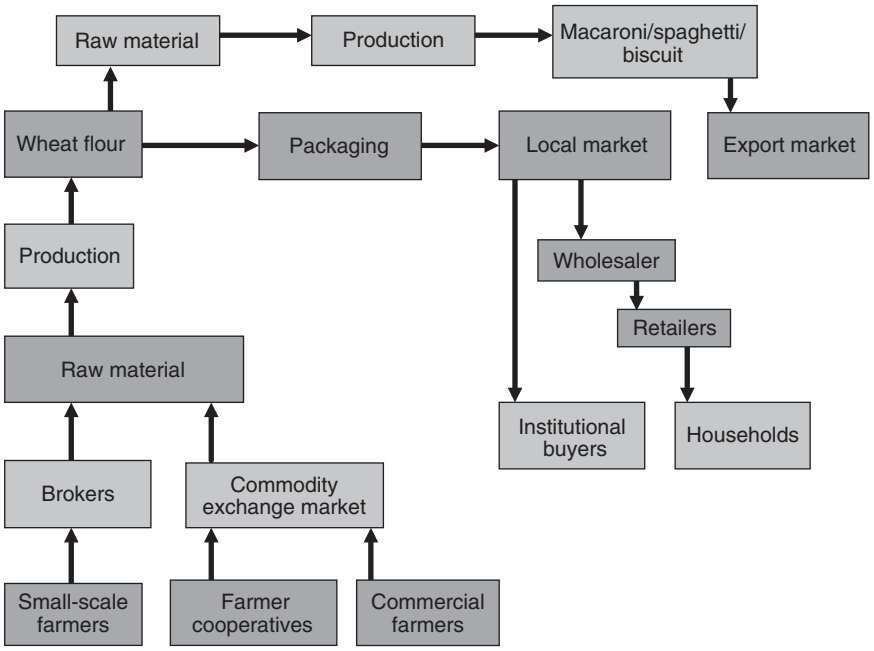

FIGURE 6.1. Supply chain: manufacturing of wheat-based products.
Source: Compiled from interviews with major firms in the industry.

A large number of wholesalers and retailers are involved in distributing the product to individual consumers and manufacturers. Institutional buyers procure the products at the factory gates.

Manufacturing of meat and meat products. The major inputs – cattle, goat and sheep – are mainly sourced from pastoralists in the eastern, south-eastern and northern areas of the country. Firms procure the animals from middlemen (mostly tribal leaders). The slaughtered animals are exported mainly to customers in the Middle East, who are contacted through trade fairs arranged by the Chamber of Commerce and by Ethiopian embassies.

Manufacturing of edible oil. The major inputs – oilseeds (cotton seed, niger seed, linseed, rapeseed) – are procured from wholesalers and retailers. The edible oil is sold through middlemen, mainly to low-income earners and rural dwellers.

Export status, trends and potential. In FY2008/09, processed food accounted for only 3% of total export revenue. Most of this revenue came from meat and meat products, and sugar. Export volumes for other processed

TABLE 6.1. Export revenue of processed food (in thousands of USD).

Export products	2004/05	2005/06	2006/07	2007/08	2008/09
Meat and meat products	15,598	18,323	15,491	20,949	26,584
Sugar	14,553	8,245	15,836	16,016	15,549
Tahina (processed oilseed)	—	—	—	4,251.46	3,579
Pulse, processed	—	—	—	78.30	—
Various foods (macaroni and spaghetti)	—	—	—	50.88	121
Total	30,151	26,568	31,327	41,345	45,832

Source: Ministry of Trade and Industry.

foods are extremely small. In FY2008/09, export revenue from tahina (sesame paste, semi-processed) was about $3.6 million to Israel, while from macaroni and spaghetti, it was about $121,000 (to Somalia).

Wheat flour was exported before 2006, at which time cereal exports were banned for an indefinite period, in order to stabilize local prices.

Policy issues. Food processing is one of the government's priority sectors. Between 1974 and 1990 (communist regime), the food processing industry suffered from low productivity in agriculture and an unfavourable environment for the private sector.

The current government has introduced various policies to improve the availability of major agricultural inputs, and to promote the role of the private sector, and this has facilitated the growth of the industry.

Competitiveness. The value of production as a percentage of annual capacity of the industry ranges from 41% in the production of meat, fruit and vegetables, to 96% in sugar.

Imported products – especially edible oil, macaroni, spaghetti, flour and biscuits – are a major competitive threat for local producers. In flour, macaroni, spaghetti and biscuit manufacturing, production costs are relatively high, due in large part to the use of outdated machinery.

Benchmarking studies for meat products have indicated that Ethiopia's yield of meat per bull, sheep and goat is 108, 10 and 8.5 kg, respectively, a little below the African and global averages (Figure 6.2).

Challenges.

Poor and inconsistent raw material supply (both in terms of quality and quantity). More than 90% of the inputs for flour manufacturing is sourced

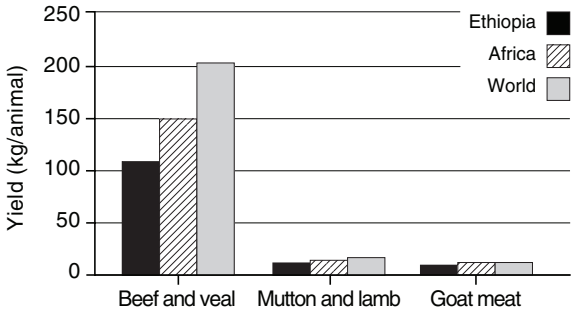

FIGURE 6.2. Meat production. *Source:* Ministry of Trade and Industry.

from small-scale and subsistence farmers. The problem is aggravated by a lack of adequate storage facilities.

Input market failure. The prices of wheat, and of livestock, to food processors is inflated by the large margins earned by middlemen.

Poor logistics and transportation. In the case of meat and meat products, there are problems in transporting live animals, and a shortage of refrigerated trucks to transport products for export.

Rationale for selecting the profiled firms. NAS Foods, Dire Dawa Food Complex and Brothers Flour and Biscuit Factory are among the largest producers of processed foods.

The SECA Business Group was selected as representative of large firms diversifying into the food processing sector.

Health care was selected as being representative of firms established by Ethiopian nationals, who have technical expertise in particular areas.

Modjo, Luna and Organic are the three leading meat exporters owned by local investors.

Sebeta Agro Industry is a market leader in the dairy sector.

6.2 Profiles of Major Firms

6.2.1 NAS Foods

Basic details. NAS Foods was established in 2000 with an initial investment of about $8 million in the form of a PLC. The shareholders are NAS Investment, Saleh Nasreddin and Sara Hassen (close family members), all Ethiopian nationals. The factory is located in the Legetafo area, 25 km from the capital.

The firm is engaged in producing 25 varieties of biscuits. It has a total workforce of about 850 employees.

The firm has an average annual turnover of about $15–20 million. The total assets are valued at $16 million, 70% of which is financed by equity.

Background. The owner of NAS Foods comes from a very successful family business in Nigeria, which rose with the oil boom to become one of the major entrepreneurial ventures in Africa. NAS Foods was established as a serious investment, but was also a 'return home' for the family.

Current activities and products. NAS Foods produces over 25 varieties of biscuits with a total production capacity of 50 tonnes per day. In addition, it produces flour as an input for producing biscuits.

The firm sells all of its products in the domestic market.

Organization and management. The management team, comprising an experienced group of locals and expatriates, has over 25 years of hands-on experience in the sector in Europe, Africa and Asia.

The firm is managed by a managing director followed by an executive director, both founders and co-owners of the firm. In addition, there are department managers at production, administration and finance department levels.

Firm capabilities. NAS Foods is the leading biscuit manufacturer (with an estimated market share of 35%) and the first to produce varieties of international standard biscuits in Ethiopia. The firm is equipped with state-of-the-art technology imported from Italy, France, Turkey and India.

The firm classifies its products into three segments: a high-income segment, an economical segment and the widely available and affordable lower-income segment.

The high level of technical know-how of the personnel, most of whom have decades of experience in the food and beverage industry, combined with strong in-house training, has served to establish and maintain high quality.

Supply and marketing chain. The main inputs (wheat, sugar and shortenings) are supplied from the local market.

The firm has a well-established network of distribution, making it efficient. It has distributors in almost every zone of the country.[2] In addition, it uses its own small and large trucks to distribute in the capital and its vicinity up to 200 km.

[2] Ethiopia is divided into 11 regions, which are subdivided into 63 zones.

Recent developments. An expansion to produce wafers and chocolate, the first of its kind in the country, was recently made.

In addition, the firm has invested in a biscuit production line that will increase current production capacity by 40%.

Development agenda. The firm plans to produce breakfast cereals in the future. In addition, they plan to produce packaging materials, both for their own consumption and for the local market.

6.2.2 Dire Dawa Food Complex

Basic details. Dire Dawa Food Complex is a state-owned enterprise established in 1987 as a factory. Following various restructurings, it is now a share company. It is located in Dire Dawa, 515 km from the capital.

The firm produces wheat flour, pasta, macaroni, biscuits and bread. It currently employs about 500 people.

In FY2008/09, the firm had an annual turnover of about $20 million. The total assets are estimated at $16 million, 53% of which is financed by equity.

Background. The establishment of Dire Dawa Food Complex began under the communist regime, based on a feasibility study. When the present government took power, it continued the development of the factory and it began operations in 1995. Its legal form was changed into that of a share company in 1999.

The factory initially produced wheat flour and spaghetti.

The firm has played a leading role in the food processing industry in respect of the introduction of new systems of production and packaging. It has achieved various certificates: the HACCP certificate from SABS for fulfilling the food safety management systems requirement; the ISO 9001:2008 quality management system; and the ISO 14001:2204 environmental management system.

Current activities and products. The firm produces wheat flour, pasta, macaroni, biscuits and bread with daily production capacities of

- 200 tonnes of wheat flour;
- 60 tonnes of long-cut pasta;
- 51 tonnes of short-cut pasta;
- 20 tonnes of biscuits; and
- 10 tonnes of bread.

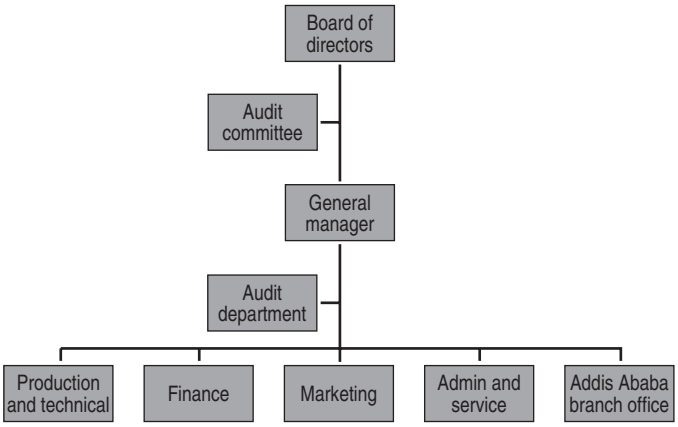

FIGURE 6.3. Dire Dawa: management structure.

Organization and management. The firm has a board of directors and a general manager. In addition, there is an audit department reporting to an audit committee (Figure 6.3).

Firm capabilities. The firm is well equipped with computerized technology. High product quality and branding have helped the firm to become a market leader.

The factory is located far from the sources of the major input, wheat, which is mostly grown in the Arsi area, in southeastern part of the country, and it consequently faces serious transport problems.

Supply and marketing chain. Wheat is sourced both locally and internationally (as durum wheat, mainly from Australia). Imported durum wheat is used for the production of pasta, whereas local wheat is used for flour and macaroni production.

Other inputs include ingredients such as shortenings, yeast and packaging materials, which are all supplied from the local market.

More than 90% of the market for pasta and macaroni is in the capital. Flour and biscuit sales are focused in Dire Dawa city and its surrounding.

The firm has established a strong client base and delivers products to its registered customers.

The firm has plans to export (an insignificant amount is currently exported to Somaliland); however, it is not yet competent to enter the export market.

Recent developments. The Ethiopian PPESA has floated a tender to fully privatize the firm.

Development agenda. The firm plans to expand into bread manufacturing, and a study is underway.

6.2.3 Health Care Food Manufacturers

Basic details. Health Care Food Manufacturers was established in 1991 by three Ethiopian nationals in the form of a PLC. The firm is located in the capital. The firm was established with 15 employees, with an initial capital of about $72,500.[3]

The firm produces enriched nutritious food products. It currently has 140 employees.

The factory has an average annual turnover of $6 million.

Background. The firm is the first privately owned supplementary food processing enterprise in Ethiopia. It was established by three entrepreneurs with a background of working in top managerial positions in the food manufacturing sector. One of the shareholders was previously the general manager of the government-owned and pioneer supplementary food processing enterprise in the country, the FAFFA Food Factory.

The firm has steadily grown from a blending unit with a daily capacity of 15 tonnes into a modern supplementary food processing plant with a daily capacity of 100 tonnes.

Current activities and products. The firm produces enriched nutritious food products such as Corn Soya Blend (containing over 14 kinds of vitamins and minerals), soya meal and soya oil.

Organization and management. The factory is managed by a general manager, who is accountable to a board of shareholders. Both the general manager and the shareholders have previous experience in the food manufacturing sector.

Firm capabilities. The owners of the firm have extensive experience in the sector. One of the shareholders is a board member of the National Association of Ethiopian Industries (Codex committee), and the firm has established a strong linkage with World Food Program (WFP) and other relief organizations. The firm operates its own laboratory.

[3] Calculated at the then (1991) exchange rate of ETB2.07.

Supply and marketing chain. The major inputs are soya beans, maize, sugar, milk powder, chick peas and vitamins and minerals. Agricultural inputs are procured from spot markets and collection centres. In the case of the latter, contracts are made with cooperatives on preset prices and agreed terms and conditions.

Vitamins and minerals are imported, as are some packaging materials.

Products are directly sold from the factory, mostly on advance orders from clients. Relief supplies are supplied on a contractual agreement basis.

Export. Relief supplies (World Food Programme and non-governmental organizations) account for 70% of transferrable foreign cheques.

Recent developments. The firm has recently acquired machinery to produce its own packaging.

Future intended developments include expanding existing production capacity, which is already under way, in the first phase; and as a second phase, introduction of a new soya bean processing project, for which a joint venture is sought.

6.2.4 Brothers Flour and Biscuit Factory

Basic details. Brothers Flour and Biscuit Factory was established in 2000 by Mohammed Seid, an Ethiopian national, in the form of a sole proprietorship. The firm is located in Adama, about 100 km from the capital.

The firm produces and supplies flour and eight varieties of biscuits to the local market. It has about 1,000 permanent and temporary employees.

Background. Mohammed Seid was engaged with his brother in edible oil (sesame oil and niger seed oil) manufacturing for about four years. They decided to set up a flour factory to take advantage of strong local demand.

The founder and his brother, Ahmed Beshir (an Ethiopian who returned from Saudi Arabia), established their first flour factory (Ahmed Beshir Flour Factory) in 1996. It started with one machine and was initially struggling due to using unskilled labour.

The brothers established another flour factory, Wendimamachoch Flour Factory,[4] in 1999 and Brothers Flour and Biscuit Factory in 2000.

Other affiliated business entities include Ah-wan Food Complex, Ahmed Beshir Plastic Industry, Ahmed Beshir PP Bag Factory and Eva Shoe Factory, all in the form of sole proprietor businesses either owned by Ahmed Beshir or Mohammed Seid.

[4] The sole owner is Ahmed Beshir's wife.

Current activities and products. The firm is engaged in the production and sales of flour and eight varieties of biscuits to the local market. It has a production capacity of 30–40 tonnes of wheat flour per day and 25–30 tonnes of biscuits per day.

Organization and management. The firm is managed by the general manger who is also the owner. The owner's brother plays a role similar to that of the owner and is involved in high-level decisions.

The owner is responsible for the management of the other affiliated businesses.

In addition, there is a deputy manager and department managers in the five departments. Flour and biscuit production have separate divisions within the production department.

Firm capabilities. The owner has many years of experience in the food processing sector and is engaged in the day-to-day operations.

The firm has state-of-the-art machinery and skilled workers who were trained by Indian expatriate employees.

The owner and his brother have various flour factories that share financial and other resources.

Supply and marketing chain. Wheat is mainly sourced from state-owned farms, private traders and directly from farmers to produce flour; and the wheat flour is both supplied as an end product and is used as an input for biscuit manufacturing.

Other inputs (sugar, shortening, chemicals, flavours and colourings) are acquired locally.

Packaging for flour is fully supplied by one of the firm's affiliated businesses, Ahmed Beshir PP Bag Factory. In the case of biscuits, packaging (including cartons) is acquired both through import and local manufacturers, namely Ethiopian Pulp and Paper S.C. and Burayu Development Carton Factory.

The firm markets its products through its four branch outlets, wholesalers in Adama, the capital and its surrounding and via direct sales to various shops and supermarkets.

In addition to its own distribution vehicles, the firm also uses the vehicles of its sister companies. It has a branch office in the capital which is responsible for sales in Addis Ababa.

Recent developments. The firm plans to develop new lines in biscuits and to manufacture biscuits for export.

6.2.5 SEKA Business Group

Basic details. SEKA Business Group was established in 2004 by the major shareholders Seid Kassie and his wife Husnia Dino in a form of a PLC.

The firm is engaged in agricultural farming, production of wheat products, export of oilseeds and pulses and importing machinery. It has an estimated 600 permanent employees.

SEKA has average annual sales of $3–4 million with an average assets and equivalent capital value of about $8 million.

History. Seid Kassie, one of the founders of SEKA, was engaged in importing and trading various equipment for more than 26 years. This familiarized him with the farming business and he finally started his own farming activity in several locations.

The idea of establishing a food processing plant was triggered by the collapse of agricultural prices in 2003.

Current activities and products. SEKA is now engaged in various businesses, mainly in agricultural processing. The main products are wheat flour, biscuits, macaroni and nutritional foods.

The firm also imports different machinery and equipment and exports different agricultural commodities.

It has agricultural farms, storage and food processing plants in four major regional towns throughout the country.

A water bottling plant owned by the company is also in operation in Mekelle town, 780 km north of Addis Ababa.

Organization and management. Each major line of business in the various locations has its own technical and production managers. However, in practice, the company is run by the owner, who is personally involved in day-to-day decisions.

Firm capabilities. Although the owners have a deep knowledge of the agricultural and food processing sector, they are not academically trained. For this reason, they have hired professionals for major technical positions. Each manufacturing site is operated by mechanical engineers and the farm sites have agricultural graduates as farm managers.

The firm is a member of the ECX through which it exports its agricultural commodities, and it has won an active participants award from the ECX.

The firm mainly uses internal sources (retention of earnings) to finance its investments. Bank loans are also used to provide working capital.

Supply and marketing chain. SEKA has a strong linkage developed over a long period with foreign suppliers, mainly in Asia, from whom it procures agricultural supplies, equipment and merchandise.

Agricultural inputs required for processing are mainly sourced from its own farms and when demand exceeds internal supply, it purchases from the local market or the commodities exchange.

To avoid foreign currency shortages for its imports, the firm uses the proceeds from its export items.

The firm has established links with international food aid agencies as customers for its processed food products. It also exports oilseeds to Asia and the Middle East.

Export. The firm mainly sells its processed food products (FAMEX SCB) for foreign currency to international NGOs (mainly WFP) and government organizations (such as Oromia DPPA and the Ethiopia Red Cross). Due to this, it is regarded as one of Ethiopia's major exporting companies, even though the products are not shipped out of the country.

In addition to these products, it also exports oilseeds and pulses to the Middle East and various European countries.

Recent developments. SEKA has recently established a water bottling plant.

The firm also works in joint ventures with various local and foreign investors in areas where it lacks technical expertise. In collaboration with Chinese investors, it has established a wood factory and steel mill. It has also entered a joint venture agreement under a licensing agreement with a British company to produce peanut butter, for which the construction of the manufacturing plant is underway.

Development agenda. The strategic direction of the firm lies in expanding its manufacturing and import substitution activities. It has plans to obtain international standards certificates for all its manufacturing plants.

The firm is also in the process of creating a business partnership with existing coffee exporting enterprises in order to strengthen its foreign currency base and diversify its activities.

6.2.6 Organic Export Abattoir

Basic details. Organic Export Abattoir was established in 2006 by an Ethiopian national in the form of a PLC. The shareholders are Alem Mengistu and her daughter. The firm is located in Modjo, a town about 73 km from the capital.

The firm produces and exports frozen lamb and mutton products. It has 120 employees.

The firm has an annual turnover of about $2 million. The total assets are valued at about $3.7 million.

Background. The founder comes from a family involved in local butchery and meat trading. She later entered the hotel business and realized the potential of the meat export sector from conversations with hotel customers, who were mostly from Middle Eastern countries involved in the meat business.

Organic Export Abattoir was established, after conducting a feasibility study, to engage in meat exports.

Current activities and products. The firm produces and exports frozen lamb and mutton products and has a production capacity of 300 tonnes per day (it is currently working below 10% capacity).

Organization and management. The firm is led by a general manger responsible for making operational decisions and reporting to the owner. The owner is responsible for high-level decisions and finding markets.

Firm capabilities. The firm has a modern abattoir with a potential capacity of producing 300 tonnes per day and facilities that meet European standards.

Despite this, the firm is currently working at a capacity of 10% due to shortage of livestock supply and weaknesses in export markets.

The firm faces transportation problems (in transporting live animals) and a shortage of skilled labour.

Supply and marketing chain. The major inputs, live sheep and goats, are acquired from traders who get their supply from collectors, who acquire it from local merchants in cities or directly from pastoralists. This supply chain suffers from various shortcomings.

Market and customers are mainly found through USAID support, Ethiopian embassies in the export countries, via the Chamber of Commerce and through participating in trade fairs.

African countries including South Africa, Angola and Congo are potential export destinations, but transportation to these countries is not economic.

Export. The firm exports all its products; the main export markets are UAE (more than 80%) and Saudi Arabia.

Recent developments. The firm is in the process of acquiring land to establish its own animal fattening project.

Development agenda. The firm has plans to establish various facilities to produce packed foodstuffs, including animal feed.

In addition, it has long-term plans to enter into the tannery business.

6.2.7 Luna Export Slaughter House

Basic details. Luna Export Slaughter House was established as a PLC in 2003, with its headquarter in Addis Ababa and slaughterhouse in Modjo, 73 km from Addis Ababa.

The firm is engaged in exporting lamb and mutton. It has about 300 employees.

Luna Export Slaughter House has an average annual turnover of $5 million with average assets and capitalized value of $1.75 million and $1 million, respectively.

History. Luna was initially formed by three partners who were joined by another three in 2006 with the objective of increasing the firm's capital base in order to expand its operations. The investors were initially engaged in general trading.

The business idea depended on the availability of a huge livestock population in the country and a considerable demand for meat products in the Middle East.

Current activities and products. Luna has not gone through major changes since its establishment as a slaughterhouse. It is solely engaged in slaughter and supply of lamb, mutton and to some extent beef. However, due to the rapid increase in the price of cattle in the local market, it has now narrowed its scope of operation to the export of lamb and mutton products to the Middle East.

