An

Enterprise Map

Of

Ethiopia

Growth Week 2010

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Motivation

- Lack of adequate and uniform description of the capabilities of existing enterprises

- Need for discussions of enterprise policy to be grounded in a shared, correct understanding of this

Appropriate Descriptions

- Cost and Timescale of full surveys
- What surveys do not capture
- The body of knowledge in advanced industrial economies
- The limited but specific information that is important to policy analysis
- Towards a design that is fast and inexpensive

Scope and Coverage

- Profile each of the major industries
- Excludes services and financial sector
- Profile the leading firms in each industry (History, origins, current capabilities,etc.)
- Identify clusters of mid-size firms and their activities
- Problems and challenges

Overview and Motivation

- 78% of exports from a few primary industries (Coffee, Oilseeds, Chat, etc.)
- 14 firms account for over half of this

- 22% from secondary (inc.agribusiness)
- (Cut flowers, Leather, Meat products, Clothing/Textiles, etc.)
- 19 firms account for over half of this

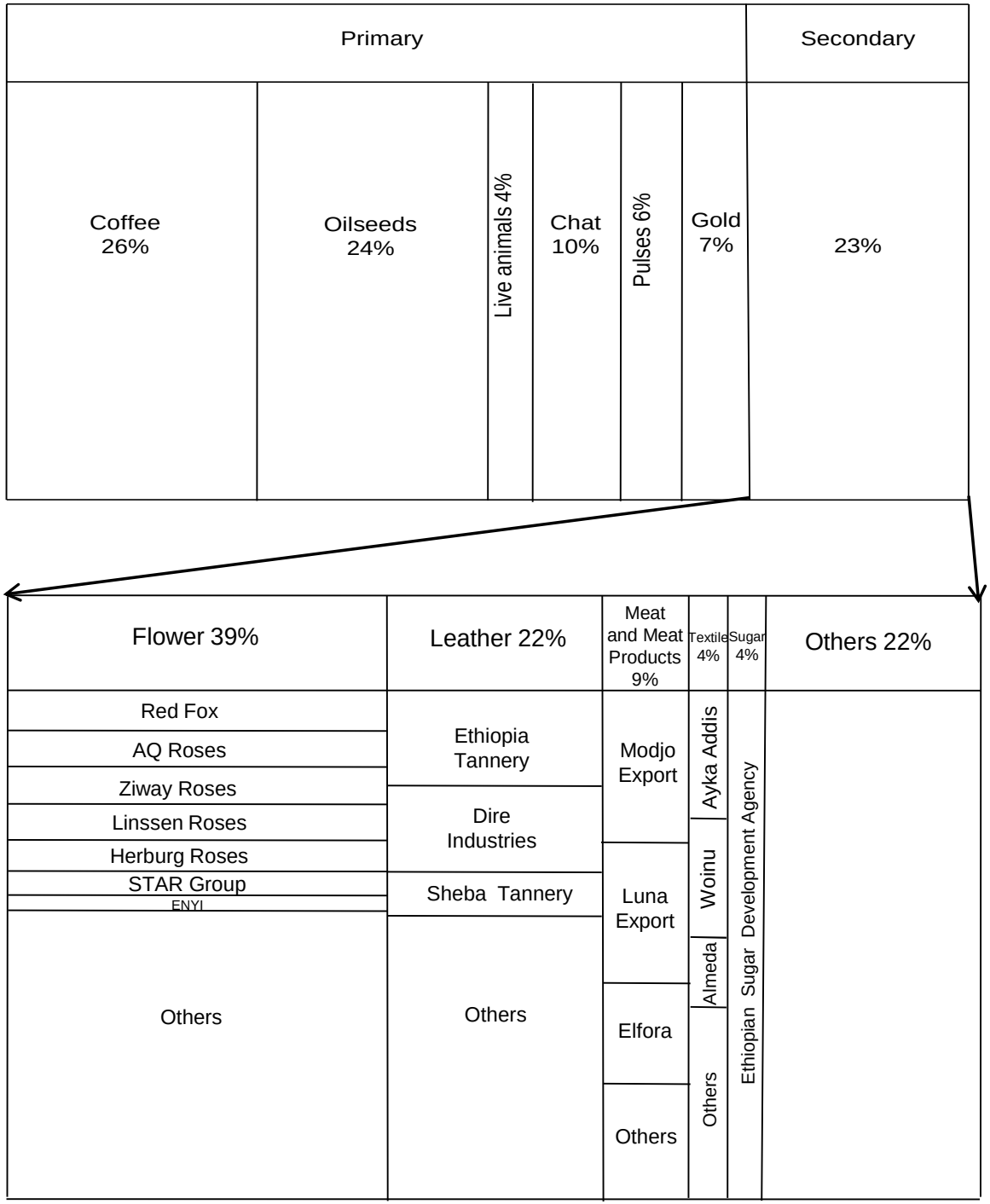

Primary
Secondary
Coffee 26%
