Volume 2

ETHIOPIA
Trade and Transformation

Synthesis

DIAGNOSTIC TRADE INTEGRATION STUDY

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PREFACE

The Ethiopia: Trade and Transformation Challenges: Diagnostic Trade and Integration Study is the product of joint work undertaken by an international and Ethiopian team of trade and sector specialists.

The Study team was led by Sarath Rajapatirana (Consultant- American Enterprise Institute). The international, members of the team were, Prema-chandra Athukorala (Consultant-Australian National University), Elwyn Grainger-Jones (World Bank) Cees de Haan (World Bank), James Hodge (Consultant-University of Cape Town), Zainab Mchumo (World Trade Organization) Margaret McMillan (Consultant- Tufts University), Alessandro Nicita (Consultant) Marcelo Olarreaga (World Bank) Vijay Raman (Chakra Consultants), Pham Van Thuyet (Consultant-Institute of Economics and Institutional Development) and assisted by Joan Hamory (researcher-consultant- Tufts University). The Ethiopian members of the team consisted of Worku Gebeyehu (Consultant- Ethiopian Economics Policy Research Institute), Yohannes Agonafir Keklie (Consultant) Kibre Moges (Consultant- Ethiopian Economic Policy Research Institute), Berhanu Nega (Consultant- Ethiopian Economic Policy Research Institute), Bezzaworq Shimellash (Consultant), Firku Tesfaye (Consultant), Abebe Teferi (Consultant), Milkias Teklegiorgis (Consultant), Assefa Tigneh (Consultant) Elias Teseheberu (Consultant), Amdissa Teshome (Consultant).

The team is grateful to the National Steering Committee of the Integrated Framework that is chaired by His Excellency Girma Birru, the Minister of Trade and Industry which oversees the DTIS process. The Technical Committee which reports to the National Steering Committee provided valuable support and inputs for the study. The Committee is chaired by Ato Gashaw Debebe, the Head of the Foreign Trade Coordination Department of the Ministry of Trade and Industry. He and his staff provided excellent support for the work of the team from the very outset. The guidance from the Technical Committee particularly in narrowing down the recommendations and identifying the implementing agencies for policy actions was invaluable. The World Bank's Country Director Mr. Ishac Diwan, the United Nations Development Program's Resident Representative, Mr. Samuel Nyambi as well as several staff member of these institutions provided strong support for this work. In this regard, Mr Menbere Tesfa (World Bank), Ms. Daniela Zampini (UNDP) must be mentioned for their special help with the DTIS process. Mr. Tom Vens of the Delegation of the European Commission provided strong support and encouragement to the team.

The team is also grateful to private sector representatives, Ethiopian institutions and Government officials who gave their time and shared their views with the study team during many meetings. The Ethiopian Trade Mission in Geneva advised the study team at the early stages of preparation for the study. The donor partner community led by the Delegation of the European Commission to Ethiopia (the Lead Facilitator for the

Integrated Framework in Ethiopia) provided advice to the team on the design and process of the study.

The study received guidance from the workshop that was held in late November 2002 to discuss the concept paper for the study. The study carries forward the analytical work done with respect to trade and related issues in recent economic studies done on the country and the information gathered during the study mission in November 2002.

The completed study was discussed at a workshop in November 2003 with some 150 participants from different public agencies, ministries, the private sector and academics. Their comments and suggestions have been incorporated into this final study. It incorporates the suggestions made by the Technical Committee created for the Integrated Framework. In particular, its inputs are included in the recommendations for actions, the responsible agencies for those actions and phasing of the implementation of these actions. The recommendations for technical assistance follow one for one the recommendations made by the Technical Committee.

A special mention must be made of the contribution by Milkias Teklegiorgis (consultant) whose work proved invaluable for the revision of the DTIS to incorporate the suggestions for policy reform and technical assistance made by the Technical Committee.

Jill Mitchell (American Enterprise Institute) and Rosalinda Digal provided excellent assistance to process the study. Mayank Agarwal (Indiana University and an intern at AEI) provided excellent support to finalize the study.