Organization and management. The company has a strong management team with diverse backgrounds. In addition to the general manager, who is directly responsible for the operation of the company, there is an advisory board that assists the general manager in major decisions.

Firm capabilities. The firm has the capacity to slaughter more than 1,500 sheep and goats per day. It believes that its production and management personnel have the skills required to make it capable of success in the international market.

Its current actual production does not exceed 800 sheep and goats per day, far short of its potential capacity, in part because of a lack of adequate supply of live animals that meet required standards.

Supply and marketing chain. Live animals are obtained from pastoralists who deliver their animals to collectors, from whom the company purchases, using its own delivery trucks. The animals are first transferred to an animal conditioning site, where they are tested, weighed and conditioned ready for slaughter.

The establishment of its own collecting sites in various areas was attempted by the firm; however, it did not succeed due to difficulties in penetrating the local supply chain (animal collectors were not willing to supply the sites) and to the difficulty of controlling the weight of animals upon purchase.

There have been efforts by various government and non-governmental agencies to organize the animal suppliers into cooperatives that would supply the animals to the firm, but this failed to materialize and the firm is still forced to procure the animals through middlemen or collectors.

The firm has expressed its willingness and ability to establish its own animal ranch. However, there is concern over security issues in the locations where a ranch could be formed (since most of the locations are drought-prone and the inhabitants might cause harm to the ranch during times of drought). Therefore, it is likely that the supply problem will continue to exist and limit the firm from working at full capacity.

Market and customers are found and contacted through trade fairs, the internet and Ethiopian embassies in target countries. All the products of the company are produced for the export market, mainly for countries in the Middle East.

Recent developments. The firm tried to expand its capital base and scale of operation by recruiting new partners in 2006. Subsequently, it expanded its cold room and animal conditioning facilities and expanded its fleet of refrigerated delivery vehicles in order to cope with increasing demand.

Development agenda. Given the current difficulties with the supply of animals, the company does not have any major development plans.

6.2.8 Sebeta Agro Industry

Basic details. Sebeta Agro Industry PLC was established in 1998 by two Ethiopian investors, Mohammed Ahmed and his wife Muluka Adem, with initial capital of $1.2 million[5] in Sebeta, a town 20 km from the capital.

The firm is engaged in the production of a wide range of dairy products and fruit juice. It employs 308 workers.

[5] Calculated at the then (1998) exchange rate of ETB7.51.

History. The family decided to enter the dairy business based on the experience it acquired in engaging in cottage dairy operations, fattening and swine farming, and supplying products to its own supermarket.

The firm was initially established as Sebeta Farm, reflecting the fact that the dairy farm was the core business. However, due to its engagement in dairy product processing and its further expansion into juice and animal feed production, the firm decided to adopt its current name.

Current activities and products. Sebeta is engaged in the production of milk, butter and cream (all pasteurized), soft and hard cheese varieties, flavoured yogurt, natural yogurt and natural fruit juice and nectar.

The current installed production capacity allows the firm to process about 50,000 litres of milk in a single shift per day.

Organization and management. The firm is headed by a board composed of the shareholders, who are experienced business people, and a general manager, who is an experienced professional in the field, making all the necessary executive and operational decisions.

A management committee composed of experienced professional department managers report to the general manager.

Firm capabilities. The firm's capability is built on its mix of experienced and qualified technical and management staff. It conducts analytical studies on the evaluation of ongoing projects, marketing strategies and the feasibility of new business ventures.

Mama, the brand name for all the firm's dairy and juice products, is the strongest brand in the local market.

Compared with most of its local rivals, Sebeta has modern processing technology and substantial production capacity, enabling it to take advantage of economies of scale and maintain market leadership.

Since the firm does not have its own foreign currency earning source, it faces a very long lead time for importing packaging materials.

The firm had originally intended, and still intends, to export its products to neighbouring countries. Procedure manuals for HACCP have been completed and ISO studies are expected to commence soon. This will allow the firm to seek opportunities to export.

Supply and marketing chain. In addition to its own dairy farm, Sebeta sources a significant portion of its raw milk needs from commercial producers and households. It acquires industrial by-products from flour mills and edible oil processors.

Sebeta uses different distribution channels to market its products. It has a wholesale store, and it uses direct delivery for bulk orders.

Recent developments. An acute shortage of supply of raw milk and animal feed has forced the firm to expand its own production as much as possible.

Development agenda. The firm is planning to diversify its business further in the medium term.

6.2.9 Modjo Modern Export Abattoir PLC

Basic details. Modjo Modern Export Abattoir was established in 2003 by Ayele Dejene Gugsa and his wife, Nigatwa Gezahegn, both Ethiopian nationals, with an initial capital of $1.3 million[6] (ETB11 million).

The firm is engaged in exporting goat and sheep meat. It has about 140 employees.

Modjo Abattoir has an average annual turnover of about $0.5 million.

History. The owners were initially engaged in raw skin trading and established the Kolba Tannery.

Realizing the market potential for a modern abattoir, the owners subsequently established Modjo Modern Export Abattoir.

Current activities and products. Modjo Abattoir exports lowland sheep and goat meat to the UAE and Saudi Arabia.

Organization and management. The owner acts as the general manager of the company.

Firm capabilities. The firm's headquarters are located in Modjo, 83 km from the capital. The firm can produce up to 16 tonnes of meat per day depending on demand. Production can fall as low as 3 tonnes when demand is low.

Modjo Abattoir sells to a group of long established clients and does not look for additional customers since the firm is not confident about the supply of live animals, its processing capacity and the unpredictable air cargo service.

Supply and marketing chain. Sheep and goats are either procured from regular suppliers or purchased by the firm's agents.

There are few imported inputs, except for scales and spare parts. Packaging materials are sourced locally.

Modjo Abattoir exports its products using direct contacts with its established customers.

[6] Calculated at the then (2003) exchange rate of ETB8.62.

Export. Modjo Abattoir exports all of its products to the UAE and Saudi Arabia. The range of export destinations is limited by the availability of direct cargo flights.

Development agenda. The firm has acquired land for future possible expansion into beef products.

Chapter 7

SUGAR

7.1 Sector Profile

Background and overview. Sugar production in Ethiopia was started by the Dutch-owned Handles Vereening Amsterdam company in 1951. Handles Vereening Amsterdam established the Wonji Shoa, Finchaa and Metehara Sugar Factories along the Awash River Basin in 1954, 1960 and 1968, respectively.

Currently, the sugar industry in Ethiopia comprises three state-owned factories, Wonji Shoa, Metehara and Finchaa, which manufacture raw sugar and white sugar from sugar cane. In FY2007/08, total sugar production amounted to about 275,600 tonnes while employment in the sector reached about 17,700 (see Table 7.1).

The industry is currently characterized by a huge demand-supply gap in the local market. In FY2008/09, domestic sugar demand was estimated to be about 440,000 tonnes, exceeding domestic supply by 165,000 tonnes. Although the country imports sugar, mostly from Brazil and India, to fill this demand-supply gap, it has also been exporting sugar to Europe under the Everything But Arms (EBA) initiative.

The government has invested about $1.4 billion with an objective of meeting local demand and making the country a net sugar exporter by 2011, through increased production from existing factories and by setting up the Tendaho sugar factory, which is under construction. Tendaho is expected to be operational in 2011, with an annual production capacity of 600,000 tonnes.

The absence of private investors in the industry has recently come to an end with the entry of Al-Habasha Sugar Mills, Hiber Sugar and Eshet Sugar, all of which are currently under construction.

Al-Habasha Sugar Mills PLC is a Pakistani-owned firm which has secured 70,000 ha of land along the Gibe River in the regional state of Oromia.

TABLE 7.1. Sugar production in Ethiopia (FY2008/09).

Factory name	Production: Sugar (tonnes/year)	Production: Ethanol (m^3)	Area (ha)
Wonji Shoa	43,588	—	7,050
Finchaa	101,890	8,000,000	12,000
Metehara	130,180	—	10,950
Total	275,658	8,000,000	

Source: Ministry of Trade and Industry.

Production is expected to start in 2011. Hiber Sugar S.C. and Eshet Sugar are both located along the tana beles basin.

Profiles of large firms.
Metehara Sugar Factory, established in 1968, is the largest sugar factory. As of 2008/09, the factory had capacity to crush 5,000 tonnes of cane per day and to produce 130,180 tonnes of sugar. The firm has about 4,140 permanent and 6,780 temporary employees.

Finchaa Sugar Factory, established in 1960, has a capacity to crush 4,400 tonnes of cane per day and to produce 101,890 tonnes. It has about 2,200 permanent and 5,000 temporary employees.

Wonji Shoa Sugar Factory, established in 1954, has a capacity to crush 3,100 tonnes of cane per annum to produce 43,588 tonnes. It has about 2,750 permanent and 1,430 temporary employees.

Supply and marketing chain. The supply chain of the sugar industry in Ethiopia is organized by ESDA, with a limited role for middlemen.

The three sugar factories procure the main input, sugar cane, for the production of sugar from their own plantation farms. The planting, irrigation and harvesting of sugar cane are done both by machines and manual labourers. Chemical inputs are either imported from abroad through tender or directly purchased from public factories.

All of the factories process sugar cane to white sugar, while Finchaa also produces ethanol and molasses as a by-product. The latter is used as an animal feed.

Once the white sugar is manufactured and packed, it is supplied to ESDA. For the local market, the sugar is sold to authorized buyers at an auction held at the agency. All sugar exports are made by the agency.

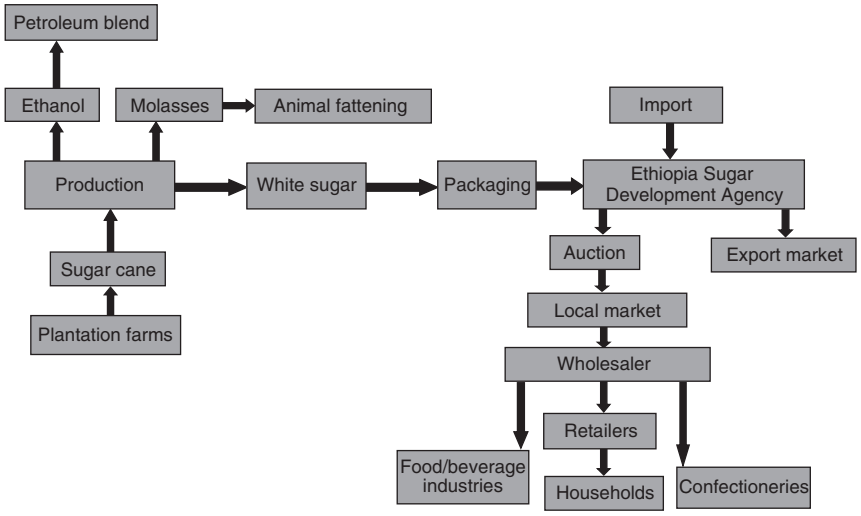

FIGURE 7.1. Supply chain: sugar.

Export status, trends and potential. Ethiopia has been exporting sugar[1] from FY2001/02 until recently. In FY2008/09, export revenue from sugar was about $15.6 million. However, sugar exports were suspended in November 2009 in order to meet local market demand (Figure 7.2, Table 7.2).

Policy context. The sugar industry is one of the government's priority sectors.

It is planned to boost production of sugar fivefold to 1.5 million tonnes and to become a net exporter with a share of 2.5% in the international market.

During the communist regime the sugar factories were administered by a single supervisory agency. Currently, they are chartered by the council of ministers, and enjoy operational autonomy.

Sugar produced by the three state-owned factories is wholly controlled by ESDA, which is accountable to Ministry of Trade and Industry. The agency sells sugar to some 84 or so dealers authorized by the MoTI, at auctions held every fortnight.

[1] The degree of sugar purity, as measured by sugar polarity, is among the specification requirements of end users in the international market. The four sugar types traded in the international market are refined (white sugar), semi-refined (plantation white), very high polarity (VHP) sugar and standard raw sugar.

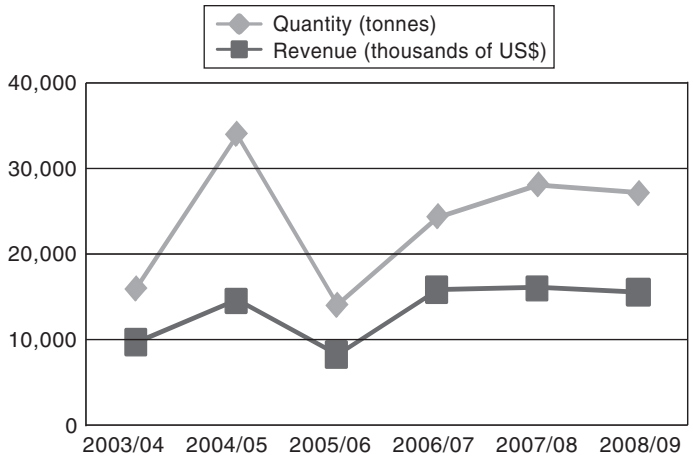

FIGURE 7.2. Trends in sugar export. *Source:* Ministry of Trade and Industry.

TABLE 7.2. Sugar export by destination and volume.

Fiscal year	Raw sugar (MT)	Destination	White sugar (MT)	Destination
2001/02	14,616	Portugal	55,041	Djibouti
2002/03	15,000	Portugal	37,995	Djibouti, UAE
2003/04	16,000	Portugal	—	—
2004/05	14,200	Portugal	20,000	Djibouti, UK
2005/06	14,100	Portugal	—	—
2006/07	24,550	Portugal	—	—
2007/08	21,700	Portugal	—	—
2008/09	26,930	UK	—	—
Total	147,096		113,036	

Source: Ethiopian Sugar Development Agency Report 2009.

Despite the attempts to regulate the local market price, sugar is sold at a higher price than the official price, and there has been some illegal hoarding, which has led the government to suspend certain traders.[2]

Competitiveness. Ethiopia has a favourable climate and abundant land suitable for sugar cane. According to a 2002 survey, the country was ranked second in the world for sugar cane productivity with a yield of 113.6 tonnes per hectare.

[2] Five dealers were banned in December 2009.

The sugar factories are highly dependent on imports of fuel and spare parts from the international market.

Challenges. There are two main challenges facing the three state-owned sugar factories:

- High employee turnover rate, especially for skilled workers in mid-level positions. This reflects, in part, the locations of the factories.
- Outdated on-farm and factory machinery and production technology.

Rationale for selecting the profiled firms. Finchaa and Metahara are the two largest factories.

7.2 Profiles of Major Firms

7.2.1 Finchaa Sugar Factory

Basic details. The Finchaa Sugar Factory is a government-owned company established by the Council of Ministers in 1999 in Finchaa, a town 300 km from Addis Ababa, with a paid-up capital of about $60 million.

The firm is engaged in the production of white sugar and ethanol. It has about 6,000 employees.

Finchaa has an average annual turnover of $36 million (at ESDA prices; see below) and an asset value of $90 million.

Background. The Finchaa sugar project was launched in 1979 as a pilot project for sugar production in the area. Due to lack of finance the project did not reach full implementation until 1994.

Trial production started in FY1997/98 and full commercial production began the following fiscal year, with a total installed capacity of 850,000 quintals of sugar annually. In the first year the company operated at 60% of full capacity, with full capacity being reached in 2004/05.

Current activities and products. Finchaa is presently engaged in producing two products: white sugar and ethanol. As of mid 2010, it was operating at 29% over installed capacity, and is producing more than 1 million quintals of sugar and 8 million m^3 of ethanol per year.

The firm has about 6,000 employees and there are more than 30,000 residents on the factory site, including families of the factory's employees and service providers from various public service organizations.

Organization and management. The company was established by the Council of Ministers following a standard arrangement under which the general manager is directly accountable to the board of directors, which consists of various government officials. The general manager has full operational autonomy.

Firm capabilities. Finchaa used a combination of experienced local professionals and international experts to establish its operation. Most local technical staff are former employees of the other two government-owned factories.

The firm initially encountered serious challenges, particularly in irrigation and sugar plantation, and at one time considered outsourcing management to foreign companies. However, local professionals within the company have managed to solve these problems. Despite this, the company still feels that it faces a gap in engineering skills in certain areas.

The factory site, Finchaa bereha, is highly suited to growing sugar cane and has a substantial potential for expansion. According to a company study, it is one of the highest yielding producers globally.

Supply and marketing chain. Sugarcane, which is fully sourced from its own farm, is the primary raw material for the production of about 1 million tonnes of sugar. Molasses, the by-product from sugar production, is used to produce about 8 million m^3 of ethanol.

Spare parts and machinery are imported except for very small proportion acquired from a local government-owned spare parts factory. The company's management believes that a significant portion of the imported spare parts and supplies could be produced locally if the capacity of this spare parts factory was increased.

Being over-dependent on imported spare parts and supplies has adversely affected the firm, both in terms of cost and by forcing it to hold a large inventory, to get around problems caused by the long lead times for delivery of parts.

Finchaa, like all other state-owned sugar factories, is allowed to sell its output only to ESDA, at a fixed price which currently stands at $29 per quintal. ESDA in turn sells one quintal on average for $106.

ESDA sells to shortlisted wholesalers using competitive bidding and the successful bidders collect their product at the factory gate. The company does not have any substantial distribution and marketing system.

Recent developments. A debottlenecking and optimization program aimed at increasing output from 850,000 to 1 million quintals has been successfully implemented, and current output exceeds the target.

Development agenda. Finchaa is undertaking a major expansion project to meet the rapidly growing demand for sugar. This project aims at increasing the factory's daily sugar cane crushing capacity threefold. ISO 9001-2000 quality certification and improvements in the MIS implementation process are under way.

7.2.2 Metehara Sugar Factory

Basic details. Metehara Sugar Factory was established in 1969 by Dutch investors in Metehara, 200 km from the capital. It is the largest sugar manufacturer in the country.

Metehara has an average annual turnover of about $16 million and an asset value of about $40 million.

Background. The factory was nationalized in 1974 when the communist regime took power and was re-established as a public enterprise in 1993 under the present government.

When first established Metehara was capable of crushing 1,450 tonnes of cane per day. The company underwent three phases of expansion to reach its current crushing capacity of 5,000 tonnes of cane per day in 1981.

While the manufacturing capacity was continually expanded, a parallel expansion in cane plantation was not undertaken, and this led to a shortage of cane supply to the factory.

Since 1993, the factory has undertaken a large-scale cane plantation expansion project, which has enabled it to produce sugar cane in excess of the crushing capacity of the factory. This led the company to launch a debottlenecking and optimization programme to fully utilize its designed capacity. This was attained in 2004.

Current activities and products. Currently, Metahara has a designed annual production capacity of 1.3 million quintals of sugar, but is currently producing at 10% over capacity.

The factory also produces different types of fruit on 120 ha of land acquired from another state-owned farm.

The development of a 20 ha project for ISC and a 200 ha project for SC has been finalized and further work on 2,000 ha for CC is on progress.

Organization and management. The general manager is one of the longest serving employees in the factory. The company has full operational autonomy but needs the approval of the board, consisting of various senior government officials, for strategic and policy decisions.

Capital expenditure and expansion decisions require approval by the board and by ESDA.

Firm capabilities. A detailed analysis of processes was conducted, and an efficient production system installed, enabling Metahara to become the lowest-cost firm in the industry.

Most of the firm's top management have worked for the firm from an early stage in their careers, and are familiar with all details of the operation.

The firm regularly conducts a skills-gap analysis among its employees. Training is given to employees both by local and international experts.

Metehara does not see a lack of technical personnel and know-how as a problem, but believes that better production systems and more efficient labour utilization could make the factory more internationally competitive.

Metahara's production setup is one that relies on its generating part of its energy supply internally, and it sees this as a competitive advantage.

Supply and marketing chain. The major inputs are sugar cane, fully sourced from Metahara's own farm, fuel acquired from retailing companies at a price regulated by the government, and agricultural and farm machinery and equipment, which is mostly imported.

International competitive bidding is used to procure imported items, whereas local supplies are purchased directly.

Metehara used to import agricultural chemicals and supplies directly from foreign suppliers, but have now shifted to local importers and distributors with the objective of cutting lead times.

The average lead-time on imported supplies is close to eight months, so that the factory is forced to hold a large volume of inventory and to maintain a reorder level of up to 18–24 months for key spare parts and consumables.

Even though the factory delivers its produce to the state-owned ESDA, it conducts some market research. It assesses the likely demand from major corporate customers such as soft drink bottling companies concerned with special product features, and adjusts its product mix and features, enabling it to sell its products at a premium price.

The selling price of the factory's product is set by ESDA at a level estimated to run the factory at break-even.

Recent developments. Metehara is building a new factory to process molasses, a sugar by-product, to produce ethanol.

Development agenda. Metahara is also planning to overhaul and modernize its existing irrigation system.

A new expansion project, aimed at doubling current output, is underway.

Chapter 8

LEATHER

8.1 Sector Profile

Background and overview. The manufacture of leather and leather products in Ethiopia dates back to historic times, and traditional cottage leather manufacturing is still practiced for both hides and skins.

Leather manufacturing in modern tanneries began in the mid 1920s. Ethiopia possesses the largest livestock population in Africa, and the tenth largest in the world. Ethiopia's livestock population is estimated at 44.3 million cattle, 23.6 million sheep, 23.3 million goats and 2.3 million camels (Central Statistical Authority). The skin removal rate is 7% for cattle, 33% for sheep and 37% for goats (Ministry of Agriculture and Rural Development). The country produces 2.7 million hides, 8.1 million sheepskins and 7.5 million goatskins annually.

Currently, 22 tanneries and another 18 enterprises manufacturing leather products operate in the country (see Annex 3 on page 182), producing products ranging from various forms of semi-processed leather to finished leather articles such as shoe uppers, leather garments, stitched upholstery, school bags, handbags, industrial gloves and finished leather.

Sheep and goatskins represent the bulk of Ethiopian leather production. The three main types of skins from Ethiopia – bati, cabretta and selallie – make the finest leather in the world and are sold at premium prices in the international market. Cabretta, highland sheepskin, is known for its natural characteristics of clarity, thickness, flexibility, strength and compact texture, which make it especially suitable for high quality gloves, sports equipment and garments. Goatskin, classified as bati-genuine and bati-type, is characterized by thick, highly flexible and clean inner surfaces and is in high demand for the production of fashion leathers and especially suede.

Hides, on the other hand, are not regarded as particularly attractive in international markets due to their poor quality and the small size of the zebu, the most common bovine in Ethiopia.

TABLE 8.1. Number of employees in the leather sector.

Fiscal year	2002/03	2003/04	2004/05	2005/06	2006/07
Number of employees	7,232	7,665	7,913	7,914	8,351

Source: Central Statistical Authority.

The industry employs more than 8,000 individuals according to the Central Statistical Authority and has not shown much increase (less than 1,500 people) in its employing capacity over the five years, as shown in Table 8.1.

Tanneries are mostly large enterprises, while some of the leather product manufactures such as Kangaroo and Peacock Shoe are also large. There are many mid-size leather product manufacturers as well as small-scale operators such as raw skin suppliers and enterprises making various leather articles.