Oilseeds 24%
Live animals 4%
Chat 10%
Pulses 6%
Gold 7%
23%
Flower 39%
Leather 22%
Meat and Meat Products 9%
Textile 4%
Sugar 4%
Others 22%
Red Fox
AQ Roses
Ziway Roses
Linssen Roses
Herburg Roses
STAR Group
ENYI
Others
Ethiopia Tannery
Dire Industries
Sheba Tannery
Others
Modjo Export
Luna Export
Elfora
Others
Ayka Addis
Woinu
Almeda
Others
Ethiopian Sugar Development Agency

Figure 1

Structure

- Profile 50 ‘Leading Firms’ distributed across these key industries

- Industry profile includes brief profiles of a few representative mid-size firms in each sub-market

Example

- Steel, Engineering and Assembly
- Sub-markets include:

- A : Galvanized coil/sheet, Corrugated sheet, Re-bars etc.
- B: Engineering products, Car/Truck bodies, etc.
- C: Hand Tools and other final products

Focus

- Basic information on size, product range, ownership,etc
- First focus : where capabilities came from
- Second focus : Supply chains…inputs , origin by category ; sales, what and to whom.

Rationale

- What can be locally sourced ?
- What can be locally sold ?
- Development of enterprises and development of domestic supply chains
- Development of enterprises within international supply chains
- Two faces of supply chains