The DTIS is in two parts. The present volume provides in greater detail the context and analysis found in Volume 1 of the study. The recommendations for actions and technical assistance are given in Volume 1.

This Volume like Volume 1 has been updated to reflect recent developments.

ACRONYMS

ACRONYM	Definition
ADLI	Agricultural Development Led Industrialization
AGOA	Africa Growth Opportunity Act
AISCO	Agricultural Inputs Supply Corporation
ASYCUDA	Automated System for Customs Data
C&F	Clearing and forwarding
CAA	Civil Airport Authority
CBD	Coffee Berry Disease
CDE	Chemin de fer Djibouti Ethiopien
CET	Common External Tariff
CIP	Coffee Improvement Project
CLU	Coffee Liquoring Unit
COMESA	Common Market for Eastern and Southern Africa
CRF	Clean Report of Findings
CSA	Central Statistical Authority
CTA	Coffee and Tea Authority
DFID	Department For International Development
DPCD	Development and Project Coordination Department
DTI	Direct Trader Input
DTIS	Diagnostic Trade Integration Study
EARO	Ethiopian Agricultural Research Organization
EBA	Everything but Arms
EC	European Community
ECA	Ethiopian Customs Authority
EDIFACT	Electronic Data Interchange for Administration, Commerce and Transport
EEA	Ethiopian Economic Association
EEPA	Ethiopian Export Promotion Agency
EIC	Ethiopian Insurance Corporation
EPA	Economic Partnership Arrangements
EQSA	Ethiopian Quality and Standards Authority
ESC	Ethiopian Seed Corporation
ESISC	Ethiopian Sugar Industry Support Center
ESL	Ethiopian Shipping Lines
EU	European Union
EAO	Food and Agricultural Organization

FOB	Free on Board
GBE	Green Bean Equivalent
GDP	Gross Domestic Product
GPS	Global Positioning System
HA	Hectare
HDC	Horticulture Development Corporation
HICES	Households Income, Consumption and Expenditure Survey
HVA	Handlers-Vereenging Amsterdam
ICA	International Coffee Agreement
ICO	International Coffee Organization
ICU	Input Coordination Units
IMF	International Monetary Fund
ITC	International Trade Center
KG	Kilogram
MOA	Ministry of Agriculture
MRL	Minimum Residual Level
MT	Metric Ton
MTSE	Maritime and Transit Services Enterprise
NAO / MOFED	National Authorizing Officer / Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
PA	Peasant Association
PADETES	Participatory Demonstration and Training Extension System
POL	Petroleum Oils and Lubricants
PPP	Purchasing Power Parity
PSI	Pre-shipment inspection
QT	Quintal
RSDP	Road Sector Development Program
SC	Service Cooperative
SDF	Sugar Development Fund
SG 2000	Sasakawa Global 2000
SGS	Societe Generale de Surveillance SA
SNNPR	Southern Nations, Nationalities and Peoples' Region
TBL	Through Bills of Lading
TCD	Tons of Cane per Day
TEU	Twenty foot equivalent unit
UAAIDE	Upper Awash Agro Industrial Development Enterprise
UNCTAD	United Nations Conference on Trade and Development

USAID	United States Agency for International Development
USDA	United States Department of Agriculture
VAT	Value-added Tax
VOCA	Volunteers in Overseas Cooperative Assistance
WCO	World Customs Organization
WFP	World Food program
WMS	Wealth Monitoring Survey
WTO	World Trade Organization

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CHAPTER 1
TRADE AND TRANSFORMATION CHALLENGES

1.1. INTRODUCTION

For Ethiopia, the over-arching aim of trade integration to the global economy is to exploit the opportunities to transform its economy from a largely a peasant agricultural economy to a modern economy. There are three aspects to this transformation- from a subsistence peasant agriculture to a market based agriculture, from a past centralized command economy to a market economy and from a more inward oriented to an outward oriented trade regime. Thus, trade is one aspect of the transformation and a means to it, rather than an end itself. For Ethiopia, a country with a large and diverse resource base and potential, greater participation in world trade would provide additional opportunities to transform its resources to address the challenging issues of economic growth and poverty reduction.