Profiles and lines of business of large firms.

Tanneries. Currently, there are 22 tanneries in Ethiopia, most producing crust and finished leather from sheepskin, wet blue, crust and finished leather from goatskin and crust and finished leather from hides.

Ethiopia Tannery S.C. was established in 1974 and has a paid-up capital of $11.3 million. The firm produces crust, wet blue and finished leather from sheep and goatskin and mainly sells in the export market. It has 431 permanent and 119 temporary employees. The firm is currently undergoing privatization.

Hafde Tannery PLC was established in 1994 and had a turnover of $10 million in 2007. It is engaged in pickling and crust production of sheep, goat and cow-skin leather.

Leather products (footwear). There are some large leather product manufacturers in Ethiopia producing shoe uppers, shoes and other leatherwear and accessories.

Anbessa Shoe S.C. was established in 1939 and is currently state-owned. The firm is engaged in the production of various types of leather shoes both for the local and export markets with a production capacity of 4,500 pairs per day in a single shift. The firm has about 1,090 employees.

Ramsey Shoes Factory was established in 2000 and has a production capacity of 900–1,000 pairs of shoes per day. The firm has about 250 employees.

FIGURE 8.1. Leather supply chain.
Source: Interview with leather manufacturing companies (2009).

Lines of business of mid-size firms. Most manufacturers of leather products such as leather jackets and coats, skirts, vests, bags, belts and wallets are mid-size firms. They include Jonzo Leather Garments, Modern Zege Leather Garments and Genuine Leather Crafts.

Small-scale, peripheral and informal activities. Various micro and small enterprises are engaged in the production of traditional handicrafts using leather. Peripheral activities include local skin off-taking, and the buying and selling of the skin at the household level.

Supply and marketing chain. Raw skins are collected from peasants and households by skin collectors (roamers) in a traditional way; the collected skin is stored in temporary preserving stores where the tanneries can access it. There is considerable wastage, as well as quality deterioration, between collection and processing.

Hides and skins are regarded as a secondary by-product of meat production. The supply of hides and skins is irregular, and this raises the costs of tanneries.

Chemicals required for tanning contribute 30% of the total tanning cost; these are mainly imported from abroad, and tanneries usually hold a stock for a minimum of three months of operation.

Most of the leather product manufacturers sell their products through their own sales outlets.

Export status and trend. From FY2004/05 to FY2007/08 leather exports were stable at about 15,500 tonnes, but they declined to 7,338 tonnes in FY2008/09. The decline can in part be attributed to domestic inflation, and to the global recession. Looking at the current export earnings from leather, the largest contribution is made by crust (31%) followed by pickle (25%) and wet blue (20%). Finished leather products accounted for only 15% of the export earnings.

Leather is exported to more than 60 countries, the major destinations Italy, the United Kingdom and China. Leather products such as shoe uppers, leather garments, stitched upholstery, school bags, handbags, industrial gloves, and finished leather are also exported to Europe, the

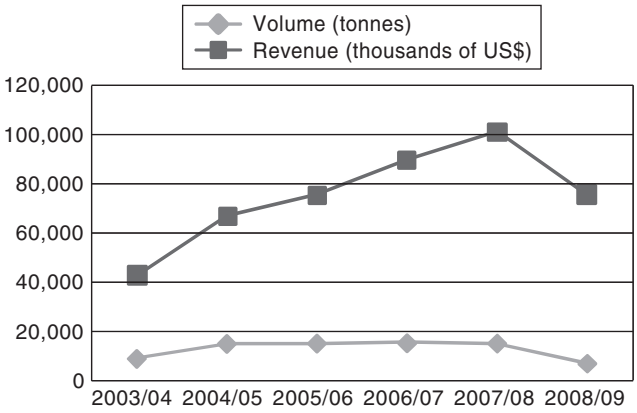

FIGURE 8.2. Export trend.
Source: National Bank of Ethiopia and Customs Authority.

United States, Canada, Japan and the Far East. There are also some export sales to countries in Africa, in particular to Nigeria and Uganda, as well as to the Middle East, and especially Yemen.

Policy context. PASDEP aims to increase production of leather shoe production to 20 million pairs per year and increase export earnings to $178 million. With regards to leather products and commodities, it plans to increase export earnings to $43 million.

The government supports the export of finished leather by prohibiting export of raw sheepskin and also discouraging the export of leather at the wet blue stage (not much value added) by imposing a 150% tax on its export. However, the export of live animals is permitted. This has caused operational difficulties for several tanneries which used to process raw skin only up to the wet blue stage.

A textile and leather industry development centre was established by the government in 2006, to provide technical support and consultancy services for potential investors in the sector and to create a conducive atmosphere for developing linkages among the stakeholders in the supply chain.

The Environmental Protection Agency has been authorized to set effluent discharge standards and to regulate discharge to land, water and air. The Cleaner Production Centre of the Science and Technology Commission has been involved in developing the regulations. All tanneries are required to install effluent plants by 2009.

TABLE 8.2. Shoe manufacturing cost.

	Bangladesh		Indonesia		Ethiopia	
Assembly cost	Cost $	% of total	Cost $	% of total	Cost $	% of total
Labour	0.59	78.3	0.60	66.7	0.37	43.9
Other non-material inputs	0.16	21.7	0.30	33.3	0.47	56.1

Source: Global Development Solutions 2006. Value chain analysis for the skins and leather sector in Ethiopia. Unpublished Report.

TABLE 8.3. Benchmarking shoe production between China and Ethiopia.

	Minutes/pair	Total minutes	Pair/persons
Ethiopia	78	510	6.5
China	30	600	20

Source: Global Development Solutions 2006. Value chain analysis for the skins and leather sector in Ethiopia. Unpublished Report.

Competitiveness.

Benchmarking shoe production in Ethiopia. A benchmarking analysis made by Global Development Solutions indicates that Ethiopia is relatively competitive against Indonesia with respect to the cost of leather shoe assembly, but less so against Bangladesh[1] (Table 8.2).

Ethiopia's shoe manufacturing productivity is very low, however, compared with China, the largest shoe producer in the world; it takes 78 minutes to produce one pair of shoe uppers in Ethiopia, whereas it only takes 30 minutes for Chinese manufacturers (Table 8.3).

Hides and skins. There are many problems faced by the hides and skins sector in Ethiopia, including poor animal husbandry, poor slaughtering practices, and the absence of an organized collection, preservation and processing system.

Tanning enterprises. The main factors affecting competitiveness in the tanning sector are low capacity utilization, poor infrastructure and outdated machinery, a lack of hard currency to purchase spare parts and inputs, the relative lack of export support and/or promotion services and a shortage of raw sheepskin supply to tanneries.

[1] Assembly cost refers to all non-material input costs.

Leather footwear firms. The main factors affecting the competitiveness of leather footwear are the relatively poor quality of the domestic leather used in the industry (high quality leather is mostly for export) and the high cost of imported inputs.

Challenges. Apart from the problems of supply and production noted earlier, there are several other serious challenges to the leather industry. These include:

Quality problems.

1. *Flay cuts.* Skins are mostly recovered by hand, which usually causes damage to the skin, reducing its value. There is a 20–30% value difference between machine-flayed and hand-flayed skin.
2. *Putrefaction, dirt and dung.* Since there are no satisfactory ways of preserving the recovered skin until it reaches tanneries, its value deteriorates.
3. *Animal diseases* (ekek). It is reported that ekek affects almost 80% of the total sheepskins from highland Ethiopia, and the disease is only identified once the skins have passed through some level of processing.

Logistic problems.

1. *Slow processing in public offices.* Obtaining imported inputs is a time-consuming process. The two public offices most manufacturers complain about are the Ethiopian Customs Authority and Ethiopian Inland Revenue; they complain that there is lack of capacity at these offices and processing is slow.
2. *Poor security in transportation.* There are problems with theft while the finished products are in transit to the port of Djibouti.

Strong competition from low-cost, good quality shoes and other leather products imported from China and elsewhere is a major threat to producers.

Rationale for selecting the profiled firms. Ramsey Shoe and Anbessa Shoe are leading shoe manufacturers.

Ethiopia Tannery is the country's largest tannery.

8.2 Profiles of Major Firms

8.2.1 Anbessa Shoe

Basic details. Anbessa Shoe, formerly known as the Darmar Shoe Factory, was established in 1939 by an Italian national. The factory is located in two premises in the capital.

Anbessa is engaged in the production of various types of leather shoes. It currently has about 1,090 employees.

In FY2008/09, the firm had an annual turnover of about $4 million, 48% of which came from export sales. The total assets are valued at about $5.5 million, 34% of which is financed by equity.

Background. The factory was run by its Italian founder for only three years and was sold in 1942 to an Armenian citizen, who ran the factory for 33 years as the Darmar Shoe Factory. Darmar was initially engaged in both tannery and shoe making.

In 1975, Darmar was nationalized and organized as two public enterprises: Anbessa Shoe Factory and Awash Tannery. The firm started to export shoes, in small quantities, in the early 1980s.

In 1993, following the issuance of a new proclamation, Anbessa Shoe Factory was restructured as a share company.

The main factory and administrative offices are located in the centre of the capital. In addition, the factory has a branch unit (Manpo Branch) in the eastern part of the city.

Current products and activities. Anbessa Shoe is engaged in the production of various types of leather shoes and shoe components, with a production capacity of 4,500 pairs per day (single shift).

Organization and management. The general manager reports to a managing board, which deals with issues of policy. The general manager is responsible for operational matters. Five functional managers are assigned to sales, finance, human resources, technical and production departments.

Firm capabilities. Anbessa Shoe is recognized as a pioneer in modern shoe manufacturing in Ethiopia and is a well-regarded brand. It is equipped with modern machinery and employs relatively skilled labour. Its capacity has allowed the firm to be a substantial exporter.

The firm has high overhead costs and faces a serious constraint on its working capital. In addition, it suffers the disadvantage of not having its own tannery.

The firm relies on contact initiation from customers in its export markets, and does not have a formal marketing operation.

Product design activity is limited; the design for export items is provided by the firm's customers.

Supply and marketing chain. Processed leather, which constitutes almost 50% of input costs, is mainly sourced from Ethiopian Tannery, Hafede Tannery and ELICO PLC.

Other inputs (TR material for sole, shoe components and accessories) are imported on a competitive international open tender basis.

Local sales are made through the firm's 17 retail outlets in the capital and other major towns. Some sales are made to government offices.

Customers are usually the ones to initiate contact, by contacting the factory directly. In addition to the firm's website, customers get the firm's contact details from development partners such as UNIDO and GTZ and through Ethiopian embassies.

Although the firm participates in trade fairs, orders obtained through such events are very limited.

Export. Exports have been doubling every year for the last three years. The main export markets are Italy (90% of exports), Germany, Kenya, Uganda, Israel and the United States.

Recent developments. The firm has recently gone through an expansion project, acquiring additional machinery. The main factory has been dedicated to exports.

The firm is currently undergoing a BPR exercise, and is developing a resource planning system. In addition, it is working towards achieving ISO certification.

A tender to privatize the firm has been repeatedly considered over the years.

Development agenda. The firm aims to increase its export revenue by installing a more modern production system to increase its competitiveness.

In addition, there are plans to increase productivity. The firm is working towards improving its design activities and has recently established a design team.

8.2.2 Ramsey Shoe Factory

Basic details. Ramsey Shoe Factory is registered as Elfenesh Zelalem Shoe and Leather Products Manufacturing General Partnership. It was

established in 1993 with two partners from the same family with an initial capital of $200,000.

The firm is mainly engaged in the production of men's shoes. It has about 250 employees.

Ramsey is estimated to have an average annual turnover and asset value of $1.5–2 million.

History. The family had a very long tradition in shoe retailing before establishing their own factory to manufacture shoes. Zelalem Habte, one of the partners and managing director of the firm, had gained experience of the industry and production systems while working in his family's small-scale shoe-making business.

Current activities and products. The firm produces both men's and women's shoes, with men's shoes accounting for more than 85% of output. The firm has a production capacity of 900–1,000 pairs per day.

Organization and management. The firm has a formal organizational structure, but most high-level decisions are taken by the owner, who is also the managing director.

Firm capabilities. The firm has a traditional production system, which is relatively labour intensive.

Most purchasing and marketing activities are carried out through the personal contacts of the managing director.

The production and technical supervisory roles are undertaken by qualified professionals in their respective areas.

Supply and marketing chain. The main inputs of the firm are leather and shoe soles. The firm has an established relationship with local tanneries and shoe-sole manufacturers.

Other shoe accessories and shoe soles for export are imported or acquired from importers.

The firm has its own retail outlets in various locations and the majority of its sales are made on a cash basis. It also delivers products on a consignment basis to customers with whom it has an established relationship and who have a good credit standing.

The firm participates in international trade fairs and uses various government support and promotion programmes to access international markets. Most customers, however, contact the firm directly, both for small and bulk supply.

Export. Ramsey has been exporting its products since FY2005/06 and presently 90% of total revenue comes from export sales.

Recent developments. Ramsey plans to focus even more on the export market, and has undertaken an expansion project with this in mind.

Development agenda. In the near future, the firm plans to produce all its shoe-sole supplies internally.

8.2.3 Hafde Tannery

Basic details. Hafde Tannery was established in 1994 by three brothers, Jamal, Hussein and Ismael Feyissa (all Ethiopian nationals) as a PLC. Its headquarters and factory are located on the outskirts of the capital.

Hafde is engaged in the production of pickle and crust sheep-, goat- and cow-skin leather.

History. The three brothers inherited the family business from their father, who came from a line of hide and skin traders stretching back 80 years. On their initiative, the factory was constructed over a period of five years leading to the start of operations in 1999.

They have all completed their higher education in the United States, and returned to Ethiopia with clear business and social objectives.

Current activities and products. Hafde is engaged in the pickling and crust of sheep-, goat- and cow-skin leather.

The firm's revenues rapidly increased from $1 million 1999 to $10 million in 2007. However, with the government imposing high taxes (150%) on pickled exports, the firm could no longer compete without engaging in value-addition and began crust and finished-product export. Revenues dropped to $5 million in 2008 and have remained at that level through FY2010.

The firm is aiming to integrate forward into finished leather products, and is in the process of building a leather shoe factory.

Organization and management. Hafde is run by the three brothers, who divide responsibilities as general manager, deputy general manager and operations manager. They also form a management committee to make board-level decisions.

The firm has 400 employees.

Firm capabilities. Since the firm is now targeting the finished-product market, it has started to sell 10% of its supply to the local markets in order to establish links and "learn about the market" from them.

Supply and marketing chain. Raw skin is purchased from skin collectors who bring the supplies to the tannery. These collectors purchase from local traders in various towns and villages, who in turn go door-to-door to buy skins from farmers.

In line with the collective decision reached by leather producers and exporters, Hafde purchases its chemical inputs through the association at a reasonable price.

The firm sells by collecting orders it obtains at international trade fairs (Shanghai and Hong Kong).

Export. 90% of the company's production is targeted at export markets in Italy (40%), China (35%) and India (15%), with the remainder going to other EU markets.

While Italy leads the demand for low-processed items, the firm has found markets in China, Japan, India and Germany for more processed products, including finished products.

Development agenda. The company's main focus is now on forward integration and branding.

8.2.4 Ethiopia Tannery Share Company

Basic details. Ethiopia Tannery was established as a public company in 1964 by the Government of Ethiopia with the help of the Czechoslovakian government and it started operation in 1975. It was fully privatized in January 2010 and sold to British shareholders, Pittards[2] Garnar Services (a subsidiary of Pittards International PLC), John Moriarty (also the general manager), other Pittards companies and an Ethiopian national.

The firm is engaged in processing sheep- and goatskin and hides to finished leather and supplying both the domestic and export markets. It currently has 630 employees.[3]

Ethiopia Tannery had an annual turnover of about $20 million in FY2008/09 and an asset value of about $9.6 million. In FY2008/09, the firm was operating at breakeven, having operated at a loss for the preceding two years.

History. The major shareholder of the firm (Pittards) has been in the leather industry for over 185 years. It has been involved in buying raw skin and pickle crust from Ethiopia for over 80 years.

[2] Pittards is an internationally known brand in quality leather manufacturing.

[3] The management has increased efficiency and reduced the number of employees from 1,200.

Pittards has had a technical team working in Ethiopia Tannery since 1985. A plan to buy the tannery in 2003 failed to materialize, and in 2005, the Ethiopian government outsourced the management of the tannery to Pittards for four years.

Current activities and products. Currently, Ethiopia Tannery processes all types of skin, mostly sheep- and goatskin, to finished leather and sells both in the domestic and export market.

It has an annual production capacity of 14 million square feet of skin and 10 million square feet of hide.

Organization and management. The general manager makes decisions within the framework of the policy set by the board of directors.

Firm capabilities. The internationally recognized brand – Pittards – for various leather products, especially golf gloves, ensures a steady demand for the tannery's output.

The firm faces problems of high labour turnover. The new owners also face challenges in improving the planning and organization functions.

Supply and marketing chain. Ethiopia Tannery procures hides and skins from hide and skin traders. The mode of payment varies (credit, cash and advance).

In addition, the firm has started procuring wet blue, pickle and semi-processed leather from other Ethiopian tanneries such as Gelan Tannery, Hora Tannery and Mesaco Tannery on a credit basis.

Export. Ethiopia Tannery exports 98% of its sheepskin product and 10% of its hide product to the United Kingdom (60%), China, Turkey, India, Italy, Malaysia, Japan and Indonesia.

The firm exports only a small volume of hides.

Recent developments. The firm has acquired new state-of-the-art machinery, allowing it to increase efficiency and decrease the workforce by half.

The firm has plans to expand its capacity.

Chapter 9

TEXTILES AND GARMENTS

9.1 Sector Profile

Background and overview. The textile and garment industry in Ethiopia dates back to 1939, when the first industrial textile factory was established in Dire Dawa. The first garment factory, Addis Garments, was established in the 1960s.

The industry is one of the largest employers in Ethiopia, with 35,000 direct employees (cotton farming (10%) and textile/garment manufacturing (90%)), excluding the 500,000 engaged in the informal hand-loom weaving sector.

The sector comprises 70–80 large and mid-size companies. Exports sales were worth $14.6 million in FY2007/08. (See Table 9.1.)

Profiles and lines of business of large firms.

Almeda Textile PLC (large diversified textile and garment producer). Almeda was established in 1998 and is engaged in the production of casual wear, circular knits, workwear and home textiles, mainly using cotton. The firm has a production capacity of 500 tonnes of cotton per month and employs 2,800 people.

Kombolcha Textile PLC (medium specialist garment producer). Kombolcha was established in 1986 and is engaged in the production of towels, bed sheets and home fabrics using cotton. The firm has a production capacity of 5,000 tonnes per annum and employs 2,100 people.

Ediget Yarn S.C. (medium yarn producer). Ediget was established in 1953 and is engaged in yarn and sewing thread production. The firm has a production capacity of 10,000 kg of yarn per month and 47,500 kg of thread per month. Ediget has 600 employees.

MAA Garment (large garment producer). MAA Garment was established in 2004 and is engaged in the production of cotton-based casual wear, circular knits, workwear and home textiles for the export market. The

TABLE 9.1. The textiles industry.

Cotton farming area (large)	ca. 30,000 ha (40% SOEs)
Cotton farming area (smallholders)	ca. 40,000 ha
Annual cotton production	44,000 tonnes of lint cotton
Commercial cotton yield	2,140 kg/ha
Smallholder cotton yield	800 kg/ha
Ginning capacity	200,000–210,000 tonnes (40% utilization)
Textile production capacity	44 million SME[1] (25% utilization)
No. of spinning plants	8 operational (3 in project phase)
Daily output (of the above)	75,000 kg/day
No. of weaving and processing plants	7 (with a total of 534 shuttle looms and 904 looms without shuttles)
Daily output (of the above)	265,000 linear metres of cotton and cotton blends/day
No. of knitting machines	84
Daily output (of the above)	60,000 kg/day (single jersey and rib)
No. of garment factories	50
No. of vertically integrated factories	7 operational (2 in project phase)
Major products of garment industry	Current: T-shirts, sportswear (jerseys, shorts, etc.), workwear, shirts, bed sheets
Planned: casual wear and underwear	
Types of business	CM, CMT, FOB[2]
Export turnover	$14.6 million USD, in 2007/08
AGOA fill rate	0.1% of eligible level
Employment (formal sector)	ca. 35,000

[1]Square metre equivalent.
[2]Cutting and making; cutting, making and trimming; free on board.

Textile and garment export trends	EU (€)	USA ($)
2003	1.58 million	1.76 million
2004	2.03 million	3.38 million
2005	4.95 million	3.61 million

firm has a production capacity of 1 million units per month and employs 850 people. Its revenues are about $3 million per annum.

Ambassador Garment (medium-large garment producer). Garment Express was established in 1998 and is engaged in the production of suits for the domestic market. The firm has a production capacity of 1,200 suits per month and employs 480 people. Its revenues are in the range of $3 million per annum.

Garment Express (medium garment producer). Garment Express was established in 2003 and is engaged in the production of casual wear and sportswear. The firm has a production capacity of 2,400 units per week and employs 480 people. It exports, primarily, to the United States under AGOA terms.

Lines of business of mid-size firms.

Garment sector. There are an estimated 25 garment manufacturers operating in Ethiopia, of which six are SOEs.

Cotton farming. 54% of total production volume comes from private farms, 35% from SOEs and the remaining 11% by smallholders.

Cotton ginning. Annual ginning capacity in 11 operations is ca. 200,000 tonnes (2002). Average total production of raw cotton (1996–2001) was 81,000 tonnes, where 2,000 tonnes were never ginned, putting the current ginning capacity utilization at 40%.

Small-scale, informal and peripheral activities.

Cotton farming.

- Supply of cotton seed.
- Supply of fertilizers, pesticides and herbicides.

Ginning.

- Machinery and spare parts maintenance.

Spinning.

- Supply of cotton.
- Import and supply of long staple cotton.

Weaving and knitting.

- Supply of quality yarn.

Dyeing and finishing.

- Supply of dyes and chemicals.

Garment production.

- Supply of fabrics and accessories.
- Machinery and spare parts maintenance.

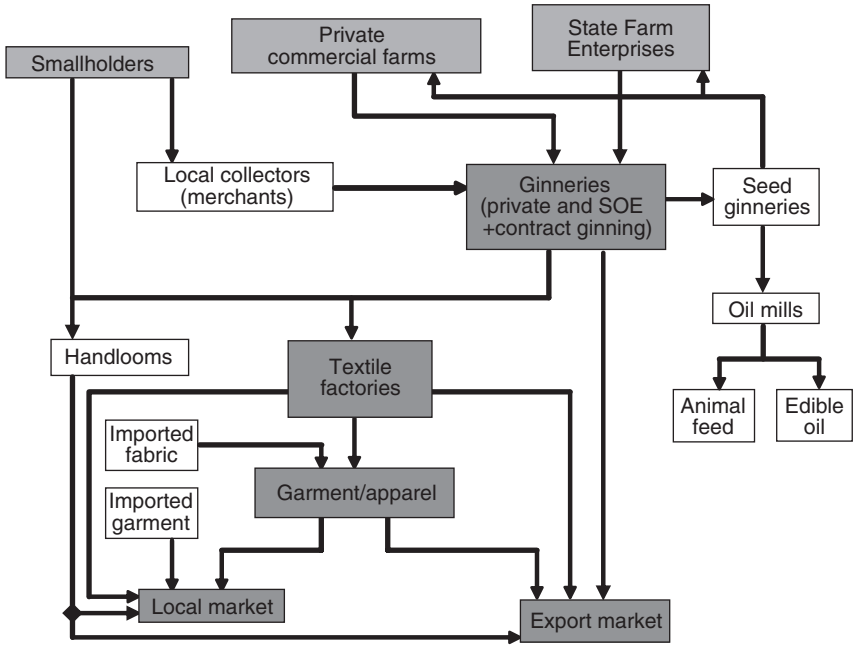

FIGURE 9.1. The supply chain. *Source:* Global Development Solutions, LLC.