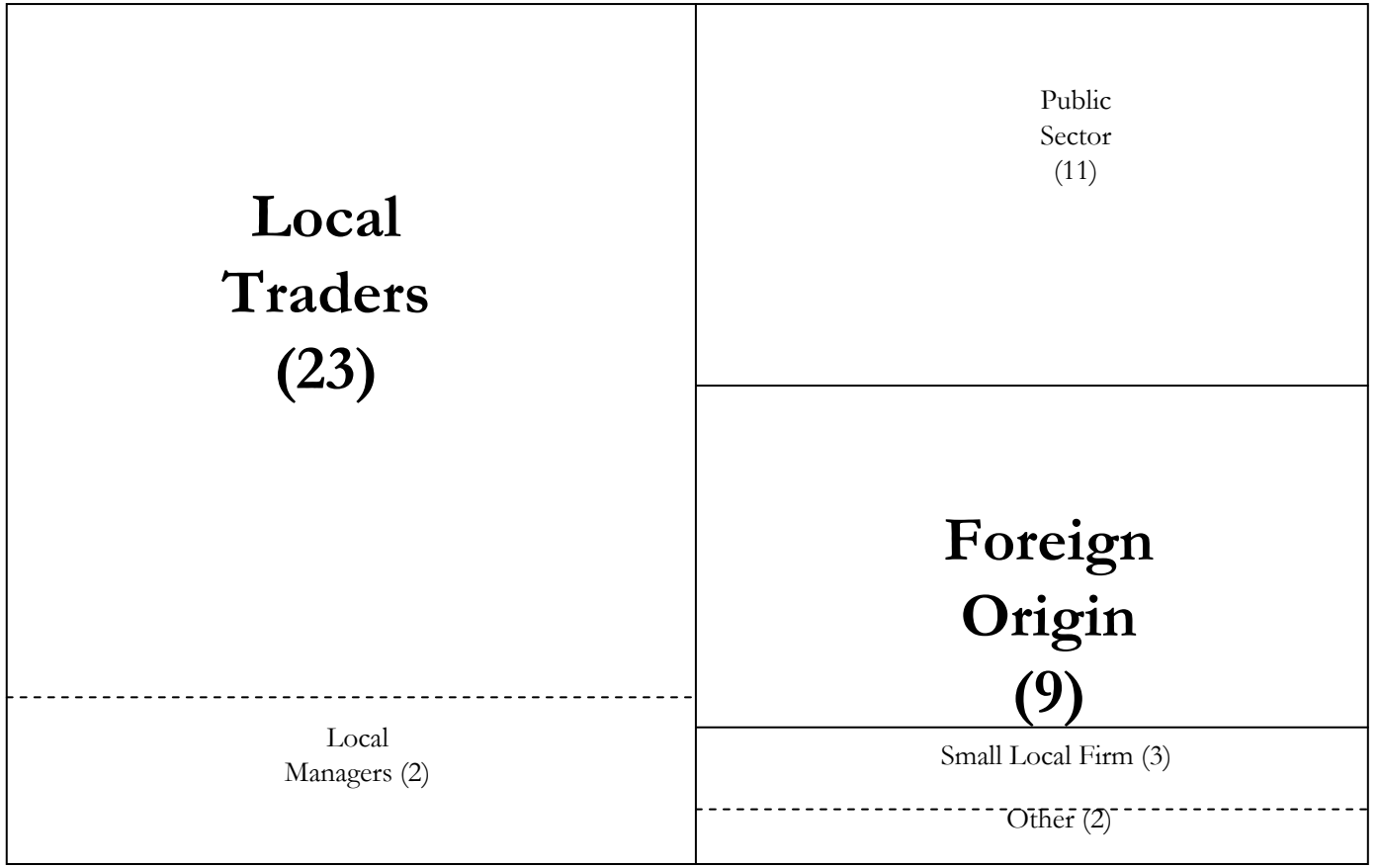
The big picture : Where capabilities come from…

- Home grown successes (Bharat Forge)
- From Trading to Manufacturing (Steel Wire in Zambia)
- From Equipment Suppliers (Packaged Orange Juice in Ethiopia)
- From Supply Chains (Auto Components in India)

The First Theme

- Origins of Capabilities of Leading Firms

- Three main categories
- (a) Trading to Manufacturing
- (b) Public sector origin
- (c) Foreign firms



Origins of 50 Leading Companies

Trading to Manufacturing

- Of 50 Leading firms, 23 had their origin here,

- While 2 more were founded by Ethiopian managers who left their company to found a new firm

Trading to Manufacturing:Examples

- Ayele Dejene Gugsa, Nigatwa Gezahegn (Modjo)
- Yohannes Sisay ,Isayas Teklu (Yesu)
- Alem Mengistu (Organic Export Abbatoir)
- Said Kassie, founder of SECA
- Crown,GC and Woinu companies
- Ahadu conglomerate(Wendemneh family)

‘Growth of Firms ’ Stories

- Only three of these leading firms emerged from the small firm sector
- Is this surprising ? Special to Ethiopia?
- Lessons from elsewhere;
- Trader to exporter: Mohan Group…where do you source wire rod?
- A story from the US : When DO small firms grow?

Profitability and Finance

- Some import substitution ventures can be extremely profitable…
- The slow takeup of such opportunities reflects, in part, problems of raising medium term finance…
- And this in turn biasses investments in favour of trading rather than manufacturing

Finance for Startups

- Two views:
- (a) licence one or more foreign banks
- (b) the present initiative ….
- Loan officers…lessons from Azerbaijan

Expanding existing capabilities

- Supply and demand in sugar
- New private sector firms in Cement
- Apparent matches: high imports, existing capabilities (Soaps and detergents, Plastics, etc.)