Based on the analysis of economy-wide and sector related issues, the study suggests a program of policy action to be supported by technical assistance to strengthen Ethiopia's ability to increase its participation in world trade by enhancing its competitiveness and consequently to derive larger benefits from trade than at present. It identifies key constraints to the country's integration into multilateral trading system and into the global economy by looking at both the supply and demand factors that influence the present level of trade with the rest of the world. Thus, both exports and imports are equally important in the analysis of trade issues.

For Ethiopia, the DTIS takes as its point of departure for inclusion and analysis, trade issues presented in different parts of the PRSP to provide a unified approach to trade integration.

The main issue to be addressed is the means to achieve this goal that would lead to the best possible outcome for the country. The sub-sectors analyzed in the study were selected following consultations with the Ministry of Trade and Industry and the Chamber of Commerce, among other stakeholders. There is one important qualification to be added, namely that since trade is only one element in GDP growth and poverty reduction, many issues that impinge on these goals will be not be analyzed in this study. It however, attempts to give an accurate picture of the interaction between trade

and economic performance, economy-wide and in relation to some selective sub-sectors.

The study is also intended to help the Ethiopia's accession to the World Trade Organization (WTO) by providing a detailed and well-documented picture of the trade regime, the legal and institutional features of the regime and also make the case to enlist support from the donor community to help with the process. This could be done through technical assistance for the process and by carrying forward the analysis and strategy identified and helping to create negotiating ability within the country.

1.2. TRADE INTEGRATION IN PERSPECTIVE

Ethiopia can benefit as other developing countries have done in the last five decades from greater integration into the world trading system. By making the country more tradable through the removal of present barriers to trade- behind the border, at the border and beyond in importing countries, Ethiopia can avail itself to additional opportunities to raise growth and reduce poverty. To avoid the vicissitudes of adverse terms of trade shocks, Ethiopia has to diversify its export base in a manner to foster efficiency. Trade diversification can only be accomplished in the context of growing exports, given the small size of the domestic market. Growth in trade raises national income and helps to address poverty more effectively than a mere distribution of income from a slow income growth. A simple estimate shows that if income were to be distributed uniformly at the current level of per capita income $100 everyone will be below the internationally excepted poverty level of one dollar a day.

Ethiopia is unique in several respects. It began its development efforts in earnest slightly more than a decade ago. It began the quest from a very low per capita income base as with nearly all the indicators of human welfare from health, education to nutrition being low by Sub-Saharan Africa standards. It is also predominantly peasant agriculture. It is inconceivable that such a country can proceed to transform the economy without addressing issues of agricultural productivity and transformation from peasant subsistence agriculture to a commercial agriculture.

Following the change in political leadership in 1991 the economic policy scene in Ethiopia has undergone significant changes. During the Derg regime of nearly two decades (from 1974 to mid 1991), the Ethiopian economy rapidly became one of the most regulated and inward-oriented countries in the developing world. Economic restructuring based on central planning and the sweeping nationalization of virtually all medium and large-scale enterprises (including foreign owned enterprises) reduced the private sector virtually to micro- and small-scale activities. Economic *dirigisme* coupled with prolonged civil war devastated the economy. The new Ethiopian People's Revolutionary Democratic Front (EPRDF) regime responded to the dismal economic outcome of the Derg era by embarking on an extensive economic liberalization process in 1992/93. It did so with the support of the international financial institutions and

promising a new era of market-driven development. The key elements of the reform program included liberalization of foreign trade and exchange regimes, decontrol of domestic input and output prices, public sector reform to give autonomy of the state owned enterprises (SOEs) and privatization of some enterprises, financial market reform and opening the door to foreign investors.