Supply chain (see Figure 9.1).

Cotton farming. The economic attractiveness of cotton to the producer as a link in a farming system has considerably increased. Prices paid by the ginneries have risen over time.

Ginning. There are nine ginneries in Ethiopia, all using old technology. In most cases, no testing or machine grading facilities are available, and grading is done manually.

Spinning. At present there are eight vertically integrated factories that operate one spinning department and one spinning plant in operation. New state-of-the-art factories have been established during the past decade, and more are planned.

At present, no factory produces combed yarn from locally grown cotton. This is due to the short staple length, which makes combing unprofitable.

Weaving and knitting. Most often weaving and knitting takes place in the vertically integrated companies; additionally, several companies are engaged in either knitting or weaving without capabilities to dye or finish their products. In general, both woven and knitted products suffer from

TABLE 9.2. The major markets for exports of various products.

Item	Major markets
Textile and garments	Denmark, Austria, Israel, Italy, United Kingdom
Cotton	Saudi Arabia, Yemen, Djibouti, United Kingdom, Bangladesh, Bulgaria, India, Italy, Kenya, Mauritius, Portugal, Switzerland, Thailand, Turkey, United Arab Emirates, Vietnam

low-grade cotton input that leads to coarse yarn counts with a large number of imperfections.

Dyeing and finishing. Dyeing and finishing for the export market are currently only done in the vertically integrated companies. There are no commission dyers, and this creates bottlenecks.

Garment production. There are about 80 garment manufacturers, including the garment departments of the vertically integrated manufacturers.

While integrated factories are in a position to sew their own fabric into garments, they can only supply a limited amount of fabric to local garment manufacturers.

Export status, trend and potential. The major markets for exports of various products are listed in Table 9.2.

However, while Ethiopia's absolute export volume has been increasing, its relative export performance is weak, with Ethiopia accounting for 1% of global textile exports (Table 9.3).

Policy context. The strategy of the Ethiopian government is to develop the industry, both in respect of domestic sales and exports. It regards textiles as one of the key industries for the development of both the industrial and agricultural sectors.

Programmes exist for skills development, SME capacity building, export promotion, firm re-engineering, access to finance, association development, trade and investment promotion and BDS development.

Challenges. There are three main problems affecting the supply of cotton:

1. *Fluctuating market prices* for textile products, which affect the demand for raw cotton and which lead small-scale cotton producers to shift to other crops.
2. *Relative low quality* due to natural causes and harvesting practices.
3. *Short staple fibres* cause imperfections in yarn that are unacceptable for export.

TABLE 9.3. Exports have shown steady growth, except for a temporary fall in FY2006/07 ("quantity" is measured in tonnes; "revenue" is measured in thousands of US dollars).

Export product	2002–3 performance		2003–4 performance		2004–5 performance	
	Quantity	Revenue	Quantity	Revenue	Quantity	Revenue
Cotton	7,562	7,735	8,189	10,879	1,228	1,848
Textile and garment	1,969	4,039	7,487	9,354	2,212	7,034

Export product	2005–6 performance		2006–7 performance	
	Quantity	Revenue	Quantity	Revenue
Cotton	6,177	6,807	11,760	14,341
Textile and garment	3,581	11,098	3,900	12,622

Export product	2007–8 performance		2008–9 performance	
	Quantity	Revenue	Quantity	Revenue
Cotton	14,909	19,240	4,411	4,900
Textile and garment	3,351	14,526	3,858	14,434

In addition to problems associated with supply of required inputs, there are other problems associated with the production processes:

1. *Shortage of good quality dyed cotton yarn.* The dyeing of cotton yarn is done by SOEs, who often cannot meet demand, and this interrupts the manufacturing process and leads to firms missing export orders.
2. *Packaging.* Locally obtained carton boxes and polyethylene bags are not up to export standard.
3. There is no adequate printing press that produces international standard printing and artwork for the packaging.

Other challenges are:

- A weak image in the international market.
- No accessory or spare parts manufacturers (such as button, zippers, lacework and liner cloth) or packing materials.
- Insufficient qualified labour.
- A weak training and vocational education (TVET) programme.
- A lack of networking among input suppliers, cluster members and government.

- Efficiency levels are low (30–35%)
- Problems in sourcing fabrics both from inside Ethiopia (low level of quality produced by local suppliers) and from outside (lack of experience and information on sourcing).
- Access to finance is difficult.
- Infrastructure is not satisfactory, causing delays in raw materials and accessory supply. (Imported goods arrive through Djibouti. High taxes on custom clearance and port handling as well as expensive, slow and unreliable transportation over narrow, crowded Ethiopian roads cause problems.)
- Labour law restricts the laying-off of unproductive workers.
- Factories do not have much experience in international exports.
- Finance to cover the three-month FOB order cycle is a problem.

9.2 Profiles of Major Firms

9.2.1 Crown Textile Weaving

Basic details. Crown Textile Weaving PLC was established by an Ethiopian family in 2004 in the form of a PLC. It is located in Debre Zeit, which is around 45 km from the capital. In addition, the shareholders own Edget Yarn and Sewing Thread S.C. (located in the capital), which was privatized by the government in 2006.

Crown produces and woven textiles for export. It has about 130 employees, and its average annual turnover is about $0.8 million.

Background. The investors were initially engaged in general trading and developed an interest in investing in the textile industry due to an investment promotion exercise that was introduced by the government, which drew attention to the huge availability of cotton and the enormous export potential for textiles.

Crown initially faced a shortage of quality yarn and operated for some time as an indirect exporter by supplying curtain exporters.

However, this problem was solved when the founders acquired Edget Yarn from the government two years after establishing Crown Textile.

Current activities and products. Crown Textile produces and fully exports woven textiles with a maximum attainable daily capacity of 5,000–7,000 linear metres. Edget Yarn produces 4,500 kg of yarn and sewing thread per day.

Organization and management. The management of Crown Textile comprises a board of directors, a chief executive officer (the owner) and a general manager.

Edget Yarn follows the same structure, the CEO being shared by the two companies.

Firm capabilities. Crown Textile is well-equipped with computerized machinery and a skilled workforce, trained by getting hands-on experience in other factories while Crown Textile was establishing its operations.

A strong commitment to development by the owners and huge support from the government has assisted the firm in developing its capabilities.

The proximity of the factory to the sister company facilitates the supply of inputs with a quality that meets the required standard.

Supply and marketing chain. The major input, yarn, is supplied locally from the sister company. Other inputs such as packaging material are procured from the local market.

The firm exports to major agents as well as factories (which directly use the product as an input). The customer base has been developed through trade fairs and direct contacts.

Export. The firm exports all of its products, mainly to Italy, Switzerland, Germany and Spain.

9.2.2 GG Super Garment Factory

Basic details. GG Super Garment Factory was established in 2004 by Getachew Biratu and his family (all Ethiopian nationals) in the form of a PLC. It is located in Debre Zeit. The firm produces T-shirts, polo shirts and sportswear. It has about 270 employees.

The firm has an average annual turnover of $300,000. The total assets are valued at $1.5 million, 50% financed by equity. The firm is currently operating at a loss.

Export proportion is estimated at 85% of total revenue.

Background. The founder was previously engaged in the import/export business, and later in real estate and the hotel business.

Realizing the potential contribution of the textile industry to Ethiopia's growth, the investor decided to establish GG Super Garment factory. It was recognized at the time that there was scarcity in quality input supply. However, the government had given a written assurance to strengthen the existing state-owned textile factories to produce the necessary inputs.

The investor, in addition, acquired Akaki Garment Share Company when it was privatized (in the same year as GG's establishment (2004)). Akaki is engaged in the production of knitwear and woven garments.

Current activities and products. The firm produces T-shirts, polo shirts and sportswear with a daily production capacity of 6,000 pieces.

The firm was established to serve the export market. However, when there is a lack of export orders, the firm sells its products (mainly T-shirts and polo shirts) in the local market, and supplies various conferences and events.

The sister company, Akaki Garment, produces overalls, shirts, overcoats and trousers (mainly uniforms) and has an average output of 17,000 pieces per month.

Organization and management. The firm is managed by voluntary board members who are responsible for strategic decisions. The shareholders do not have a right to sell or change the ownership of their shares except to existing shareholder members.

Day-to-day management is the responsibility of the founder, who acts as managing director.

Firm capabilities. The firm is well equipped with sewing and ironing machines and is ISO1900:2002 certified. It has hired Pakistani and Indian expatriates with the objective of speeding up knowledge transfer.

Financial constraints have prevented the firm from establishing a textile factory that could feed the garment factory. The firm is currently highly dependent on raw material imports (from Pakistan and China), making it more difficult for the firm to compete in the international market.

Supply and marketing chain. Fabric, accessories, yarn and packaging material are imported, mostly from Pakistan and China. Local inputs are only used in producing for the local market.

The firm has developed links with department stores such as Walmart in the United States.

Export. The firm exports almost all of its production, during the export season, primarily to the United States and the United Kingdom.

Development agenda. The firm has acquired land for cotton production and plans to establish a textile factory, subject to financing issues being resolved.

9.2.3 Woinu Curtain Trade

Basic details. Woinu Curtain Trade was established as a PLC in 2002 by Woinu Trade Connection, owned by Woineshet Shewatsega (an Ethiopian national), and a Swedish garment manufacturing company.

The firm is mainly engaged in the production of curtains and related products using its manufacturing plant based in the Kombolcha area, 376 km from the capital. It currently has more than 400 employees.

Woinu Curtain has an average annual turnover of more than $7 million with an average asset value of $1 million.

Woinu sells all of its products in the export market.

History. Woinu Curtain Trade PLC evolved from Woinu Trade Connection PLC, a general agency and brokerage company established by Woinehset Shewatsega in 1998.

The experience gained as a sole agent and in the trading business led the entrepreneur to create a partnership with a garment manufacturer based in Sweden to form Woinu Curtain Trade. The firm manufactures household textiles and other fabric products and supplies the Swedish multinational Ikea.

The decision to invest in the garment sector was influenced by various investment incentives offered by the government. The global shift of garment factories towards low-wage countries coupled with the international partner's strong links to Ikea made the partnership a natural one.

The manufacturing plant was set up on leased land within the premises of the state-owned Kombolcha Textile S.C. with the aim of sourcing textile products from the factory.

Current activities and products. The firm produces various types of curtains, pillow covers, bed sheets, mattress covers and other related household textile and fabric products, produced to the design and specification of their sole customer, Ikea.

The firm is also engaged in polyester and cotton textile production following its taking ownership of Ethio-Japan Textile Factory from the government. Woineshet also privately owns a handmade garment products factory producing mainly for the local market.

Organization and management. Woinu curtain uses a centralized administration office located in the capital to manage the three major lines of activity: Ikea household textile production, Ethio-Japan textile production and handmade garment production. The firm is managed by Woineshet Shewatsega as CEO; each production line has its own manager.

Firm capabilities. Having an international partner has enabled the firm to have access to the latest production and processing technologies. The technical personnel of the company have undergone intensive training by the international partner.

The firm mostly employs young adults between the ages of 18 and 25 (mostly with no previous experience), as they fit in relatively easily with the corporate culture. The turnover of employees is less than 5%.

Supply and marketing chain. Locating Woinu Curtain in Kombolcha Textile Factory was designed to allow it to easily access raw material. Cotton textile materials are also obtained from Ethio-Japan Textile Factory. Nonetheless, Woinu faces shortages of textile materials, and is producing below full capacity.

The firm produces products to the design and specifications of Ikea and is contractually obliged to supply these only to Ikea.

Export. Woinu sells all its products to the export market. Close to 40% of its products go to the United Kingdom and Germany, and the rest goes to other European countries and to the United States.

Ethio-Japan textile exports its products to Italy, Malaysia, Belgium and elsewhere.

Woinu Curtain has received a national export award in each of the last five years.

Recent developments. The firm has vertically integrated its operation by acquiring Ethio-Japan Textile. Keeping its high quality standard, Woinu as the sole owner of the Mosquito Net (Olyset® Net) stitching factory has started production of mosquito nets. A mosquito net tailing and packaging company was also established in partnership with the Swedish garment factory and Sumitomo Nest, a leading international net manufacturing company in Japan. The plant has an annual production capacity of 3 million nets.

Development agenda. Woinu Curtain plans to expand its current production and export capacity.

There is a plan to fully produce the mosquito nets locally.

Chapter 10

COTTON

10.1 Sector Profile

Background and overview. While traditional cotton farming has a long history, large-scale cotton production began in the 1950s. During the communist regime (1974–91), most cotton was supplied from five state-owned farms cultivating a total of ca. 30,000 ha with an annual production capacity of 60,000–65,000 tonnes of seed cotton. There were also many small-scale farmers that supplied the local traditional hand-loom industry.

During the 1991 economic reform, state farms were privatized either through leasing or by returning them to local farmers. A decade later, supply from private commercial farms accounted for more than half of total cotton production.

Ethiopia has about 2.6 million ha of land suitable for the production of cotton, an area as great as that of Pakistan, the world's fourth largest producer. Suitable lowlands below an elevation of 1400 m are found in the regions of Tigray (Humera), Gambella and Amhara (Mettema). Despite this potential, a total area of only around 73,000 ha was devoted to cotton in 2006.

Currently, some nine state-owned and private large-scale producers, as well as a large number of small-scale farmers, are active in the industry. Total production for the year 2008 was estimated to be 123,800 tonnes (Annex 2 on page 181).

The recent development of the cotton sector was driven by a huge increase in demand from the textile, garment and edible oil manufacturing sectors.[1] In FY2006/07, the textile industry used a total of 18,923 tonnes of domestically produced cotton (raw cotton or in the form of yarn or lint).

Profiles and lines of business of large firms. The dominant producer and exporter in the industry is the privately owned Amibara Agricultural

[1] Cotton imports used to account for 30% of total imports by value in Ethiopia before the 1960s.

Development, which has leased the once leading state-owned agricultural development farms: Middle Awash, Omo Valley and Amibara. Other large-scale producers include Upper Awash Agro Industries, Blen Tsegaye Business Industrial Group and Studio 3D PLC. In addition, most of these firms have their own ginnery facilities.

Amibara Agricultural Development PLC was established in 1999 by Abduletif Omer in the form of a PLC. It is engaged in producing, processing and supplying lint and seed cotton to both the local and export markets. In addition, it has integrated forward into edible oil manufacturing. The firm employs about 2,500 permanent and 10,000 casual employees and generates an average annual turnover of $15–17 million.

Blen Tsegaye Business Industrial Group was established in 2002 by an Ethiopian family. The firm is engaged in the production and exporting of cotton with an annual production capacity of 1,400 tonnes. It has 500 permanent and 2,000 casual employees and generates an average annual turnover of $1 million.

Profiles and lines of business of mid-size firms. There are many mid-size firms, often run by groups of traders or civil servants as a sideline business. These firms produce on land leased from farmers, while renting farm machinery from large-scale firms.

Small-scale, informal and peripheral activities. Smallholder farmers using traditional farming techniques accounted for more than half of the cotton production in 2006, satisfying demand from the traditional hand loom industry.

Local assemblers collect about 20% of the cotton seed produced by smallholder producers and transport the raw cotton to sell to traditional hand-loom operators and privately owned ginneries.

Agricultural input suppliers import inputs (including seed) and supply them to smallholders.

Various small-scale businesses, mostly in rural areas, are engaged in the crushing of cotton seed.

Supply and marketing chain. The large state- and privately owned commercial farms supply cotton seeds to ginneries.

Most smallholder farmers supply their cotton to the traditional hand-loom industry through local assemblers.

Local ginneries process raw cotton into yarn and supply it to textile and garment producers. Cotton seed is sold to oil millers. (See Figure 10.1.)

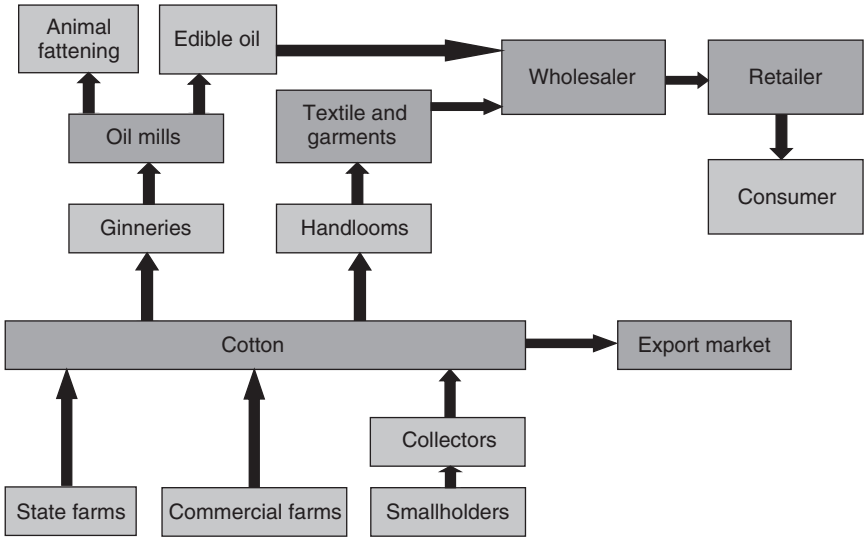

FIGURE 10.1. Supply chain: cotton.
Source: Cotton–textile–apparel value chain report for Ethiopia.

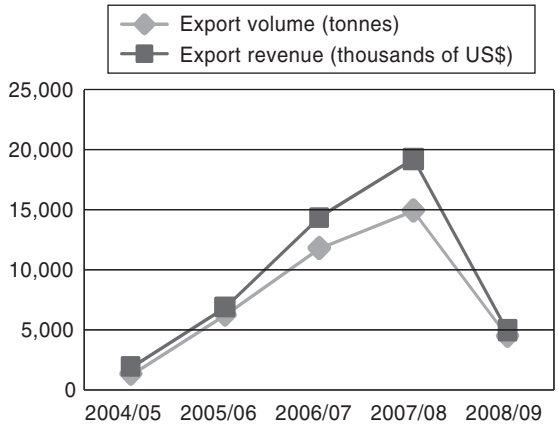

FIGURE 10.2. Export trends: cotton. *Source:* Ministry of Trade and Industry.

Export status, trends and potential. Revenue from cotton exports had been increasing since FY2004/05 but registered a dramatic decline of 75% in FY2008/09. In FY2008/09, 4,410 tonnes of cotton was exported to India, Singapore and Germany generating export revenue of $4.9 million. (See Figure 10.2.)

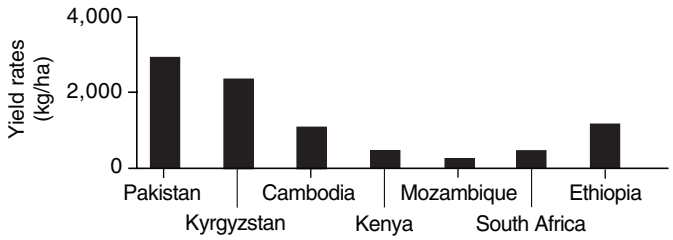

FIGURE 10.3. Benchmarking yield rates (cotton). *Source:* Global Development Solutions 2006. Value chain analysis of textiles and garment sector. Unpublished Report.

Policy context. The move by the government to privatize the state farms has improved productivity and total output. The government's current plans envisage raising the area under cultivation to 43,000 ha and improving yields to 2,930 kg/ha.

Investors engaged in cotton export benefit from export incentives such as export credit guarantees, duty draw-back schemes and foreign export retention schemes.

Competitiveness. Ethiopia has a competitive advantage in cotton since 65% of the 2.6 million ha of land suitable for cotton production is found in 38 high-yield areas (with altitudes ranging up to 1,000 m above sea level). Despite this, the yield is moderate, at 2,200 kg/ha for irrigated farms and 1,200 kg/ha for rain-fed farms. (See Figure 10.3.) Most cotton farms are small and incur relatively high fixed costs per unit of output.

Global Development Solutions 2006. Value chain analysis for the skins and leather sector in Ethiopia. Unpublished Report.

Challenges. Challenges in the cotton industry that have contributed to low productivity include:

Usage of retained seeds from previous harvests instead of high-yield varieties such as fibre seed, which produce better quality cotton seeds in greater quantity.

Lack of finance for start-up and expansion of cotton farms. Most investment in cotton farming is devoted to land clearing and development. Businesses face problems in accessing bank loans to do this.

Underdeveloped irrigation systems impede firms from having high-yield rates on irrigated farms (yields are 2,200 kg/ha on irrigated farms as against 1,200 kg/ha with rain-fed production[2]).

[2] Irrigated land is only 4–10% of the gross potential as of 2006.

High overhead costs. Salaries account for a quarter of total cotton production costs.

Manual harvesting by daily labourers results in low productivity and production impurities.

Unreliable demand and supply of cotton from small-scale farmers due to the absence of long-term contract and appropriate marketing systems.

Investors in the Afar region, where most suitable land for cotton harvesting is located, face security and administration problems. The government has recently transferred the accountability and administration of investment land in these areas from the region to the federal government.

Rationale for selecting profiled firms. Amibara is the largest firm in the industry.

Blen Tsegaye is the representative of the next tier of producers.

10.2 Profiles of Major Firms

10.2.1 Amibara Agricultural Development

Basic details. Amibara Agricultural Development PLC was established in 1999 by the major shareholder Abduletif Omer and other members of his family.

The firm owns eight cotton farms and other related business enterprises making it by far the largest producer, processor and supplier of cotton to the local textile industry and the export market. It has about 2,500 permanent and 10,000 casual employees.

Amibara has an average annual turnover of $15–17 million (ETB140 million) with an average asset value (including the leased properties) close to $33 million.

The firm exports more than 50% of its output.

History. Abduletif Omer has been a trader for many years in a major cotton-growing area, where he came to see the potential of cotton production.

Amibara was formed as a holding company and first started by establishing Bodhamo Agricultural Development Enterprise on 3,200 ha of land. It then began to show interest in existing state-owned and new cotton farms. It leased a cotton farm from the state-owned Commercial Bank of Ethiopia for ten years, and three other farms from the Ethiopian PPESA, a government agency responsible for overseeing and privatizing state-owned enterprises.

Current activities and products. Amibara is primarily engaged in producing, processing and supplying lint and seed cotton to both the local and export markets.