Origins of Capabilities: Part II

- About one quarter of the ‘50 leading firms’ have foreign origins
- What is happenning to FDI today ?
- Projected employment in current new ventures is 26,000….more than the total employment in these 50 leading firms

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

Table 1: FDI flows, and FDI stock for Ethiopia, selected years
Source: UNCTAD, World Investment Report 2009

Nationality\sector	Algerian/Saudi Arabian	American	American/Cayman Islands	American/Channels	American/Italian	Austrian	Austrian/Sudanese	British	British/German/Yemeni	British/Indian	British/Kenyan	British/Sudanese	British/Ugandan	Bulgarian	Cameroon	Canadian	Canadian/Kenyan	Chinese	Chinese/Pakistani	Cypriot	Cypriot/Slovakia	Djibouti	Dutch	Dutch/Kenyan	Egyptian	French	German	Gibraltar	Greek/Italian	Indian	Indian/Philippines	Indonesian	Iranian	Iraqi	Israeli	Italian	Italian/Norwegian	Jamaican	Japanese	Kenyan	Kenyan/Indian	Kenyan/Mauritius	Kenyan/Pakistani	Kenyan/Sri Lankan	Pakistani	Saudi Arabian	Slovakia	South African	South Korean	Sudanese	Swedish	Turkish	Turkish/Sudanese	UAE	Ukrainian	Yemeni	Zambian	Industry Total
1 Food,Drink		4	2	1	1			4	1	1			1	1	1			3					1			3	1	1	1	3					1	3									6				3					2		45
2 Cloth,Tex	1	1						3										22					1							6						4		1	2					2	2			1	1	2	1					50
3 Leather																		5												1						3									1			1	2							13
4 Furniture																		4					1																					1		2				1					9
5 Stone																																													2										2
6 Glass																		1																											1										2
7 Paper		1																2	1											2						1									1									1	1	10
8 Plastics								2			1							6							1					14									2			1		3				1		1			1		33
9 Engineering, Metals											1					1		16		1			2	1	1	2				6	1		2		2	5	1			3		2	1		1	1	1		2			1			54
10 Building Materials							1			1				1				12				1	1							1				1	1				1					1								1		1		24
11 Electronics																		3												3																										6
12 Detergents/Cosmetics/Soap						1												2					1									1								2				1	2			2				1			13
13 Pharmaceuticals		1										1						2							1																															5
14 Other	1	1						1					1				1	14			1		1	1			1			2					1			1		1			1	1	4							1			37
Country Total	2	8	2	1	1	1	1	10	1	2	2	1	2	2	1	1	1	92	1	1	1	1	8	2	2	6	2	1	1	38	1	1	2	1	6	17	1	1	3	8	1	2	2	1	5	25	1	2	4	9	2	4	1	1	1	5	1	303

Table 2: Number of FDI Projects by Industry and Country

High Dispersion

- 14 industries
- 37 countries

- But four countries and six industries dominate

Four Countries, Six industries

- China(Clothing/textiles, Building materials, Plastics, Metals/Engineering)
- India(FoodProcessing/Plastics)
- Italy(Clothing/Textiles,Leather,and Metals/Engineering)
- Saudi Arabia(FoodProcessing, Clothing/Textiles)