The firm also produces various types of fruit and cereals.

The firm provides herbicide and pesticide chemical spraying services for both domestic and Sudanese farms using its own aeroplanes purchased from Ethiopian Airlines.

With the aim of integrating its seed cotton business with manufacturing, it acquired Addis Modjo Edible Oil Complex from the government to produce edible oil. It also produces wheat flour and biscuits using Awash Flour and Biscuit Factory, one of its sister companies.

Organization and management. Amibara employs experienced professionals from former state-owned farms. This has given the company an advantage in accessing better quality input, in a timely manner and at a competitive price.

Strategic decisions are undertaken by the owner. Immediate decision making and easy availability of financial resources from the owner have helped the company to take full advantage of market opportunities.

Firm capabilities. Amibara has a management staff with ample experience and wide connections in the sector. It is estimated to have the largest yield of cotton per hectare in the country.

Performance-based remuneration and a staff loan system are in place. This contributes towards developing a sense of ownership among employees in the various farms.

The firm has a well-established and realistically prepared budgeting, planning, monitoring and evaluation system based on which it evaluates the performance of its operations and managers.

The firm does not use bank loans to finance its operations; all operations are internally financed.

Despite the magnitude of its engagement in the cotton production industry in the country, the firm does not have a structured and organized research and development unit. There were previous attempts in this direction, but the company has failed to find qualified and willing researchers to work in the field since farms are located in a remote area and the weather is extremely hot.

Supply and marketing chain. Amibara uses an established network of suppliers to procure inputs.

In the domestic market, government and private textile mills are the main customers of Amibara. In the international market, the firm has a network of established customers. New customers contact the company directly.

Cotton seeds are directly supplied to its affiliated edible oil manufacturing firm and to other edible oil manufacturers.

Export. The firm exports more than 50% of its production output to China, Turkey, Indonesia and Bangladesh. The remaining output is sold to local customers.

Development agenda. Amibara plans to strengthen its engagement in farming and create forward linkages by establishing new agro-processing businesses.

The firm's pesticide and herbicide spraying planes are idle outside the spraying season. In order to take advantage of this capacity, the firm plans to enter the aviation industry.

10.2.2 Blen Tsegaye Business Industrial Group

Basic details. Blen Tsegaye Business Industrial Group was established in 2002 by Tsegaye Gebremariam and three family members, all Ethiopian nationals. The cotton farm is located in Afar region, in the Gwane area, 248 km from the capital, where its headquarters are located.

The firm is engaged in cotton production and exports all its cotton products. It employs about 500 permanent and more than 2,000 casual labourers.

Blen Tsegaye has an average annual turnover of $1 million and an average asset value of $4 million.

History. Tsegaye Gebremariam was first engaged in trading metals and other construction materials. He then decided to enter into table salt production and became one of the first formally organized table salt producers in Ethiopia in the mid 1990s.

His salt production business is located in Afdera (Afar region, 275 km from the capital) and made him aware of the region's potential for cotton production.

Tsegaye Gebremariam decided to establish Blen Tsegaye under his daughter's name and obtained 8,000 ha of land from the Afar Regional State to begin producing cotton.

Current activities and products. Blen Tsegaye is engaged in producing cotton with an annual production capacity of 14,000 quintals. Depending on market trends the firm also produces maize.

Vegetables and fruit are also produced for local markets and for the firm's employees.

Organization and management. Tsegaye Gebremariam is the major shareholder and the general manager of the firm and is involved in all day-to-day operations, both on and off the farm.

There is no formally designed organizational structure and most decisions are made by the general manger.

The firm has employed qualified and experienced professionals from former state-owned farms to fill technical positions. There are also close friends and relatives of the general manager on the farm who work as supervisors and controllers.

Firm capabilities. Blen Tsegaye is centrally managed by Tsegaye Gebremariam. During the past 15 years, he has created strong and positive relationships with the regional government and local society.

The Gewane area, where the farm is located, is considered to have one of the country's highest cotton yields. The cotton harvested from this area has an advantage in terms of its bright white colour, low level of dirt content and longer thread length.

The firm has a serious shortage of both fixed and working capital. As a result of this it is able to cultivate only 1,500 ha of the total 8,000 ha land available for development. In addition, it does not own delivery trucks and thus faces difficulty in delivering its produces to the port of Djibouti for export.

Supply and marketing chain. The owner's contacts in the industry helps in obtaining quality seed from both government and private seed distributors.

Chemicals, machinery and spare parts are purchased from agents of foreign manufacturers.

The firm has well-established relationships with customers in the international market through both the internet and personal contacts. References from customers and peer groups have helped increase the firm's customer base.

Export. Blen Tsegaye exports all of its cotton products to Switzerland, China and Belgium.

Development agenda. The company aims to obtain additional capital and to increase its level of output.

There is a plan to import inputs directly from manufacturers and foreign suppliers by taking advantage of the foreign currency reserve arising from exports.

Chapter 11

CONSTRUCTION

11.1 Sector Profile

Background and overview. Ethiopia is currently enjoying a boom in construction, in part due to government initiatives and incentives dating from 2004. Commercial and residential real-estate construction has grown in response to the high demand.

The government is investing heavily in the construction of public housing projects, hydroelectric dams, irrigation and roads.

The construction sector is a major source of revenue for the government, accounting for more than 10% of 'large taxpayer' revenues (*Construction Ahead* 2008). It is the country's second largest employer after the agricultural sector, and the largest source of urban employment.

The construction industry can be divided into the following subsectors:

Transportation and communication sector: roads, airport, telecommunications and other related physical infrastructures.

Water works and energy sector: water supply and sanitation, hydropower, irrigation, electric power lines and related physical infrastructure.

Building sector: housing, commercial and industrial buildings and related physical infrastructure.

Other physical infrastructure: such as defence, mining, agriculture and related areas.

In Ethiopia, infrastructure development has typically consisted of roads, hydro-dams, irrigation, water supply, public housing projects and other government buildings such as universities, and has accounted for the major share of construction activity, while commercial and residential real-estate account for the rest.

The commercial and residential markets were driven by pent-up demand from the 1990s when little construction took place.

In the period 2003–8, the government increased its infrastructure spending threefold (*Construction Ahead* 2008) mainly in road, water works, public

TABLE 11.1. Contractors' classifications and grades.

Grade	GC	BC	RC	Total
1	31	27	5	63
2	0	2	0	2
3	16	60	0	76
4	0	140	1	141
5	55	320	0	375
6	523	210	2	735
7	422	76	0	498
8	188	34	1	223
9	10	13	0	23
10	1	0	0	1
Total	1,246	882	9	2,137

Source: Ministry of Works and Urban Development "Registered Contractors List", 2009.

building and energy-related construction. The government is aggressively expanding the road network, with a target of 20,000 km of new roads by the end of 2010, and plans to construct five major new hydroelectric dams over the same timescale.

There are more than 1,000 contractors and 100 consulting firms in the construction industry.

Contractors are classified as general contractors (GC), building contractors (BC) and road contractors (RC) by the Ministry of Works and Urban Development. They are graded from 1 to 10; 1 being the largest and 10 being the smallest.

There are a total of 1,246 GCs, 882 BCs and 9 RCs. As to grades, there are 63 grade 1 contractors, only 2 grade 2 contractors and 76 grade 3 contractors (Table 11.1).

Profiles and lines of business of large firms. The 63 grade 1 contractors are the largest firms in the sector. They typically have more than 1,000 employees and work on projects whose average value is about $1.6 million. They mainly engage in road and major building construction. The two grade 2 contractors are also allowed to bid for large contracts (up to $1.25 million).

Sunshine Construction was established in 1984 as a sole proprietorship and was converted to a PLC in 1993. The firm is mainly engaged in road construction and commercial and residential real-estate. It has more than 1,000 permanent employees and about 6,000 contract employees and casual labourers.

Sur Construction PLC was established by EFFORT in 1992 with an initial capital of $25,294,073 ($37,474,087 at today's value) as a Grade 1 GC. Sur has over 1,700 permanent and 15,000 contract employees and casual labourers. The firm is mainly engaged in road and building construction.

CRBC (China Road and Bridge Construction) Addis Engineering PLC is a Chinese Government construction firm which came to Ethiopia in 1998 to construct the Addis Ababa ring road. It was previously engaged in Ethiopia as a Chinese foreign contractor, but re-established as a Grade 1 GC local company in 2005 in order to compete in road tenders, which is possible for local contractors only. CRBC has been very successful in winning and implementing government road contracts on time and has undertaken more than $160 million worth of road projects in Ethiopia since 2004.

Profiles and lines of business of mid-size firms. There are 593 contractors of grade 3–5 that are allowed to bid for construction projects valued between $0.4 million and $1.25 million. There are 76 grade 3, 142 grade 4 and 375 grade 5 contractors in the sector.

Mid-size construction firms gain experience by subcontracting within projects run by large companies. Since these firms lack financial resources, they work with an advance release of around 20% from the client. The World Bank encourages the government to involve mid-size construction firms to take part in large projects through subcontracts.

Small-scale, informal and peripheral activities.

Peripheral markets

Engineering and architectural consultants. There are more than 100 companies employing consulting architects and engineers, which are also organized according to grades (1–5; 1 being the largest). The grade 1 consultants typically have 70–80 employees (mostly engineers and architects) per firm and design and supervise construction projects, as well as engaging in contract management with contractors on behalf of the client. They mostly work on government contracts and large projects. Those of grades 2 and 3 also engage in large projects by creating joint venture with other consultants. They typically have 20–30 professional employees.

Construction rentals. The hire of construction machinery is gaining in importance with the growth of the industry.

Cooperatives engaged in cobblestone road projects. The government is implementing cobblestone road projects with the aim of improving urban environments and creating employment opportunities. Unemployed people organized in cooperatives are awarded cobblestone projects, after

receiving training in paving and chiselling. In FY2008/09, more than 67,000 workers and 1,700 micro and small enterprises have participated in the project.

Local skilled builders and contractors. There are many small local building firms that lie outside the classification scheme of Table 11.1, engaging in small-scale construction activities such as house extension and maintenance works, or in some cases house building.

Supply and marketing chain. Public construction projects are awarded through a bidding process.

Cement is sourced from domestic producers in the country and imports.

Hollow blocks are produced in various places of the country both in small- and medium-scale enterprises. Almost all large construction companies produce their own supplies.

Metal inputs and finishing materials such as doors and windows, aluminium products, glasses, paints, sanitary and electrical products are both produced domestically and imported. Most of the large construction companies have established contacts with domestic and foreign suppliers.

Policy context. Construction is one of the sectors prioritized by the government under the PASDEP scheme. A recent framework designed to attract real-estate and construction investors is one outcome of this.

SME construction firms have been supported by recent government procurements that stipulated their participation in large projects as subcontractors.

The government has developed a capacity building programme for the construction sector, under the Ministry of Capacity Building, implemented by GTZ IS, which, through the construction of 13 universities in Ethiopia, aims to raise the capabilities of the local construction sector.

Although local labour is protected by law from foreign competition, Chinese firms have been successfully bringing semi-skilled construction workers to displace less productive Ethiopian workers in their projects, thereby circumventing regulations.

Competitiveness. There is limited competition at the top end of the market, as few firms are qualified to compete for the largest contracts. The entry of foreign bidders is, however, changing this.

Although the industry does have qualified personnel, many of the best Ethiopian engineers tend to work elsewhere on the continent. In terms of less qualified employees, there is a severe lack of skills and poor productivity. This has contributed to the success of Chinese firms that bring their own employees.

Contractors' inadequate financial base: contractors have an incentive to invest predominantly in fixed capital in order to qualify for a higher grade licence. This reduces their working capital, negatively impacting their performance.

Most of the mid-sized and smaller contractors do not use IT for design and management, though this would improve the efficiency and quality of their output. Cost and time overruns are frequent, as a result of poor project management and poor quality of design, which results in variability in output and work having to be redone.

According to industry experts, local contractors lack management skills in general, and project and financial management skills in particular.

While the daily wage for unskilled labourers in Ethiopia is still low in comparison with the African average, costing about $2.2 per day, contractors complain about low productivity.

The overall skills level of construction workers is expected to improve with the growth of universities and TVET colleges.[1]

Challenges.

Shortage of technical skills. Modern, high-technology equipment requires the hiring of technical experts. Appropriate skills are not cultivated within firms or provided in commercial training schools.

Uncoordinated and stringent licensing requirements. Many contractors and consultants prefer to work informally to avoid licensing requirements.

Lack of transparency in tender outcomes. There are complaints in the sector about accountability, fairness and corruption in the bidding process.

Payment problems. Non-payment or late payment is a common problem in the private sector and occasionally with government contracts. Contract enforcement is an expensive and lengthy process.

Price fluctuations in construction materials. There is a high degree of volatility in the prices of inputs (steel and cement) due to fluctuating local demand and weak supply responses.

Lack of access to finance for machinery and equipment. Even though duty free import privileges are in operation, bank finance for asset purchases is hard to access.

[1] (1) Implementation of TVET curricula for early school leavers with an emphasis on supplying a skilled labour force to the market, and especially to the construction sector, and (2) the recent 70/30 principle aims to ensure that 70% of university students specialize in natural sciences and engineering.

Tying donor funds to donor contractors. Some foreign governments that provide finance for infrastructure contractors from their own country.

Rationale for selecting the profiled firms. Sunshine is a privately owned, and is the largest construction company that started as a small business.

Sur construction is another of the largest construction company, and specializes in the rapidly growing road construction sector.

11.2 Profiles of Major Firms

11.2.1 Sunshine Construction

Basic details. Sunshine Construction was established in 1984 in the form of a sole proprietorship by Samuel Tafesse and became a PLC in 1993. The current shareholders are Ethiopian nationals Samuel Tafesse and his wife.

Sunshine is engaged in the construction of roads, dams and buildings, as well as hotels and houses. It has a total workforce of more than 8,000 employees (around 1,000 permanent and the rest contract employees).

Sunshine Construction currently has contracts worth about $207 million.

Background. The founder's father was a craftsman in the construction industry, and Samuel gained practical experience in roof maintenance. This paved the way for the establishment in 1984 of Sunshine Construction, which mainly conducted roof maintenance, and had about 10 employees. Eventually, the firm gained experience in building and roads construction, primarily through government projects during the communist period.

In 2004, Sunshine established a real-estate company. Other affiliated businesses include a beauty salon and laundry service.

Current activities. Besides its activity in construction, the firm is involved in floor tile and hollow-block production and it operates a quarry.

Organization and management. The company is supervised by the owner (managing director), who is responsible for the firm's overall activities. His wife, the deputy managing director, is mainly responsible for the affiliated businesses (beauty salon and laundry).

Firm capabilities. Sunshine is Ethiopia's largest construction firm. Most building and road projects are primarily government-financed and are secured through public tender. A close working relationship with the government has enabled the firm to build a good portfolio of contracts.

It has integrated backwards in producing its own inputs as well as forward in a real-estate business.

Supply and marketing chain. The firm has established a strong relationship with various input suppliers. In addition, it manufactures and supplies certain inputs using its own plants.

In addition, its real-estate business provides a market for construction when general activity slows down.

Recent developments. The firm is now shifting its focus to its own building projects, hotels and real-estate developments rather than undertaking large-scale government building projects.

11.2.2 SUR Construction

Basic details. SUR Construction was established in 1992 as a PLC under EFFORT.

The firm started with an initial capital of $25.3 million[2] and is licensed to undertake all types of construction projects. It currently has about 1,600 permanent and 6,000 causal employees.

SUR has an average annual turnover of $50 million and an average asset value of $20 million.

History. SUR was established as one of the affiliated companies of EFFORT with both social and business objectives. It was established as a Share Company in 1992 and operated under the same legal form and ownership structure until 2003. In 2003 the firm was reorganized as a PLC.

Current activities and products. SUR is engaged in the construction of roads, buildings, airport terminals and a hydroelectric power dam (in a joint venture with international companies).

Organization and management. The firm is managed by a board of directors who ensure accountability by the management to the public at large.

Firm capabilities. SUR used formal systems in finance, operations and logistics.

SUR also benefits by closely working with affiliated companies of EFFORT.

Human resource planning and development is well developed, employees are well trained and are supported with extensive practical experience. The firm hires up to 20 fresh graduates to its professionals' development programme each year.

The firm has more than 1,000 earth-moving machines.

[2] Calculated at the then (1992) exchange rate of ETB4.27.

Supply and marketing chain. The main inputs of SUR include cement, steel and re-bars, bitumen, explosives, tyres and fast-moving production materials.

Almost all of these inputs are purchased and transported through affiliated companies.

Recent developments. SUR has in the recent past tried to introduce new technologies and practices by outsourcing management to an international company from Pakistan. However, the selected management team was not performing well and has now been replaced by local professionals.

Development agenda. In the short run, the firm has plans to set up its own procurement division.

SUR plans to focus more on its main business of road construction. It also plans to enter the real-estate business. The firm plans to construct middle-class condominium houses in the capital and to offer a mortgage facility to customers.

Other plans include strengthening collaboration with the association of construction companies to make pooled purchases.

Chapter 12

CEMENT

12.1 Sector Profile

Background and overview. Ethiopia's first cement factory, Dire Dawa Cement and Lime Factory, was established by the Italian occupying forces in 1938. The plant had an initial capacity of 120 tonnes of clinker (the intermediate product obtained by burning limestone) per day.

In response to the increasing demand for cement, the Addis Ababa and Massawa cement factories were established in 1964 and 1965 respectively, each with a capacity of 70,000 tonnes of clinker per year (tcp). In 1984, the state-owned Mugher Cement Factory was constructed and commissioned with a capacity of 300,000 tcp, which created a large increase in capacity of the country's cement supply (see Table 12.1).

Following Eritrea's independence, the Massawa cement factory was no longer in Ethiopia and Mugher was the only manufacturer in the sector until Messebo Cement was established in 1996. The cement market was dominated by the two manufacturers, and prices were high, until the shortage of cement forced the government to allow private investors to import from several countries, including Pakistan, Ukraine and Egypt.

Despite an increase in supply from newly established private investors since 2009, demand growth has outpaced supply (see Table 12.2), due to demands by large-scale public sector infrastructure projects (roads, hydro-electric dams, public housing projects) and private sector construction.

It is estimated that cement consumption has risen by an average of 30% per year during the past four years, well above the growth rates of GDP (11%) and of the construction sector (10%). Ethiopia's cement consumption growth was roughly four times the growth in global cement consumption (Access Capital Sector Update: Cement).

Following the 2004 boom in the construction sector, there was a severe shortage of cement and a rise in the prices of cement to an unprecedented

TABLE 12.1. Cement consumption in Ethiopia.

	2001	2002	2003	2004	2005	2006	2007	2008
Consumption (million tonnes)	0.8	1.0	1.0	1.2	1.8	2.0	2.5	3.2
Growth rate (%)	0	18	7	13	55	11	25	27

Source: Access Capital Research Estimates based on production and import data.

level of $8 per quintal in 2006. The government responded to the price hike by allowing the private sector to import cement. However, this intervention did not succeed since most importers lacked foreign currency and their actions aggravated problems with currency trading on the black market.

As a result of an acute power shortage and continual growth in demand, cement prices reached a historic high of $24 per quintal around FY2008/09, well above international prices.

New factories and expansion projects currently in the pipeline are expected to add an estimated 3.7 million tonnes to national capacity (i.e. about 1.5 times current capacity). As of 2010, there were more than 24 potential new entrants to the industry (Ministry of Works and Urban Development "Registered Contractors List", 2009).

Profiles of large and mid-size firms. Only two cement factories (Mugher and Messebo) can be considered as large in terms of production volumes, the others being mid-size. However, when the new Derba MIDROC operation reaches full capacity, it will be the largest firm in the sector.

There is technological difference between large and mid-size firms: the mid-size firms use VSK technology, which requires a smaller space, lower investment and less time to install. The larger firms use HSK technology, which offers a larger capacity but requires more time to install and more space.

Mugher Cement Enterprise, the state-owned enterprise, is the largest cement producer in Ethiopia with a production capacity of 900,000 tonnes pa and a 35% market share. The head office is based just outside the capital and its quarrying sites are spread across the country. The company was set up in September 1984 and has a total workforce of over 1,500.

Messebo Cement Factory, owned by EFFORT, a major governing-party-affiliated holding company, was established in 1996 with an initial capital of about $154 million and is one of the largest cement producers. Its plant

TABLE 12.2. Cement production in Ethiopia (in tonnes).

		Currently planned output			
Name	Capacity	PPC	OPC	Total	Employees
Mugher	900,000	775,000	89,000	864,000	1,500
Messebo	900,000	845,000	—	845,000	800
National	300,000	300,000	—	300,000	280
Jema	240,000	—	200,000	200,000	500
Abyssinia	150,000	—	100,000	100,000	210
MIDROC Derba	90,000	—	90,000	90,000	—
Debresina Business industries	—	—	—	—	104
Huan Sang	600,000	—	—	—	80
Red Fox	150,000		150,000	150,000	—
Total	2,880,000	2,020,000	629,000	2,649,000	—

Source: MoTI and Access Capital Research Estimates (May 2009).

in Mekelle[1] has an annual production capacity of 630,000 tonnes. It has a market share of 30% and a total labour force exceeding 300.

National Cement Share Company is a privatized firm (of joint-venture form) previously known as the Dire Dawa cement factory. It is owned by East African Holding Share Company and the government of Ethiopia (51/49 in favour of East African). The firm currently produces 6,500 quintals of cement per day and is in the process of upgrading its capacity.

Jema Cement, established in 2002, is located in the Jema area, 150 km from the capital. The firm has a production capacity of 400 tonnes of PPC per day. Jema has a total of 500 employees.

Supply chain. All cement factories quarry their own raw materials: limestone (82%), gypsum (14%), sand (2.5%) and iron ore (1.5%). The larger manufacturers acquire their fuel oil, which represents 60% of their production cost, through distribution agents. Other parts and industrial supplies are directly imported by the manufacturers. Due to foreign currency shortages and procedural delays, these items have a considerable lead-time (an average of six months between order and delivery), which results in firms holding large stocks of inventory, which absorbs substantial working capital.

Mugher sells both to wholesale and retail customers at its warehouse in the capital (though its factory is 105 km away). Messebo, being 780 km away from the capital, sells to wholesale customers at its warehouse gate

[1] Northern Ethiopia (Tigray region) 780 km from the capital.

in Mekelle. The private cement factories all sell at the factory gate, both at wholesale and at retail, and at slightly cheaper prices than Mugher and Messebo.

Cement retailers, who are mostly concentrated in the capital, are for the most part traders of re-bar and construction materials, or were previously involved in this business.

Policy context. The national development plan, PASDEP, aims that 62% of cement production, accounting for 1.7 million tonnes, should come from the private sector, while the state-owned firms contribute 38%.

Private companies were allowed to import up to 1 million tonnes a year in January 2009 as a temporary measure to stabilize prices. Prior to this, cement imports were generally restricted. Recently, wholesale and distribution agents of the government have started to directly import cement, mainly for the state's infrastructural projects, but also for sales to the general public.

Exports of cement are restricted.