Nationality\sector	Algerian/Saudi Arabian	American	American/Caymanislands	American/Channels	American/Italian	Austrian	Austrian/Sudanese	British	British/German/Yemeni	British/Indian	British/Kenyan	British/Sudanese	British/Ugandan	Bulgarian	Cameroon	Canadian	Canadian/Kenyan	Chinese	Chinese/Pakistani	Cypriot	Cypriot/Slovakia	Djibouti	Dutch	Dutch/Kenyan	Egyptian	French	German	Gibraltar	Greek/Italian	Indian	Indian/Philippines	Indonesian	Iranian	Iraqi	Israeli	Italian	Italian/Norwegian	Jamaican	Japanese	Kenyan	Kenyan/Indian	Kenyan/Mauritius	Kenyan/Pakistani	Kenyan/SriLankan	Pakistani	Saudi Arabian	Slovakia	South African	South Korean	Sudanese	Swedish	Turkish	Turkish/Sudanese	UAE	Ukrainian	Yemeni	Zambian	Industry Total
1 Food,Drink		349	356	167	20			223	0	30			31	5	150			283					300			855	15	25	30	414					50	113									1159				194					120		4889
2 Cloth,Tex	607	12						80										1676					40							166						607		12	28						218	2156			20	163	120	870					6775
3 Leather																		215												25						381										0			182	73							876
4 Furniture																		63					10																						50		74				60					257
5 Stone																																														135											135
6 Glass																		33																												615											648
7 Paper		69																30	40											247						6										67									25	10	494
8 Plastics								70			91							255							20					2054									90			74			414				20		12					3194
9 Engineering, Metals											446					29		743		20			40	20	40	75				300	10		146		174	89	12			85		649	145		200	130	8		25			13					3399
10 Building Materials							43			150				34				837				20	30							200				30	50					20						10											1520
11 Electronics																		27												91																											118
12 Detergents/Cosmetics/Soap						50												6					36									198								44					10	116				14				94			568
13 Pharmaceuticals		200										46						124								67																															437
14 Other	520	33						45					25				5	817			336		50	80			10			87					65	6					5			15	126	108								50			2803
Country Total	1127	663	356	167	20	50	43	418	0	180	537	46	56	39	150	29	5	5109	40	20	336	20	506	100	60	997	25	25	30	3584	10	198	146	30	389	1202	12	12	28	239	5	649	219	15	554	4960	8	74	227	464	120	955	20	94	50	815	10	26193

Table 3: Projected Employment in FDI Projects by Industry and Country

Policies for FDI

- Two extremes…

- (a) permissive
- (b) supportive

- The Irish experience with autonomous agencies

Specific Industry Themes

- Cement and Sugar : Government to Private sector links
- Plastics: missed opportunities?
- Sub-standard imports (plastics,metals)
- Leather : Re-capturing lost ground?

The big picture : Where capabilities come from…

- Home grown successes (Bharat Forge)
- From Trading to Manufacturing (Steel Wire in Zambia)
- From Equipment Suppliers (Packaged Orange Juice in Ethiopia)
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Most of Manufacturing Employment in SME Sector:

- 43,300 small scale firms, total employment 139,000.
- About 1 million cottage/handicraft enterprises (don't use electricity), 1.3 million people. (Data for 2002)
- 800,0000 urban informal sector non-farm firms (mfg, trade, services), 1 million persons engaged.

❖ Compare to 134,000 workers in formal mfg firms.

The research question:

- Can the small and medium scale enterprise (SME) sector be a source of sustained growth in the private sector & Ethiopia?

The answer:

- In its current form - no.
  - The type of products produced are basic, better suited for large-scale production.
  - The value-added generated is low.
  - A small firm is unlikely to grow to become large.

- Of course, the SME still has an important role to play, providing subsistence for unskilled workers.

Ethiopia's Investment Climate

- Survey data on managers' perceptions indicate that the investment climate in Ethiopia improved a lot between 2001 & 2007 (World Bank, 2009).
- Share of firms complaining about the IC is lower for Ethiopia than the low-income international averages.
- On 'ease of doing business', Ethiopia ranks quite high amongst low-income countries

Manufacturing: Enormous differences in VAD per worker across firms of differing size

Table 5: Micro, Small and Medium Sized Manufacturing Enterprises 2007/08

Size range (number of workers)	Less than 10	10-19	20-49	50+
Survey	Small-scale mfg		Formal mfg	
Number of persons engaged	138,951	10,690 [10,616]	14,757 [14,306]	108,226 [63,715]
Number of establishments	43,338	846 [841]	519 [505]	565 [420]
Total value-added	1.14 billion	186.1 million [184.1]	401.1 million [393.4]	8.59 billion [4.58bn]
Total value of capital installed	1.01 billion	244.5 million [244.0]	702.6 million [693.1]	7.58 billion [4.8 billion]
Value-added per person engaged	8,200	17,400 [17,300]	27,200 [27,500]	79,400 [71,900]
Average wage, all paid employees	3,144	3,590	5,750 birr	11,700
Average wage, production workers		2,856	3,640	6,716

Note: All financial figures are in birr, current values.
Source: CSA (2009, 2010)