Competitiveness. The total volume of cement production, relative to the country's population, is low compared with China (800 kg per capita) or India (125 kg per capita). Yet raw material supplies are abundant.

Given the recent construction boom, there is now a serious shortage of domestic supplies. Four new large-scale private sector plants are now under construction, and about 20 other firms are planning to build (relatively) small factories.

The current excess demand for local supplies has pushed prices to very high levels ($230 per tonne, as compared, for example, with Pakistan, where cement sells at $64 per tonne).

Some of the major factors affecting the competitiveness of the sector are:

- outdated production technology;
- high transportation costs due to reliance on roads (as opposed to rail);
- inefficient use of other industries' by-products as compared with cement factories in other countries;
- shortage of domestic skilled labour.

Rationale for selecting the profiled firms. Mugher and Messebo are the two largest producers, both state owned. Jema Cement is a leading private sector firm.

12.2 Profiles of Major Firms

12.2.1 Mugher Cement Enterprise

Basic details. Mugher Cement Enterprise was established in its current legal form when it was chartered by the Council of Ministers in 1999, following a merger of Addis Ababa Cement Factory and Mugher Cement Factory. The firm is fully owned by the government.

The enterprise is engaged in the production of cement. It has about 1,600 employees.

Mugher is highly profitable, with an average turnover of $150 million and an asset value of $80 million.

History. Addis Ababa Cement Factory, one of the companies merged in forming Mugher Cement Enterprise, was established in 1964 in the capital. When the town expanded, the factory site became a residential area and clinker production was halted. Mugher Cement Factory, the other merged company, was established in 1984 in the Mugher area, 104 km from the capital, where there is an abundant reserve of raw materials.

When Addis Ababa Cement Factory stopped producing clinker, it began sourcing the semi-processed material from the Mugher manufacturing plant and the government decided to merge the two companies.

Current activities and products. The Addis Ababa manufacturing plant has a production capacity of 140,000 tonnes of cement per day, which is fully sourced from the Mugher plant. The Mugher plant operates at a full capacity of 740,000 tonnes of cement per day, resulting in a combined annual installed production capacity of 880,000 tonnes of cement for Mugher Cement Enterprise.

Mugher Enterprise produces two main products: OPC and PPC. Sulphate resistance cement is sometimes produced on demand. The firm produces about 60 million packaging sacs for its own consumption.

Mugher also extracts and sells natural resource minerals such as gypsum, limestone and silica to other manufacturing companies and farms.

Organization and management. The present organizational structure of the firm was put in place after it was chartered in 1999 giving full operational autonomy to the CEO, a position assumed by one of the longest serving engineers in the company. The board of directors, to which the CEO is accountable, consists of higher government officials and is involved only in major strategic decisions.

Mugher is in the process of implementing a BPR project to improve its decision-making process and to enhance efficiency.

Firm capabilities. Mugher uses an outdated production technology from Germany which has high energy consumption and dust emission. A study conducted by the company indicates that Mugher uses close to 35% more kilocalories of energy per tonne of cement as compared with a factory in Germany.

Mugher has experienced personnel who have participated in various training sessions abroad, and have worked with international consultants. However, the firm faces high middle-level employee turnover due to the remote location of the factory.

The company has long experience in designing and implementing large-scale projects.

The firm received ISO 900 certification in 2007.

Supply and marketing chain. Mugher sources limestone, gypsum, clay and additives from its own quarry. It purchases imported fuel from agents and imports its own spare parts and craft papers.

International competitive bidding is applied in sourcing imported inputs.

Key spare parts and supplies are imported with a very long lead-time.

The firm receives applications for more than 10 million tonnes of cement annually but is able to supply less than 10%. Due to an acute shortage of cement in the domestic market, the company rations its cement to its customers. Almost 80% of output is supplied to various government infrastructure projects, which receive priority over other customers (private investment projects, household constructions, manufacturers of cement products and non-governmental development agencies).

Recent developments. There is an ongoing expansion project to increase production capacity by 1.4 million tonnes of cement. The project also introduces a new multi-fuel, cost efficient system which is expected to significantly reduce production costs.

Development agenda. Mugher aims to become a cost leader through its efficient-energy production system. In line with this, it plans to gradually transform its source of energy from heavy oil to natural coal.

12.2.2 Messebo Building Materials

Basic details. Messebo Building Materials was established in 1996 by EFFORT as a PLC with initial capital of $154,000 million. The manufacturing plant is located in the outskirts of Mekelle, a town 783 km from the capital.

The firm is engaged in the production of cement. It employs about 500 people.

Messebo is less profitable compared with its competitor Mugher. It has an average turnover of about $83 million, net profits of $25 million and an asset value of $83 million.

Background. The decision to establish Messebo was reached while EFFORT was evaluating viable investment opportunities. The growth potential of the cement industry and the absence of adequate suppliers other than the state-owned factories (Mugher and Dire Dawa) was material to the decision to establish Messebo.

Messebo became operational in 2001 with a total installed capacity of 650,000 tonnes of cement, but working at 30% capacity utilization, with 500 employees.

Current activities and products. Messebo is now operating at 140% capacity as a result of various debottlenecking and process flow improvements, and is producing about 900,000 tonnes per annum.

The firm produces two products: OPC and PPC.

Organization and management. Being part of EFFORT, which is a publicly owned endowment fund, Messebo is managed by a board.

Firm capabilities. Upon its establishment, Messebo had a large number of technical experts, particularly from Pakistan, managing production and quality control. This enabled local experts to become acquainted with the latest production and quality control technologies. This has also allowed the company to produce products, as certified by different agencies, that were well above the minimum requirement. At present there are only two of these expatriates still active in the plant, the majority of the technical positions having been filled by local employees.

Its use of the latest production technology makes the company more cost efficient, though its distant location from the central market partly offsets its cost advantage.

Its remoteness from the capital leads to high employee turnover. To overcome this problem, it has started improving its remuneration package and has established an apprenticeship programme for new university graduates.

Supply and marketing chain. The manufacturing plant is located close to its sources of raw materials. The firm uses limestone, iron ore, gypsum and sandstone and these are found within 40 km of the production site.

Furnace oil, the major energy source which accounts for 50–60% of the unit production cost, is sourced from local petroleum retailers.

Messebo had sales outlets in different regions of the country to distribute its products. Since FY2005/06, when market demand far exceeded supply, all sales have been made at the factory gate.

Recent developments. A production process re-engineering exercise was undertaken to gradually switch the energy source from furnace oil (fossil oil) to natural coal. To accomplish this, Messebo established a coal-mining company in a joint venture with a mining company from Pakistan. It has started using coal as an energy source but it is now working on improving of the quality of the coal.

A production optimization programme has enabled the firm to produce at 40% above its installed capacity.

Development agenda. Messebo is planning to increase its capacity from 2,000 to 5,000 tonnes of clinker per day which could be translated into additional production capacity of 1.4 million tonnes of cement per year.

12.2.3 Jema Cement

Basic details. Jema Cement is a private limited company and was established in 2004 by two Ethiopian nationals, a brother and sister, and has a production management contract with an Indian firm (who is managing partner for an initial five-year period). The quarry is located in the Jema area 150 km from the capital and the manufacturing plant is located in Muke Turi, between Jema and the capital.

Jema is engaged in the production of OPC.

Background. The owners have a background in the import sector, specializing in chemicals and inputs for the manufacturing sector. As they imported many of their items from India, they used their contacts to get information about cement technology, and made contact with their Indian partner firm, which had been engaged in manufacturing cement, and agreed a five-year management contract.

The owners are still engaged in the import and general trading businesses and also own a company for renting earth-moving construction machinery (mainly for road construction).

Current products and activities. Jema produces 400 tonnes of OPC daily.

Organization and management. The owners serve as the managing director and deputy managing director of the firm, responsible for the commercial side of the business. The technical and production functions are headed by the Indian managers, who have operational autonomy.

Jema employs 500 people, mostly in production and quarrying.

Firm capabilities. Due to its extensive supplier links in India, Jema hired 20 Indian expatriates for machinery installation, technical and production setup, and ongoing management and operation of the factory. Four local employees are assigned to each expatriate to learn and absorb knowledge and skills.

Jema is one of the smallest cement producers, and has a high unit production cost.

The firm has wanted to double its capacity to become more competitive, but has had great difficulty until recently in raising capital.

Supply and marketing chain. Limestone, clay and gypsum are all acquired from its own quarry, as well as pet coke (an oil derivative product used for generating energy). It sources fuel from Sudan, taking advantage of a bilateral agreement granting duty exemption.

The owners frequently travel to Sudan to place and follow up fuel orders as the suppliers often fail to meet agreed delivery times.

Jema has a wholesale and retail sales office in the capital, but buyers travel to the manufacturing plant for collection.

Recent developments. The company has recently completed the manufacturing plant for a second-phase expansion project. This will double output and employment.

Development agenda. The owners plan to focus on cement and expand their investment in the sector.

Chapter 13

STEEL, ENGINEERING AND ASSEMBLING

13.1 Sector Profile

Background and overview. The steel, engineering and assembly sector contributed 12% of manufacturing sector output in FY2006/07, and comprised 70 firms employing about 5,500 workers.

The industry has several subsectors:

1. The manufacturing of flat and long steel products (the dominant subsector). Firms in this subsector are engaged in the production of steel products that are used as an input for other industries such as manufacturing of galvanized coils and sheet, corrugated sheets, re-bars, hollow sections and cold-rolled coils.
2. The manufacturing and/or assembly of engineering products (motor vehicles and trailers, electromechanical items, industrial components, etc.).
3. The manufacturing of final steel products such as industrial hand tools, cutlery, wires and so on.

Besides these, there are large numbers of firms engaged in importing flat and long steel products, mainly re-bars, hollow sections, hot-rolled coils, cold-rolled coils and angle iron.

Due to expanding investments in infrastructure and the construction sector, flat and long steel products are in high demand. For this reason, the 13 long and flat steel manufacturers amount for about 70% of the industry's gross value of production. These firms typically operate with more than 50 employees. The end users are private and public infrastructural projects, furniture and construction companies, metal workshops and other similar establishments.

The manufacturers of final steel products are, on the other hand, larger in number, 57, but smaller in scale (except for a few), the majority employing fewer than 50 workers. The hand tools are mainly sold to industrial buyers, while some other final products such as cutlery are sold to households and hotels.

Profiles and lines of business of large firms.

1. *Flat and long steel manufacturers* are engaged in the production of galvanized steel sheets (including zinc coating), re-bars, hollow sections (rectangular, square and round pipes), galvanized pipes and other pipes, angle irons and flat bars.

   Yesu PLC was established in 2000 by two Ethiopian nationals. In addition to being a pioneer and the only producer of galvanized steel sheet in the country using hot-rolled coil[1] as raw material, the firm integrated forwards and backwards by using the scrap from steel manufacturing for re-bar production and supplying the output for its sister company for corrugated sheet manufacturing. It has 310 employees.

   Zuquala Steel Rolling Mill Enterprise is a state-owned firm established in 1997. The firm imports its basic raw material, steel billet, and is engaged in production of re-bars and round bars. The firm has 280 employees.

2. *The manufacturing of motor vehicles and trailers* (engineering products). This subsector comprises a small number of relatively large firms such as Maru Metals PLC, Mesfin Industrial Engineering and Holland Cars PLC.

   Maru Metal Industry (MMI) was established in 1983 as a simple auto workshop and maintenance service provider. It has subsequently started making auto bodies for heavy trucks, and since 1991 the firm's focus has overwhelmingly shifted to manufacturing and building in-house designed metal products. At present, the firm has become one of the largest engineering and design firms in Ethiopia.

   Its activities include the assembly of cars, trucks, trailers and cargo bodies. It also designs and produces customized versions of various types of trailers, cargo bodies, steel structures and warehouses for both the local and international building and construction industry.

   Mesfin Industrial Engineering was established in 1993 as part of EFFORT. The firm imports its major inputs from abroad and produces sheet metal, vehicle bodies and industrial components.

[1] The only other manufacturer engaged in galvanizing steel sheets is Alem Steel, but using cold-rolled coil.

In addition, it is engaged in the installation of machinery and ventilation systems.

Mesfin makes use of up-to-date design and production technologies and employs about 80 engineers. It has an annual turnover of about $20 million.

3. *The manufacturing of final steel products such as industrial hand tools, cutlery and wires.* Large firms such as the state-owned Akaki Spare Parts and Hand Tools are engaged in the production of industrial spare parts, automotive spare parts, boiler electrodes, hand pumps, cutlery and industrial hand tools such as wrenches, pliers and hammers.

Akaki Spare Parts and Hand Tools S.C. was established in February 1989 as a national metal processing factory that was intended to produce spare parts (shafts, rollers, sleeves, gears, sprockets, coil springs, sugar mill rollers, ingot moulds, armour plates, cement balls), industrial hand tools and cutlery.

Akaki Spare Parts and Hand Tools employs 545 workers. The company has an annual melting and production capacity of 4,500 tonnes, 1.6 million pieces and 600,000 pieces of spare parts, industrial hand tools and cutlery respectively.

The company uses its sales shop in the capital to distribute its product to major customers, e.g. government-owned institutions such as sugar factories, power companies, cement factories and construction companies.

Profiles and lines of business of mid-size firms.

1. *Manufacturers of corrugated steel sheets, drawn wire, etc., and office furniture.* These are firms that cut and corrugate steel sheets by importing galvanized steel sheets in coil.[2] They usually operate with fewer than 50–60 workers.

Alemgenet Trade and Industry PLC (Alemgenet Steel Factory), a division of Alemgenet Trade and Industry PLC, was founded in 2005 by Alem Fitsum with an initial capital of about $4.6 million. The owner had previously established a paper factory (Alemgenet Paper Factory) in 1995, and this led the way to the foundation of the Alemgenet Steel Factory in 2005.

[2] Except Shebel PLC, which procures the raw material from its sister company, Yesu PLC.

Alemgenet is engaged in corrugating and painting tiles (euro tiles, clay and iron), EGA sheets and corrugated steel sheets (coloured and galvanized) with a total daily capacity of about 44–55 tonnes. It employs about 50 people.

Alemgenet imports most of its raw materials from India and distributes the finished goods to domestic clients through its branch offices found at different sites in the capital. The products are mostly purchased by real-estate developers, government organizations, NGOs and individuals.

The Mohan Kothari Group is a family business, established as a trading company three generations ago. The group currently employs about 150 people. In the late 1990s it began the first of its two manufacturing businesses, producing nails and barbed wire from imported wire rod, which is drawn to various sizes. The firm has a second manufacturing business in the plastics area (see Chapter 15).

2. *Engineering companies*. Mid-size firms, such as Amio Engineering, manufacture and/or maintain industrial, electromechanical, agricultural tools, etc.

Amio Engineering PLC was established in 2000 by Ibrahim Yasin and Muzemil Mohammed (the general manager and the deputy general manager, respectively). It began with an injected capital of about $12,000.[3] It has two workshops in the capital and currently has about 40 employees.

The firm is engaged in electromechanical works for water supply, irrigation (drip, sprinkle, etc.), rural electrification, solar–wind hybrid units, small-scale hydro-power and building air-conditioning. It also undertakes design, manufacture and maintenance work for industrial and agricultural tools such as plastic injection and blow moulds, manually operated pumps, multi-crop threshers and walking tractor and handicraft products.

Amio Engineering procures inputs such as steel and corrugated iron sheet from local importers and, at times, second-hand steel products from informal markets in Merkato.

[3] Calculated at the then (2000) exchange rate of ETB8.33.

Amio sell its products to NGOs working in promoting irrigation, to farmers and to private investors, while firms producing plastics and pharmaceuticals approach the company for plastic moulding services.

Amio Engineering plans to enter the export market in the future.

3. *Manufacturers of final steel products.* A number of mid-size firms are engaged in the production and supply of nails and wires, procuring inputs from flat and long steel manufacturers. In addition, some mid-size firms manufacture office furniture.

Small-scale, informal and peripheral activities. A large number of small businesses are engaged in manufacturing office, household and school furniture.

In addition, there are a number of informal businesses that produce hand tools, such as hoes, shovels, axes, hammers and cutlery.

Supply and marketing chain. The supply chain of flat and long steel manufacturers is somewhat different from that of final steel product manufacturers.

Flat product manufacturers import their input, cold-rolled sheet in coil (except for one firm which imports hot-rolled sheet, i.e. one step back).

The long product manufacturers typically source their input from billets and scrap. Billets are imported from the international market through local agents and competitive bidding procedures. Scrap is mainly sourced from government organizations such as the Ministry of Defence. Other sources include scrap collectors who gather from individual collectors (known as kuralews).

The end users of the long products (governmental infrastructure projects, construction companies, furniture manufacturers, metal workshops and individuals) buy these final products either directly from the factory gate or from retailers.

Firms in the subsector of 'manufacturers of final steel products' source their main input (steel sheet) from domestic producers and local traders.

Export status and trends. Before FY2006/07, scrap metal and aluminium was exported; however, exports have recently been prohibited due to shortages in the local market.

Exports of metal products are negligible. For the FY2008/09, the revenue from export of a few specialized fabricated metal products was $5.34 million.

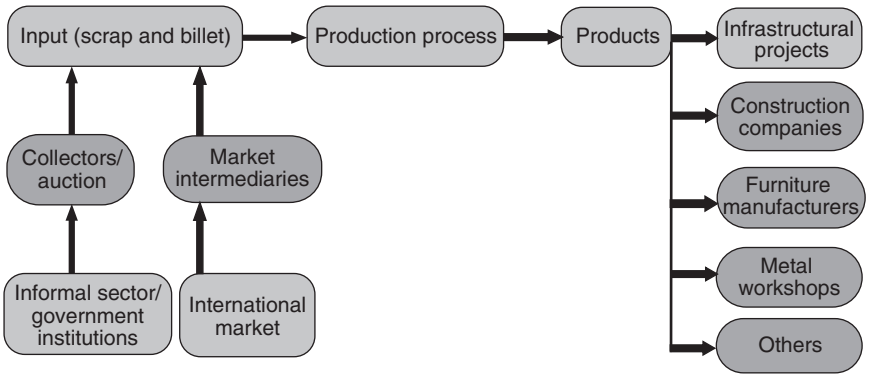

FIGURE 13.1. Supply chain: long product manufacturers.
Source: Compiled from AEBMEI study and company interviews.

Policy context. The metal and steel industry is not identified as a priority sector by the government.

According to public–private dialogue meetings,[4] the government favours local metal and steel manufacturers in supplying steel products for its construction projects.

The export of scrap was banned in 2006, when local long steel product manufacturers faced shortages of raw material.

Competitiveness. The steel industry currently operating at 45% of the capacity for flat and long steel and 65% for final steel manufacturing.

With one exception, firms in flat steel manufacturing import cold-rolled steel sheets and galvanized steel sheets, as opposed to importing hot-rolled steel in coil (which is free of duty).

Challenges.

- Competition from imported products: imports originating from countries such as China and India are supplied at lower prices, threatening the local producers. More worryingly, some imports are felt to be of substandard quality, and testing and monitoring of quality is inadequate. This problem is aggravated by the limited capacity of the Ethiopian Quality and Standards Authority (which has no laboratory facility and lacks skilled technologists).
- The presence of firms operating illegally in the industry (tax evasion).

[4] Meetings between officials from the Ministry of Trade and Industry and the Association of Ethiopian Basic Metals and Engineering Industries (AEBMEI).

- High raw material price fluctuation.
- High taxes imposed on spare parts and raw materials.
- Shortage of skilled labour and low productivity.

Rationale for selecting the profiled firms.

Flat and long steel products. Yesu was selected as the largest galvanized steel sheet manufacturer.

Zuquala was selected as the oldest re-bar manufacturer.

Abyssinia was selected as typical of the biggest re-bar manufacturers.

Engineering and assembly. Mesfin Industrial Engineering was selected as typical of the largest engineering firms in the country.

Holland Car was chosen as the first car assembly in the country.

Glorious is one of the largest electronic equipment importers, which has established a semi-assembly line for electronics.

13.2 Profiles of Major Firms

13.2.1 Zuquala Steel Rolling Mill Enterprise

Basic details. Zuquala Steel Rolling Mill Enterprise is a 100% state-owned firm located in Debre Zeit, which is about 45 km from the capital. It was established in 1997 through a proclamation of the Council of Ministers.

Zuquala is engaged in the production of re-bars and structural steel. It has about 280 employees.

In FY2006/07, the enterprise had a turnover of about $13.7 million. Zuquala Steel has an estimated asset value of about $9.8 million, 80% of which is financed by equity.

Background. The factory was constructed during the previous command regime under the Ministry of Defence to manufacture and repair battle tanks.

The current enterprise was established when the present government took power. The steel mill was purchased second hand from a South African company, along with a skill-transfer scheme during the installation and trial phase.

The mill was expected to have an annual capacity of 100,000 MT. Despite this, the maximum capacity so far attained remains 19,450 MT, as of FY2006/07.

Current products and activities. Since the restructuring of the enterprise under the current regime, the firm planned to manufacture various types of structural steel products. However, its actual production is still limited to two types of structural steel, namely re-bars and round bars.

Organization and management. Following an interruption of production in 2008/09, a new general manager was appointed. A business process review is underway.

The board of directors comprises various government officials.

Firm capabilities. The enterprise has the advantage of supplying part of the government's national construction projects, on attractive payment terms, which has enabled it to finance its operations.

The design of the mill is less cost-efficient than standard designs and has led to a slower production process and capacity wastage. Despite the availability of experienced and skilled labour, the mill's assets are deteriorating and some new machinery is considered necessary.

Despite the boost in the construction sector and increasing demand for steel, the enterprise is manufacturing below its capacity. The main reasons for this include both management problems and a shortage of imported raw material.

Prices are controlled by government, at least below market prices.

After studying the demand for angle iron and flat bars, Zuquala started producing these products on a trial basis at various times; however, it did not move into regular production.

Supply and marketing chain. The major raw material of Zuquala is steel billet, which is imported through international bid tenders. In the existing procurement processes, both local and international agents are involved. In the future the enterprise is planning to contact manufacturers directly.

Zuquala sells wholly to the local market. In the past, retail buyers purchased directly from the factory. There are plans to change this by supplying products to retailers on a wholesale basis and to withdraw from the retailing business.

Recent developments. The enterprise has managed to make necessary repairs and resume production.

Development agenda. The enterprise plans to borrow about $1.4 million for an expansion project, mainly to purchase new machinery.

13.2.2 Yesu PLC

Basic details. Yesu PLC was established in 2000 by two Ethiopian shareholders, Yohannes Sisay and Isayas Teklu (family members) in the form of a PLC. The current shareholders are Yohannes Sisay and his father, Sisay Molla. The factory is located 34 km from the capital. The shareholders, in addition, own Shebel PLC, which is engaged in the production of corrugated steel sheet.

The firm is engaged in the production of galvanized steel sheet in coil. It has about 310 employees.

Yesu has an annual turnover of about $36.5 million. This has declined by half during FY2008/09 due to power shortages. The total assets are valued at about $46.2 million, with about 64% equity. The firm is at an early stage of investment and is working at less than 25% of attainable capacity (due to power shortages), leading the firm to operate at a loss of about $4.2 million per annum.