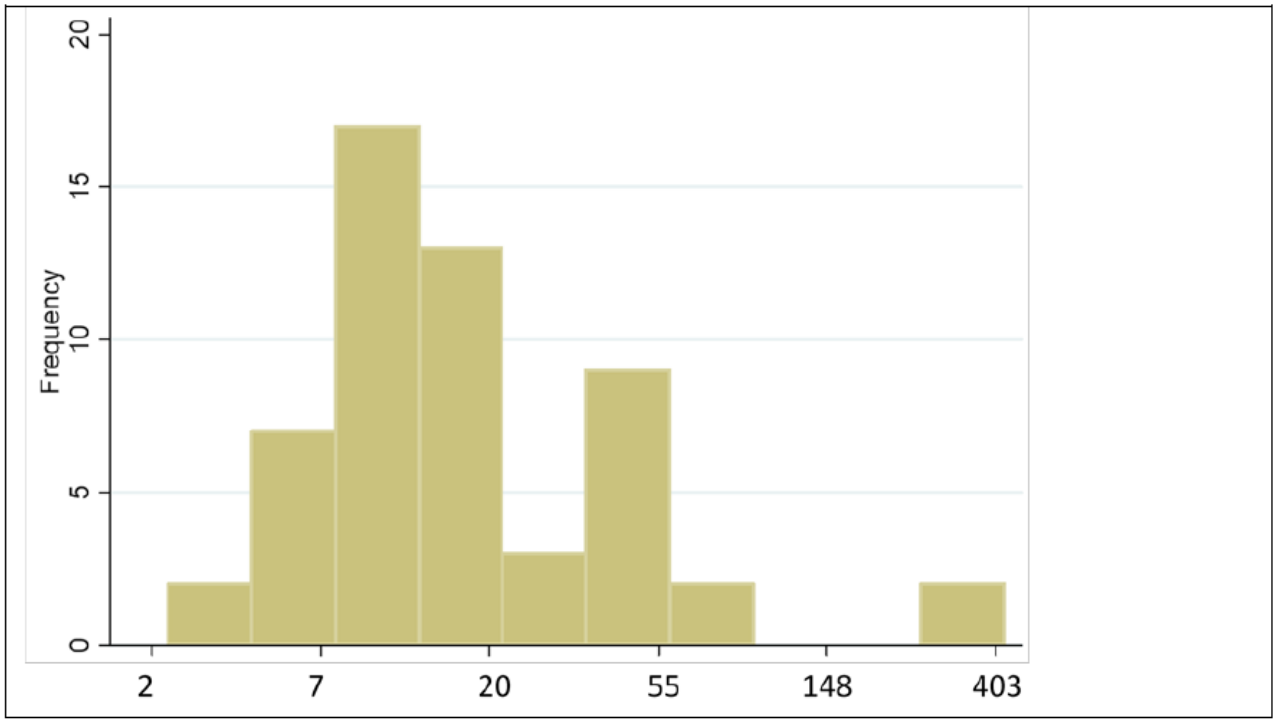
Size distribution heavily skewed towards low-VAD firms

Size range (number of workers)	Less than 10	10-19	20-49	50+
Survey	Small-scale mfg		Formal mfg	
Value-added per person engaged	8,200	17,400 [17,300]	27,200 [27,500]	79,400 [71,900]

Imagine the gains a structural shift might bring about.

Do small firms grow and become large?