History. The shareholders were initially engaged in general import (mainly galvanized corrugated steel sheet and building materials) and trading. Following this, they established Shebel PLC and began producing corrugated steel sheets.

The owners decided to establish Yesu PLC to create a backward integration for Shebel, in the light of the huge demand for galvanized steel sheets, and tax incentives (most raw material inputs are imported free of duty).

The firm has recently established a re-bar manufacturing mill, and is waiting for electricity supply in order to start production.

Other affiliated businesses include a land transport company called Akida PLC.

Current activities and products. The firm produces galvanized steel sheet in coil and has a total capacity of 400 MT per day. The factory is currently working at 25% capacity due to electric power shortages.

Organization and management. The factory is managed by close family members led by a general manager and deputy general manager (both family members). There are also department managers and plant managers.

Firm capabilities. Yesu is integrated both forwards and backwards. The output is supplied to its sister company for corrugated steel sheet production and the scrap from the steel sheet production is used as an input for re-bar production.

The firm is a pioneer in galvanized steel sheet production in Ethiopia.

The firm has five Indian nationals working in technical positions and has various local employees who have benefited from working alongside them.

Supply and marketing chain. Major inputs (prime hot-rolled coil, hydrochloric acid, gate flux-y, lead ingot, zinc ingot, aluminium ingot and coolant) are mainly imported from India, South Korea and Iran. All inputs, except coolant, are imported free of duty.

The firm supplies all its products to its sister company, Shebel PLC, which manufactures corrugated steel sheets.

Land transportation for input supply as well as product supply is handled by its affiliated sister company, Akida PLC.

Export. Yesu attempted to export its products to UAE in FY2004/05; however, it was not competitive in the international market and is currently selling to the domestic market only.

Recent developments. The firm has recently added a second continuous galvanized line, allowing it to double its output from 200 MT to 400 MT per day.

A re-bar manufacturing mill with an estimated annual capacity of 75,000 MT has been installed and the firm is waiting for EEPCO to establish power supply.

Development agenda. The shareholders are planning to fully vertically integrate the firm by extracting iron ore and establishing a new plant that produces hot-rolled steel from the iron ore. Land acquisition has taken place for both the plant as well as iron ore extraction and a study is being conducted by a team of consultants.

13.2.3 Abyssinia Integrated Steel

Basic details. Abyssinia Integrated Steel was established in 2001 (and started production in 2005) by two British nationals and a Kenyan national (all close family members of Indian origin) as a PLC. The factory is located in Debre Zeit, which is about 45 km from Addis Ababa. The British owners (with a third Indian shareholder), in addition, own Abyssinia Cement PLC (a mini plant, established in 2005) and Abyssinia Profiles PLC.

The firm is engaged in the production of re-bars. Its sister companies, Abyssinia Profiles and Abyssinia Cement, are engaged in the production

of angle irons and cement respectively. It employs a total of about 1,000 people in all the three firms.[5]

The firm has average annual sales of $42 million. The total assets are valued at about $30 million, and equity was reported to be $25 million.

Background. The shareholders previously owned a steel mill in Kenya and exported to Ethiopia. Seeing the relative attractiveness of the Ethiopian industry relative to Kenya (a lack of local manufacturers, except for Zuquala Steel Rolling Mill Enterprise, that could supply the very large and uncompetitive market in Ethiopia), they decided to move and shift their focus to Ethiopia.

Abyssinia Integrated Steel was established with a capital of about $3.5 million. It started with one furnace and a rolling mill (imported from Kenya) producing re-bars.

Abyssinia Integrated Steel entered Ethiopia at the time when the government's large investment in low-cost housing began, offering attractive payment terms, which enabled the company to finance its growth.

Due to a steel scrap disposal program established by the government via the Ministry of Defence, Abyssinia Integrated Steel was able to acquire its main input (steel scrap) at low prices.

Current products and activities. Abyssinia Integrated Steel has an annual production capacity of 75,000 MT of re-bars.

In the sister business, Abyssinia Profiles, angle iron and U-channel are produced with an annual capacity of 20,000 MT.

In addition to the steel manufacturing firms, Abyssinia Cement's mini plant produces cement with an annual capacity of 90,000 tonnes.

Organization and management. The top management for all the three affiliated firms is integrated into one management unit, led by a general manager (employee) supervised by a managing director (one of the owners).

Firm capabilities. The firm is run by a group that has prior experience in Kenya. A strong commitment from shareholders and an ability to manage its production schedule well are among the firm's most important strengths.

Supply and marketing chain. The major input for the steel mill, steel scrap, is purchased primarily from the government (Ministry of Defence, Ethiopian Roads Authority, etc.) and from scrap collectors in the informal sector.

[5] There used to be 1,100 employees in Abyssinia Integrated Steel PLC alone, before the power rationing.

Other imported inputs include additives to remove the impurities of the steel scrap.

The firm supplies its products to several distributors. Direct sales at the factory are also available for limited volumes. All products are collected by customers (including distributors) at the factory gate (the firm does not provide transportation).

Recent developments. The firm scaled back its operation in FY2008/09 due to nationwide power rationing, leading to unused capacity and the firm now plans to get back to normal levels of production.

13.2.4 Mesfin Industrial Engineering

Basic details. Mesfin Industrial Engineering was established in 1993 as part of EFFORT in the form of a PLC with initial capital of $1 million. The manufacturing plant is located in the outskirts of Mekelle, a town 783 km from the capital.

The firm is mainly engaged in the fabrication of sheet metal, vehicle bodies, industrial components and electromechanical items.

Mesfin has an average annual turnover of about $20 million with an asset value estimated at $25 million. It employs more than 600 permanent and about 1,000 temporary workers.

History. Mesfin was established in response to a market opportunity for an engineering company with capacity to design and fabricate electrical and mechanical products.

Current activities and products. When established, Mesfin was mainly engaged in the fabrication of sheet metal, vehicle bodies and industrial components.

The firm has since extended its activities to the design and manufacturing of underground and overground tanks, the erection and installation of machinery, and the installation of ventilation systems.

Organization and management. Major policy decisions are approved by the board of directors. The general manager has operational autonomy.

Firm capabilities. Mesfin has a modern design and production technology, and an annual production capacity more than 1,500 truck bodies.

The firm also has about 80 mechanical engineers capable of designing various industrial and transportation machinery and equipment. Mesfin is currently operating below its capacity due to lack of demand, and competition from international companies. There is still a lack of confidence among

both private and government companies in local engineering companies such as Mesfin.

The firm also engages in business and technology transfer to medium- and small-scale industry. Mesfin designs and produces prototype machines for small-scale operators to enable them to produce products on a commercial scale.

Supply and marketing chain. The major inputs of the company – sheet metals, electrical materials and axles – are mostly imported from European countries through the foreign purchase division, which uses the internet to find suppliers.

The company supplies all its products and services to the domestic market. Major customers of the company are affiliated transport, import and export and construction companies. The company also supplies products to private transport and construction companies.

Government projects obtained through competitive bidding are the only markets for its electromechanical projects.

Recent developments. The company has started to take projects on a turnkey basis including civil work, a component of which used to be outsourced to other companies. Mesfin has undertaken civil, mechanical and electromechanical work on the expansion projects of Almeda Textile and Sheba Tannery, which are both sister companies under EFFORT.

Development agenda. Mesfin plans to strengthen its involvement in turnkey contracts, both private and public.

The firm is also planning to start manufacturing pre-engineered buildings (steel structures), which used to be imported, in a joint venture with a Chinese company. It also has plans to establish a tower manufacturing and galvanization plant, and the assembly of small vehicles as of 2011.

Mesfin has begun heavy steel manufacturing by erecting a factory in Gelan, a town 20 km from the capital, to produce heavy machinery for the expanding sugar and cement industry, and railway equipment for the newly established Ethiopian Railway Corporation.

13.2.5 Holland Car

Basic details. Holland Car was established in 2005 as a PLC by two partners, Eng. Tadesse Tessema and the Dutch company Trento Engineering BV, with 50% shares each. The firm became operational with an initial capital of $3 million and 40 employees. Its assembly plant is located in Modjo, 73 km from the capital on a site of 20,000 m^2. It has about 250 employees.

Holland Car has average total assets valued at about $4 million with an average annual turnover of $5 million. The capital of the company grew from $1.4 million in 2005 to $3.3 million at the end of 2008.

History. Eng. Tadesse is a power electronics engineer by profession who worked on a development project in The Netherlands. He was engaged in exporting of second-hand cars from The Netherlands to Ethiopia, and so came to see the potential demand for mid-price cars.

As part of a development program by The Netherlands government, a partnership was created by Eng. Tessema and a Dutch company to create technology transfer.

Holland Car began production with the DOCC brand, and then shifted to another popular brand and design, ABAY, in partnership with a Chinese motor car manufacturer, the LIFAN Company. Subsequently, it introduced two other brands in partnership with another manufacturer, Anhui Jianghuai Automobile Company Ltd. (JAC).

Current activities and products. Holland Car assembles three different brands of car with an average daily capacity of 5–10 cars per day with about 250 employees.

Organization and management. Eng. Tadesse is the general manger of the company and is personally involved in foreign procurement and administration, while production activity is handled by a production manager.

Firm capabilities. Holland Car has its own R&D Department and plans to begin some manufacturing activity in the near future, possibly with new equity partners. This move has been facilitated by investment incentives provided by the Ethiopian government.

Holland Car is currently fully dependent on external suppliers of components and parts. To avoid risk, the firm has diversified into several brands in partnership with different suppliers.

Supply and marketing chain. Auto components and parts are sourced directly from manufacturers in China. A few components and supplies, such as car paint, are acquired locally.

The firm uses direct sales and its own showrooms to market its products.

Development agenda. Holland Car is currently planning to introduce a new brand (Cassiopia).

The general manager is planning to acquire full ownership of the company by acquiring the ownership share of the other partner.

A possible production shift from cars running on petrol to cars running on bio-gas has been examined.

The company is in the process of moving from its current SKD assembly technology to a more efficient system in collaboration with JAC.

In the medium term, Holland Car has plans to start assembling other vehicles, such as mini-vans.

13.2.6 Glorious

Basic details. Glorious PLC was established in 1974 as a partnership by two Ethiopian brothers, Abdulsemed Ibrahim and Saad Ibrahim. It was restructured into a PLC in 1996.

Glorious is engaged in the import and trading of electronics, household appliances and furniture. In addition, the firm is engaged in SKD assembly of TVs, radios and stereo players from imported components. It has about 225 employees.

Background. The founders were previously local merchants in the Harar region, about 526 km from the capital. They moved to the capital and bought Nitin and Ishwar, a Toshiba agency owned by Indian nationals, in 1985.

The business was primarily engaged in the trading of small-scale electrical items and local music recordings, and had five employees. When the current government took power, restrictions on consumer electronics that existed during the communist regime were removed and the founders took advantage of the resulting opportunity.

Glorious recently established an electronics assembly line with a capacity of 200 TVs per day and performs basic assembly of TVs, radios and stereo players.

The shareholders and two other local minority investors also own 46.5% of Euro Cable PLC jointly with Demes Kablo, a Turkish company.

Current activities and products. Glorious is engaged in the import and trading of electronics, assorted electrical items, household appliances and furniture.

In addition, the firm is engaged in the assembly of TVs, radios and stereo players from imported components.

The firm is also engaged in the export of sesame seed.

Organization and management. The management team is composed of the founders, serving as managing director and deputy managing director. Most decisions are made by the founders.

The marketing and servicing and maintenance departments are managed by other family members.

Firm capabilities. The firm developed the technical expertise of its shop floor workers via training provided by its suppliers. The firm is a sole agent of Sony and other well-known brands.

Supply and marketing chain. The components are imported from China, Japan, India and Asian countries.

The firm markets its assembled products through its seven retail outlets in the capital, and wholesales to other resellers in the capital and other major towns.

Recent developments. The firm has been affected by the halting of CRT TV production by Sony as of April 2009. It has been taking measures to compensate for this by increasing the supply from other brands.

Development agenda. The firm plans to upgrade and advance the technical capacity of its assembly line and to enhance the expertise of its technical personnel so that it can fully assemble most electronics items.

Chapter 14

PHARMACEUTICALS

14.1 Sector Profile

Background and overview. The Ethiopian pharmaceutical industry currently consists of 13 pharmaceutical and medical supply manufacturers; about 10 of these produce pharmaceuticals while the rest are engaged in producing medical supplies such as syringes, absorbent cottons and lab equipment. Almost all of these companies are owned by Ethiopian nationals.

The industry is very small in size and has limited capacity; it serves only a small part of the domestic market (less than 20%) while imported drugs cover the rest of the market. Most of the imports consist medicines for tuberculosis, HIV/AIDS and malaria; the procurement process is administered by the Ministry of Health. In 2008, about $190 million worth of drugs were imported (Customs Authority).

More than 100 types of medicines, mainly generic, are produced in Ethiopia.

The Ethiopian pharmaceutical sector is supported by the Engineering Capacity Building Program (ECBP) – a joint project by the Ethiopian government and the German development cooperative, GTZ. The ECBP supports manufacturers, institutions and associations in regard to the transfer of qualifications and know-how, as well as providing contacts to international buyers and investors.

There are 112 importers and wholesalers registered by the Drugs Administration and Control Authority and 3,228 drug retailers (pharmacies and drug stores) registered in the country.

Pharmaceutical manufacturing is not a relatively attractive area for investors in Ethiopia, since there are, quite appropriately, stringent regulatory controls, and very high technical standards need to be met. The sector has been in difficulty over the past five years and four companies[1]

[1] ETAB Syringe factory and three IV fluid manufacturers (Biosol PLC, Bethlehem Pharmaceutical, Lifeline).

were foreclosed by two state-owned banks for failure to service their loan obligations.

The largest buyer of pharmaceuticals is the government's Pharmaceutical Fund Supply Agency, which is answerable to the Ministry of Health.

Profiles and lines of business of large firms. Ethiopian Pharmaceutical Manufacturing and Addis Pharmaceutical Factory are the largest and oldest firms, and produce various medicines in relatively large quantities.

Ethiopian Pharmaceutical Manufacturing (EPHARM) was established in 1972 as a public company by the Ethiopian government and investors from England. The firm employs about 570 employees. It has eight product lines and produces 50 products.

Addis Pharmaceutical Factory was established in 1992 as a share company in Adigrat, 898 km north of Addis Ababa. The firm produces various types of tablets, capsules, vials, ampoules, syrups, suspensions, elixirs and dermatological preparations. It has about 600 employees.

Profiles and lines of business of mid-size firms. Most of the firms in the pharmaceutical industry fall in the mid-size category, with numbers employed ranging from 50 to 150.

East African Pharmaceuticals (EAP) PLC is a wholly-owned British–Sudanese joint venture, which was registered in Ethiopia in 1996 with an initial capital of $500,000 and which started production in 1999. The founders are from East African Holdings, UK, and other shareholders are from the United Kingdom, Sudan and the United States. As of 2010, it employs 124 people.

EAP was the first company to manufacture veterinary medicines and has been producing solid dosage forms of medicine for the human and veterinary health sectors. Major inputs such as APIs, excipients, laboratory chemicals, foils (printed), PVC (rigid), HDPE containers, as well as boxes and export cartons are usually imported from China, India and Europe.

EAP supplies both the private and public sectors. Public sector sales are by tender. Private sector sales are made via wholesalers who distribute throughout the country.

The company has been exporting to neighbouring African and Middle Eastern markets since 2004. It envisages that 55% of its output will, in the medium term, be consumed domestically and 45% will be exported.

Sino Ethiop Associate (Africa) PLC was established in 2001 as a strategic partnership between two Chinese Companies (China Associate Group and the Dandong JINWAN Group) and an Ethiopian Company, ZAF Pharmaceuticals PLC. The company started production in 2003 and is mainly engaged in producing EHGCs.

Sino was certified as conforming to PIC/S, and was the first firm to be recognized in this way, and this helps its export activities. Sino exports 30% of its products to African and Middle Eastern countries and has 114 employees.

Asmi Pharmaceuticals PLC was established in 1995 by Asmelash Gebre, who also acts as a general manager, with an initial capital of about $0.48 million. It is engaged in producing medical supplies, surgical dressing materials and antiseptic disinfectants. It employs about 40 people.

Recently, it has started producing packaging materials for medicines such as bottles, which were previously imported. Some 20% of the inputs such as APIs for disinfectants and bandage clips are imported (mainly from India and Europe) and the rest are bought in the domestic market.

The company sells 80% of its products to the state-owned PFSA and the remaining 20% is distributed through wholesalers in the private sector.

Supply chain. More than 90% of the inputs used for producing pharmaceuticals are imported. A few inputs, such as sugar (used for syrup production), are locally procured. Raw materials account for 40% of total costs.

Most pharmaceutical firms import from European suppliers, who buy from Chinese and Indian firms and sell on smaller quantities with assured quality certification.

Most packaging such as PVC and bottles are imported, except for carton packaging, which is manufactured domestically. Asmi Pharmaceutical produces bottles for its own use.

Export status, trend and potential. In FY2008/09, about $0.24 million (ETB2.5 million) worth of empty capsule and about $1,330 worth of animal medicines were exported. Ethiopia is a net importer of pharmaceuticals, with about $190 million of imports in 2008 (Customs Authority).

Policy context. The government of Ethiopia identified the sector as one of its strategic sectors, after manufacturers in the sector appealed for support.

The industry is administered and controlled by the Ethiopian DACA; it started its operation in 2008/09. The authority ensures the safety, efficacy

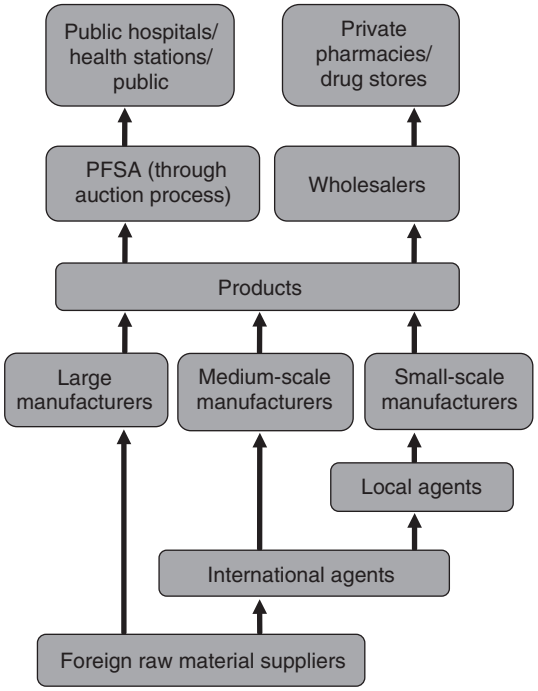

FIGURE 14.1. Pharmaceuticals supply chain.
Source: Compiled from expert interviews.

and quality as well as the proper use of the drugs that are made available in the country. DACA issues certificates of competence to manufacturers, wholesalers and retailers.

All manufacturers exporting pharmaceutical products (both raw materials and finished products) to Ethiopia are required to be registered with DACA and to meet the standards set by the authority.

Pharmaceutical manufacturers were recently exempted from duty tax payment on 80% of their imported raw materials (previously they used to pay up to 35% duty tax on all imported materials). The manufacturers have asked the government to extend the range of exemptions to cover packaging materials.

The government[2] gives preferential treatment to local manufacturers in its own procurement, and has put in place a system of paying a 30% advance in respect of payments.

[2] The Ministry of Health (Pharmaceutical Fund Supply Agency).

The main government offices that are working closely in supporting the pharmaceutical sector are MoTI, MoFED, MoCB, the National Bank of Ethiopia and the Development Bank of Ethiopia. The improvement programme is also strongly supported by GTZ, the German support programme, through its engineering capacity building programme.

Competitiveness.

Huge reliance on imported inputs. Almost all local production of medicine in Ethiopia is limited to secondary manufacturing that involves combining various active ingredients and processing bulk medicines into dosage forms. This exposes the firms to a high level of foreign exchange risk and long lead-times for raw materials.

Small scale of production. Most pharmaceutical manufacturers have a low level of capacity compared with their foreign counterparts (diseconomies of scale).

Challenges. Most pharmaceutical manufacturers in Ethiopia operate at an average of 30% of capacity.

Access to finance. The sector has a poor credit reputation among banks in the past due to its lack of competitiveness against imported medicines. As a result, banks have become reluctant to lend to the sector.

High production costs. The acquisition and absorption of pharmaceutical technology is costly and requires a lengthy period of capability building. Finding skilled personnel (pharmacists and chemists) is difficult and costly.

Rationale for selecting the profiled firms. EPHARM and APF have been selected as the largest pharmaceutical firms.

14.2 Profiles of Major Firms

14.2.1 Addis Pharmaceuticals Factory

Basic details. Addis Pharmaceuticals Factory (APF) is one of the largest and most technically advanced pharmaceutical plants in Ethiopia. It was established in 1992 with an initial investment of $30 million and is located in Adigrat, 898 km from the capital.

The firm started its operation in 1997 with a major shareholding of EFFORT.

APF currently produces various types of tablets, capsules, syrups, ointments, dry suspensions and vials. It has a total of 582 employees.

APF generated annual revenue of about $20 million in FY2009/10.

History. EFFORT has been engaged in various business sectors in Ethiopia since 1992; the endowment fund decided to engage in the pharmaceuticals sector by establishing APF in order to tap a very large domestic market by producing good quality medicines and selling them at a fair price.

Upon its establishment, APF was engaged in producing various types of medicines in nine production lines.

Current activities and products. APF currently produces various types of tablets, capsules, syrups, ointments, dry suspension and vials using 10 production lines.

The firm has developed 96 product types, of which 46 are registered with DACA. Close to 50 products have been marketed by the firm, but only 20 of them have proved to be viable.

Organization and management. APF is led by a general manager and deputy general manager under whom there are various sections directly accountable to the deputy general manager.

For high-level strategic and expansion decisions, executives of EFFORT and the other two partner companies are all involved.

Firm capabilities. APF has 46 product types registered at DACA. The firm uses high quality machinery and equipment imported from western Europe.

There is an active policy of training and promoting junior staff within the firm, and APF benefits from a very high sense of ownership and commitment from its employees.

APF has increased its annual sales from $3.4 million in FY2006/07 to $9.6 million in FY2007/08.

The firm is ISO Certified company.

Supply and marketing chain. Most of the factory's inputs (98%) are imported, while water, sugar and some packaging materials are procured locally. Its raw material imports are mainly supplied from a Chinese supplier through a local agent. In addition, it has shortlisted regular suppliers who meet the government standards, and who supply the firm with or without a tender process. The firm predominantly deals directly with manufacturers instead of dealers.

In procuring sensitive raw materials and in making bulk purchases, a technical evaluation team is sent to the manufacturer to ensure the reliability of the supplier.

APF fully supplies all its output to the local market. Approximately 70% is sold to the state-owned PFSA on an open tender basis. In addition, it distributes its products to licensed wholesalers through its four wholesale outlets.