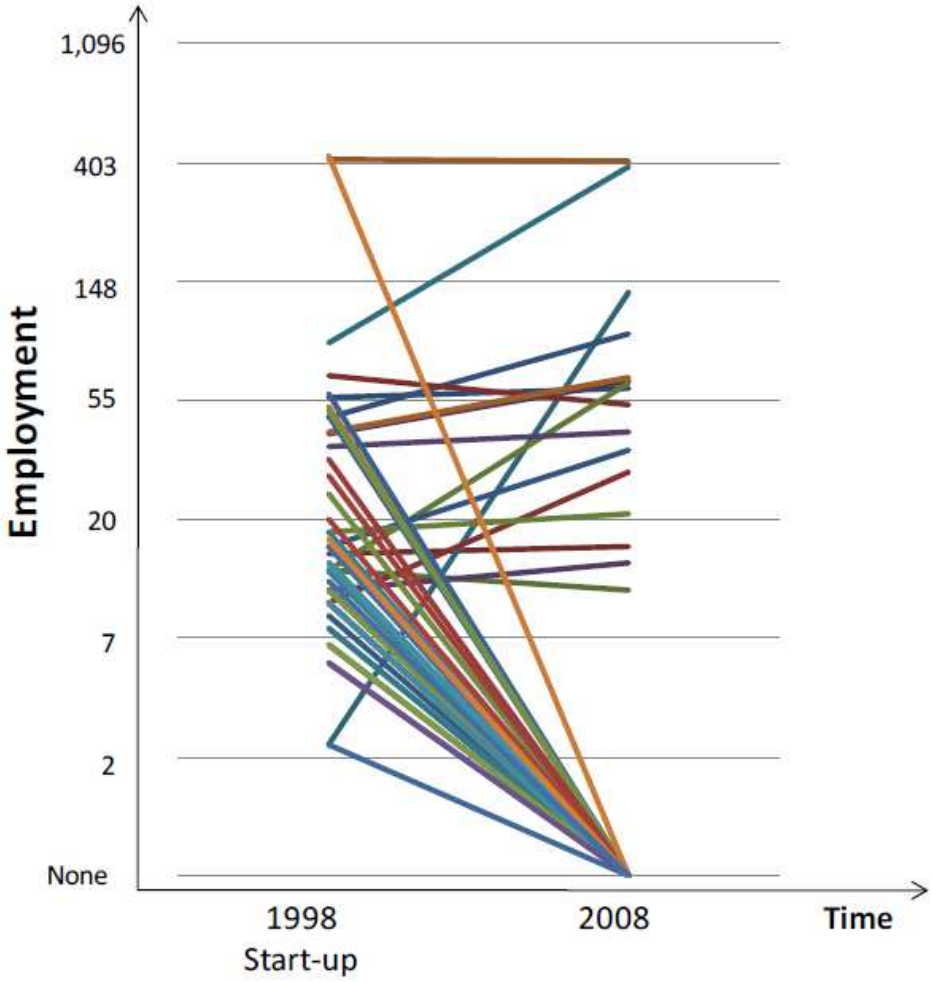
- Analysis of the new entrants in formal manufacturing in 1998.
- There were 55 such new entrants in 1998.
- The size distribution at startup:



Do small firms grow and become large?

- It happens, but it's very unusual.
- The largest 1998 entrant still the largest firm in 2008.
- 29% survive.
- High exit rates among small firms

Dynamics of new entrants:



Growth conditional on survival is high:

Table 6. Summary statistics on the evolution of entrants

	(1) Status of 1998 entrants in 2008
Still in business	29%
Median employment growth if still in business	41%
Still in business & initial size <= median for entrants	16%
Still in business & initial size > median for entrants	46%
Median employment growth if still in business & initial size <= median for entrants	200%
Median employment growth if still in business & initial size > median for entrants	17%
Number of entrants	55

Predicted employment 10 years after startup

- Regression analysis of growth and survival as dependent on initial size.
- Small firms have higher exit rates; also, conditional on survival, they have high growth rates.

➢ Net effect on long term employment:

(1) Initial employment	(2) Probability of survival after 10 year	(3) Expected employment after 10 years, conditional on survival	(4) Unconditional expected employment after 10 years	(5) Job ratio
10	0.21	43.8	9.3	0.93
20	0.30	46.0	13.6	0.68
50	0.43	72.0	30.7	0.61
100	0.53	134.9	71.7	0.72
250	0.67	454.4	302.6	1.21

Note: Results are based on the regression results shown in Table 7.

Tomorrow's large firms won't be found amongst today's small firms

- Large firms start large. Resources:
  - Finance / physical capital
  - Management skills.
    - Ability to run large firm.
    - Ability to act in global network – communication, long distance collaboration, etc.
  - Today's small scale entrepreneurs typically don't have those skills.