Recent developments. The firm has been operating in a single production shift and utilizing less than 30% of its capacity for more than 10 years due to competition from imported medicines. Capacity utilization has now reached 77% due to improvement of internal production capability, strict control of substandard imported products by the regulatory authorities and improvements in government support for the pharmaceutical sector.

APF has horizontally integrated by acquiring Lifeline Pharmaceutical Factory, a bankrupted IV fluid manufacturer, in order to enter the potentially lucrative IV fluid market. In addition, they plan to produce anti-TB, anti-malaria and antiretroviral medicines.

14.2.2 Ethiopian Pharmaceuticals Manufacturing

Basic details. Ethiopian Pharmaceuticals Manufacturing S.C. (EPHARM) was established in 1964 by investors from England and the then Imperial Government of Ethiopia.

EPHARM produces more than 50 varieties of medicines, employing about 570 people.

The firm has an annual revenue of about $10 million, all from the domestic market.

History. EPHARM has seen frequent changes in its ownership structure in the past. It initially operated under the joint ownership of the Imperial Regime and an English company called Smith & Nephew. In 1970, an agreement was signed between the Imperial Government and TEVA, Jerusalem with the Ethiopian Government holding 51% of the shares. Later, during the communist regime (for 17 years), it was fully nationalized and continued to operate as the sole producer of medicines in the country.

Following the downfall of the communist regime, the factory was established as an independent public enterprise in 1994 and fell under the supervision of the Ethiopian PPESA. In 2002, it was reorganized as Ethiopian Pharmaceuticals Manufacturing Share Company.

Current activities and products. Currently, EPHARM has eight product lines and is engaged in the production of about 50 varieties of medicines for the local market.

Organization and management. The firm is headed by a general manager, who makes all major decisions, and oversees nine departments, each having their own operational manager.

Firm capabilities. The greatest asset of EPHARM is its reputation as a state-owned supplier of quality products sold at affordable prices.

EPHARM has succeeded in getting an ISO 14001:2004 based EMS certificate.

The factory is equipped with state-of-the-art machinery. It is now building the capability of its technical staff with the support of international development agencies.

Supply and marketing chain. Almost all the inputs used in the production process are imported from abroad through open tender. In response to the requirement set by WHO to get a GMP certificate, the factory is obliged to use only approved suppliers.

The primary packaging materials, which have direct contact with the product, are imported from abroad, while secondary packaging materials are procured from various local suppliers, predominantly state-owned.

At present, EPHARM supplies all of its production output to the local market using both private and state-owned (the PFSA) intermediaries. The latter accounts for 65% of total demand, and distributes the products to government hospitals and health stations.

Development agenda. The firm is in the process of leasing land in Sebeta (a town in the Oromia region), 25 km from the capital, to establish an expansion plant. The marketing study is fully completed, complementing the feasibility study which is expected to be completed in the last quarter of 2010. This project is expected to boost the production capacity of the firm by 400%. Upon completion of its new production plant, the firm plans to export products to neighbouring countries.

Chapter 15

PLASTIC AND RUBBER

15.1 Sector Profile

Background and overview. The plastic and rubber sector in Ethiopia is at an early stage of development.

One large state-owned firm, Ethiopia Plastic PLC, produces a wide range of products such as poly products, electric wires and cables, PVC products, plastic boots and household products. There are a number of other state-affiliated joint venture firms that are engaged in the manufacturing of high pressure water pipes and entirely supplying to the government.

Two large firms produce tyres: Matador-Addis Tyre and Ethiopian Tyre and Rubber Economy Plant.

There are many mid-size firms, often affiliates of mid-size firms in the steel, engineering and assembly sector, that produce specialized plastic products.

There are about 600 small manufacturers, each employing fewer than 20 employees. Many of these operate with one or more plastic-moulding machines, producing household utensils, furniture, construction items and plastic containers.

Profiles and lines of business of large firms.

Ethiopia Plastic Share Company was established in 1952 by foreign and Ethiopian investors and was later nationalized. The firm currently produces a wide range of plastic products such as electric wires and cables, flexible and rigid conduits, PVC pipes, poly sheets, etc. It employs about 300 workers.

Matador-Addis Tyre Share Company was established in 2004 as a joint venture between Matador, a tyre manufacturer based in the Slovak Republic, and Addis Tyre, a state-owned manufacturer of tyres in Ethiopia. It produces various types of tyres under two brands: Matador and Addis. It employs about 790 people.

Profiles and lines of business of mid-size firms.

Excel Plastics PLC was established in 1993 by two shareholders, Tenna Kebede and Wondwossen Ketema with an initial capital of $260,000.[1]

It is engaged in the production of industrial containers, construction pipes, waterlines and household products. In addition, it imports (mainly from Italy and UAE) and distributes pipe fittings and adhesives. It employs about 170 people (150 permanent and 20 temporary).

About 95% of the firm's inputs, such as chemicals and fuel by-products, are imported from Thailand, Saudi Arabia and UAE.

The plastic pipes are used in the domestic market for water distribution, irrigation, drainage, sewerage, construction, carrying industrial chemicals, telecommunications, electrical installation systems and for household purposes.

Unique Plastic Industry was established in 2005 by Ali Buser Ahmed as a sole proprietorship with an initial capital of about $212,000. Prior to its establishment, Ali owned Kongo Plastic Shoe Factory for about five years and was engaged in the production of plastic shoes. It has about 70 employees.

Its main products are conduits for water supply and drainage, plastic pipe fittings, small plastic containers and cups and lids for cosmetics.

The major inputs, such as HDPE, PVC and LDPE, are imported from Thailand and the Far East, while colouring material is purchased locally.

Unique Plastic sells 75% of its products directly to wholesalers and the remaining 25% to retailers.

Mohan Kothari Group is active both in metals (see Chapter 13) and in plastics. It produces EVA, a chemical used by the footwear industry, using imported co-polymer as raw material. The business offers an interesting illustration of successful import substitution. The most likely international competitors are India and China, both of whose companies import most of their co-polymer raw material from abroad, thus ensuring a level playing field vis-à-vis imported EVA. Moreover, the final product, EVA, is unstable with respect to changes in climate, so that a local producer has a natural advantage over imports.

Supply chain. Almost all inputs for the production of plastic materials are imported from the Far East and the Middle East, often via bidding systems. In FY2006/07, imported inputs accounted for more than 98% of the total cost of inputs.

[1] Calculated at the then (1993) exchange rate of ETB5.77.

Plastic products are produced using three types of production technology. The injection method is used to produce plastic plates and other household plastics, blow moulding is used for the production of plastic containers, and extrusion is used to produce plastic pipes, construction plastics and laundry plastics.

The products are marketed through sales shops at the factory gates, through wholesalers and retailers. Small market centres located in almost every village serve as an important outlet in rural areas.

Policy context. The plastics industry is not a priority sector of the current government, whose development plans and strategies are geared towards export promotion.

In FY2008/09, the export of scrap plastic was banned to promote local manufacturers.

Competitiveness. Local firms are not competitive in terms of product variety and quality.

Challenges.

Lack of access to government projects. Most governmental sectors prefer to import plastic materials for public infrastructure rather than buy from domestic producers.

Substandard quality imports are said within the industry to pose a problem. Checks on the quality of imported products are inadequate, according to local firms.

Poor production technology. Many of the factories in the industry do not meet international safety and environmental standards.

Lack of local skilled personnel. The lack of colleges or training institutions that educate professionals in related fields poses a problem in recruiting skilled personnel.

Rationale for selecting the profiled firms. Ethiopia Plastic was selected as one of the largest and oldest businesses in the sector.

15.2 Profiles of Major Firms

15.2.1 Ethiopia Plastic Share Company

Basic details. Ethiopia Plastic Share Company was established in 1952 by foreign investors and some Ethiopian nationals, and was later nationalized.

The current products of the firm include electrical wires and cables, HDPE and PPR pipes, polythene products, PVC pipes, poly sheets, flexible and rigid conduits and plastic boots. The firm employs about 380 employees.

The firm operates with a capital of about $2.8 million (ETB35 million) and generates average annual sales revenue of about $10 million (ETB125 million).

History. The share company has been through various structural changes since its establishment.

It was nationalized and fully transferred to state ownership in 1974. In 1992, it gained its current structure as a share company.

The firm's products were initially limited to pipes, electric wires and household materials.

Current activities and products. Ethiopia Plastic has not only increased the production capacity but has also increased its product lines. It currently produces electrical wires and cables, polythene products, PVC pipes, HDPE and PPR pipes, poly sheets, flexible and rigid conduits, and plastic boots.

Organization and management. The firm is headed by a general manager, to whom several process officers report. According to a BPR plan the company adopted recently, operational decisions can be made either at the team level or by process officers. Only major decisions on strategic issues are forwarded to the general manager.

Firm capabilities. Ethiopia Plastic is a reputable manufacturer known locally for supplying high quality plastic products.

Ethiopia Plastic has attained ISO 9001-2008 certification.

Supply and marketing chain. The firm imports its major raw materials from China and the Middle East, through open tender. However, for some inputs such as copper and metal the firm enters into a one-year contract with a supplier.

Ethiopia Plastic mostly uses contractual sales to market its products to state-owned enterprises, such as the Water and Sewerage Authority and the Housing Development Agency. Other customers buy directly from the factory.

Development agenda. To reap the benefit of the construction boom in the country, Ethiopia Plastic has plans to upgrade its machinery and increase its production capacity. In addition, it has plans to engage in the export business.

Chapter 16

GLASS

16.1 Ethiopia Hansom International Glass PLC

Basic details. Ethiopia Hansom International Glass PLC was established in 2007 jointly by two shareholders: CGC Overseas Construction Ltd and China–Africa Development Fund (CAD). The company's investment capital is more than $25 million.

The firm is the only manufacturer of glass in East Africa and is located in the capital. It is engaged in producing sheet glass products and further processing of glass production including tinted glass. It has about 260 Ethiopian and 30 Chinese employees.

The firm produces clear sheet glass products to meet the domestic requirements in Ethiopia, but also exports the glass to other neighbouring countries.

History. CGC has been involved in various kinds of construction, import and export businesses in Ethiopia since 2002.

The Ethiopian government requested the CGC to reinvest part of their profit within the country in the manufacturing sector, which resulted in the two firms joining and establishing Ethiopia Hansom Glass after conducting a feasibility study and market analysis in Ethiopia and East Africa.

Current activities and products. Ethiopia Hansom produces clear sheet glasses at about 80% of its designed capacity (full capacity is 120 tonnes per day) and sells to both the domestic and export markets.

Organization and management. The firm is controlled by its two shareholders in China, while the general manager handles the management of the plant in Ethiopia. Under the general manager, there are departments such as production, marketing, human resources and purchasing. A board consisting of representatives from CGC and CAD makes major decisions.

Firm capabilities. The glass factory's designed annual production capacity is 42,000 tonnes, and this is three times more than the size of the domestic market in Ethiopia. It is currently operating at a loss and selling its products at a price lower than the cost, because the firm suffers from high competition from importers.

Supply and marketing chain. More than 80% of the firm's raw material requirement is met locally. The main raw materials are silicon sand, limestone, feldspar and dolomite, all procured locally.

The output from the state-owned soda ash factory is not enough to meet the firm's demand, which leaves it with a cost disadvantage, since it is importing part of its soda ash requirements from China. The firm has several suppliers for most of its inputs, and has its own quarry for silicon sand around Muka Turi, 80 km from the capital.

Fuel costs currently amount to around half of total costs.

The firm's clients include the Ethiopian government (for its housing project) and local glass distributors (who are mostly ex-importers of glass), glass retailers and contractors.

Export. Ethiopia Hansom exports some of its products to northern Sudan and Djibouti. Yemen and Kenya are also being considered as potential export markets. The firm also plans to export to some other countries through Djibouti port and is investigating that aspect.

The export sales are made at a loss.

Development agenda. A discussion is planned between the Ethiopian and CGC about the firm's problems, especially those related with market and production problems.

ANNEXES

ANNEX 1. Flower varieties: roses.

1. Red calypso	25. Sun beam	49. Wild calypso
2. Trix	26. Apricot	50. M. cabiv
3. Poem	27. Daet	51. Red one
4. Pistache	28. Shanti	52. Boing
5. Viva	29. High fantasy	53. Utopia
6. Chelsea	30. Pasha	54. N-joy
7. Tucan	31. Tropical Amazon	55. Yabadadu
8. Golden gate	32. Duo Unique	56. Happy hour
9. Shan	33. Aqua	57. Aketo
10. Jupiter	34. Kerio	58. New vision
11. Duett	35. Trachota	59. Discovery
12. Tycan	36. High society	60. Treasure
13. Olympia	37. Sun light	61. Red Giant
14. Kalahari	38. Versillia	62. Folis harrow
15. Top sun	39. Bibi	63. Red corvette
16. Kiwi	40. Radio	64. Senna
17. Soraya	41. Stereo	65. Moon
18. Indian sunset	42. Lovely red	66. Circus
19. Azafran	43. Black bacara	67. Aloha
20. Charleston	44. Bolero white	68. Kingfisher
21. Eltero	45. Sweet candy	69. Milva
22. Red champ	46. Sunny	70. Charity
23. Orange unique	47. Amsterdam	71. Pashmina
24. Jolly wood	48. Marie claire	72. Jossy

Carnation		
1. Ciabanco	5. Olympia Orange	9. Donatello
2. Jury	6. Marco	10. Melody
3. Express	7. Fantasy	11. Delfai
4. Darkcio	8. Sergo	12. Sergo roso

ANNEX 1. Flower varieties (*cont.*): cuttings.

Geranium	*Uprooted cuttings*
1. Zonal	1. Pelargona (Geranyium) – with more than 40 types
2. Ivies	2. Poinsettia – 25 types
3. Coscades	*Chrysanthemum Anastasia*
Budding cuttings	1. Anastasia green
1. Verbfivas	2. Anastasia pink
2. Petunias	3. Anastasia sunny
3. Calibrachoas	4. Delianne white
4. Penstemon	5. Zembla sunny
5. Argysranthemum	6. Delianne yellow
6. Lobelia	7. Orange managua
Budding plants	
1. Perennials – 100 types	

ANNEX 1. Flower varieties (*cont.*): field flowers.

Hypericum	*Hypericum*
1. Cocomax	1. Red ball
2. Cochcherry	2. Deep red
3. Cocobellina	3. Apricot
Hypericum	4. Lily
1. Black	5. Aster
2. Giant	6. Cypsophila
3. Red	7. Limonium
4. Beauty	8. Gypsophila
5. Excellent Flair	9. Limonium
6. Coco series	10. Amimi
Carnation	11. Motthiola
1. Gigi	12. Summer plants and lilies
2. Delphi	*Gypsophilia*
3. Olympia	1. Hora
4. America	2. Bambino
5. Sikkim	

ANNEX 2. National seed cotton production.

		Average 1996/97 to 2000/01			Statistics for 2006	MoARD Planning 2008		
	Producer	A (kha)	Y (t/ha)	P (kt)	A (kha)	A (kha)	Y (t/ha)	P (kt)
1.00	Total state farms	12,560	2.08	26,107	11,200	15,600	1.71	26,670
1.01	Tendaho (Lower Awash)	5,360	1.70	9,112	4,000	5,000	1.70	8,500
1.02	Middle Awash (MAADE)	4,450	2.60	11,570	4,450	Privatized		
1.03	Upper Awash	1,000	2.10	2,100	1,000	1,100	2.20	2,420
1.04	North Omo	1,500	2.00	3,000	1,500	2,500	2.10	5,250
1.05	Abebo	250	1.30	325	250	7,000	1.50	10,500
2.00	Private commercial farms	18,150	2.50	45,455	24,000	21,200	2.61	55,290
2.01	Amibara (Middle Awash)	6,000	2.90	17,400	—	6,000	2.90	17,400
	MAADE	—	—	0	—	3,000	2.90	8,700
2.02	Awassa Textiles	—	—	0	—	—	—	0
2.03	HIWAT (West Tigray/rainfed)	2,500	1.00	2,500	—	2,500	1.20	3,000
2.04	Arbaminch Textile	—	—	0	—	—	—	0
2.05	South Omo	2,500	2.50	6,250	—	2,700	2.70	7,290
2.06	Others	7,150	2.70	19,305	—	7,000	2.70	18,900
		—	—	0	—	—	—	—
3.00	Small holders	11,650	0.80	9,320	38,000	46,500	0.90	41,850
3.01	Humera zone	4,000	0.80	3,200	11,000	—	—	—
3.02	Metama zone	4,000	0.80	3,200	23,000	15,000	0.90	13,500
3.03	Gambella State	1,000	0.80	800	1,800	25,000	0.90	22,500
3.04	Southern State (Omo Valley)	1,000	0.80	800	1,200	2,000	0.90	1,800
3.05	Other regions	1,650	0.80	1,320	1,000	2,000	0.90	1,800
		—	—	—	—	2,500	0.90	2,250
4.00	National Total	42,360	1.91	80,882	73,200	83,300	1.49	123,810

A, acreage; Y, yield; P, production. *Source:* Schütz, R. 2008. Cotton sector analysis and support project to out growers, GTZ/Ethiopia. Unpublished Report.

ANNEX 3. Capacity utilization of tanneries in Ethiopia.

Factory	Working days/year	Tannery installed capacity (Skin pieces/ year)	Sheepskin actual processed (pieces/year)	% of total
Addis Ababa region				
Addis Ababa	259			
Elico	250	4,250,000	1,853,200	43.6
Dire	280	1,680,000	720,000	42.9
Walya	290	1,160,000	468,000	40.3
Batu	300	1,200,000	40,000	3.3
Oromiyya region				
Modjo	275	2,337,500	349,645	15.0
Ethiopian Tannery	302	3,020,000	2,427,714	80.4
Hafede	300	1,350,000	893,520	66.2
Shoa	280	574,000	564,774	25.2
Hora	290	1,305,000	577,954	44.3
Bale	287	574,000	64,800	11.3
Kolba	290	1,305,000		
Tikur Abaye	316	1,422,000	135,985	9.6
Amhara region				
Bahir Dar	300	1,500,000	223,100	14.9
Debre Birhan	300	12,000,000	422,306	3.5
Dessie	280	1,680,000	500,000	29.8
Kombolcha	282	1,269,000		
Mersa	90	2,900,000		
Abeya	300	900,000	174,968	19.4
Tigray region				
Sheba	290	1,450,000		
Total		32,742,500	9,415,966	28.8

Source: Global Development Solutions 2006. Value chain analysis for the skins and leather sector in Ethiopia. Unpublished Report.

ANNEX 4. Benchmarking sheepskin production.

	Ethiopia	Tanzania	Zimbabwe	Sudan	Senegal
Sheep population	17,000,000	3,521,000	610,000	48,000,000	4,700,000
Off take ratio	40%	$> 25\%$	30%	$< 10\%$	N/A
Skin collection	Unorganized	Unorganized	Organized	Abattoir, popular markets, community back yard	Official slaughtering places
Slaughtering	Traditional	Traditional	Flaying (mechanical)	Flaying (krives and machine)	Flaying (krives and machine)
Quality-based pricing system	No	No	Yes	No	No
Fresh skin production (M)	10,080	2,580	88	22,500	3,211
Dry salted skin exports (M)	2,888	—	—	275	10
Dry salted skin exports ($)	24,366,000	—	—	1,520,000	25,000
Price of skins exports ($M)	$8,436,98	—	—	$5,527.27	$2,500.00
Breed type	Local nomad	Local nomad	Selective semi-commercial farm	Local nomad	Local nomad
Breeding practice	Semi-nomadic	Nomadic	Raising	Semi-nomadic	Nomadic
			Quality problems tanneries		
No. of tanneries (Operational/non-operational)	20/16	5/3	8	17	na
Capacity utilization	48%	20–30%	70%	na	66%
Production	Wet blue to finished leather	Raw and wet blue	Wet blue to finished leather	Wet blue to finished leather	Raw and wet blue
Grade ($\geqslant$ Grade 2)	8%	30%	na	60%	na
Sample Prices (Wet blue $/dozen**)	$3800	$27.00	na	$41.50	na

ANNEX 5. Category and grades of building construction firms.

Category	Grade	Contract value permitted ($)
General and Building Contractor	1	$> 1,666,667$
General and Building Contractor	2	Up to 1,666,667
General and Building Contractor	3	Up to 1,250,000
General and Building Contractor	4	Up to 833,333
General and Building Contractor Specialized Contractors	5	Up to 416,666
General and Building Contractor Specialized Contractors	6	Up to 208,333
General and Building Contractor Specialized Contractors	7	Up to 83,333
General and Building Contractor Specialized Contractors	8	Up to 41,666
General and Building Contractor Specialized Contractors	9	Up to 20,833
General and Building Contractor Specialized Contractors	10	Up to 8,333

Source: Ministry of Works and Urban Development (2007) as cited in W. J. Mengessha 2007, Operating environment for the Ethiopian building construction sector. Unpublished Report.

ANNEX 6. Ethiopian cement capacity expansions.

Project name	Planned yearly production capacity (tonnes)	Factory location
Jema Cement PLC	Phase II: 120,000 Phase III: 60,000	Meki Turi, North Shoa, Oromiya
Ture Dire Dawa Cement Factory S.C.	300,000	Dire Dawa Melka Jebdu
East Cement PLC	750,000	Fiche, North Shoa
Mugher Cement Expansion Project	1,400,000	Mugher and TaTek
National Cement new project	900,000	Dire Dawa
Derba MIDROC (main project)	2,300,000	Derba, North Shoa
Messebo Cement Factory	1,400,000	Mekelle
Ethio Cement PLC	857,143	Sululta Chancho
North Holding PLC	7,800,000	Dejen, East Gojjam
Sunrise Industrial PLC	3,000,000	Ejjare (North Shoa) Minare (Meta Woreda, West Shoa)
Star Business Group	1,200,000	North Shoa, Gebre Guracha
Chamo PLC	500,000	Fiche, North Shoa
MYK PLC	450,000	Bekuyu, North Shoa
Dangote Industries PLC	2,500,000	Enchini Woreda, near Mugher
Falat Petroleum	750,000	Dire Dawa, Melka Jebdu
Hilmat	Not verified	Goha Tsion, North Shoa
Imar-Pack Cement Factory PLC	Not verified	Dire Dawa
Ethio-Korean PLC	Not verified	Not known yet
ERR PLC	Not verified	Not known yet
BMBM Cement Technology PLC	1,600,000	Dire Dawa
Lafarge Cement PLC	Not verified	Gebre Guracha, North Shoa
Jiangshan Cement	250,000	Dukem, East Shoa
Habesha Cement	1,200,000	Holeta, East Shoa
Huwaei PLC	150,000	Near Nazareth

Source: Ministry of Trade and Industry (2009) as cited in Access Capital Sector Update: Cement.

IGC International Growth Centre

The International Growth Centre offers independent advice on economic growth to governments of developing countries. Based at the London School of Economics and in partnership with Oxford University, the IGC is initiated and funded by the UK Department for International Development.

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The IGC is directed by a Steering Group consisting of an Executive Director in collaboration with a Deputy Executive Director and two Academic Directors, one from the London School of Economics and one from Oxford University.

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