A key to the transformation from peasant agriculture to a modern internationally trading nation is to raise agricultural productivity. This is indeed one of the goals of the Federal Democratic Republic of Ethiopia (FDRE). This is to be achieved through Agriculture Lead Industrialization (ADLI) Strategy. It is axiomatic that increasing agriculture productivity lies at the heart of poverty reduction given the importance of agriculture in the economy in national output, employment and export. And, farmers have to participate in the market to provide incentives to go beyond subsistence level activity to produce commercial surpluses. Towards this end, ADLI is recognized as the principal strategy. It was adopted in 1995. It is also the main thrust of the PRSP. Opening market opportunities both domestically and internationally provide for a more efficient and effective transformation and modernization. As regards the latter, it is well known that without raising agricultural productivity, industrialization cannot take place or industrialization would be inordinately delayed. There are both due supply and demand side reasons for it. On the demand side, greater integration with the world trade allows the country to import the essential ingredients to raise agricultural productivity such as fertilizer, pesticides and farm machinery (how ever basic they need to be) and technology. In addition, greater trade integration allows the country to export agriculture, livestock as well as light manufactures. The opening of the economy also affords opportunities to attract tourists to the varied flora and fauna of Ethiopia and its rich, remarkable and unbroken three-millennia old cultural heritage. These forces together, will foster competition and efficiency in Ethiopia so that it could integrate with the world economy and realize gains from the process.

While improvements in trade policies, trade facilitation and the institutions that are in the trade sector will serve the goal of greater integration with the world economy they are necessary but not sufficient. After all, Ethiopia needs higher levels of investment and savings to reach a higher growth path than the 5% GDP foreign rate achieved in the recent years. It is for this reason that the study also looks at the macroeconomic environment, Foreign Direct Investment (FDI) and the legal and regulatory environment. Foreign Direct Investment and trade facilitation issues are related to the level of investment in the economy. FDI supplements national investment, while trade facilitation activities require both FDI and national investment. They have to be sufficient and in appropriate sectors to increase the tradability of the economy. To be sure, whether Ethiopia increases its tradability or not, it has to increase the level of investment and saving in the economy. In particular, investment in infrastructure has to be emphasized. Good trade polices help to ensure that they are invested in areas of

country's comparative advantage but they cannot raise the investment rate directly but only create the proper environment for investment and savings.

Increasing integration with the world economy is a two way street. While Ethiopia undertakes improvements in its trade regime, trade facilitation and institutional environment it can increase the gains to these efforts more, if the world market opens greater opportunities to Ethiopia, not only to export to but also to import from as better prices than before. For this reason the study looks at market access to Ethiopia's exports. Market access issues are linked to poverty reduction in a number of ways; greater market access allows a higher level of export growth and therefore income growth. And, certain commodities that generate income for the poor will provide an additional support for poverty reduction apart from the impetus from increases in average income.

CHAPTER 2
MACROECONOMIC ENVIRONMENT AND TRADE INTEGRATION

2.1 INTRODUCTION

This chapter evaluates the relationship between trade and macroeconomics. Trade policies are dependent on macroeconomic stability. Without stability trade polices may not achieve the objective of increasing the tradability of the economy which is an essential element for increasing competitiveness and for realizing both static and dynamic gains from trade. Ethiopia's macroeconomic policies have been sound since the reforms of the early 1990s. This is indicated by low inflation, more stable exchange rates and sustainable current account deficits in the medium term. Though, there was a spike in inflation in 2002/2003 due to the drought that raised cereal prices, it is a temporary supply side shock that does not have its origin in public policy.

Unfortunately, the last two years have been adverse for the country due to a severe drought, the worst since 1984. As a result, there was a large drop in agriculture output, leading to a contraction of GDP in 2002/2003. Despite this adverse development, the country was able to sustain macroeconomic policies, continuing the stance that was established in the early 1990s.

Some antecedents

The attempts by countries to integrate themselves with the world economy have failed on many occasions not due to trade polices but rather due to the poor macroeconomic situations that prevailed in those countries when they attempted to liberalize their trade regimes. Ethiopia began the trade integration process in a context of more stable and credible macroeconomic policy. And, the situation has continued despite strong external (policy unrelated) shocks to the economy. The Ethiopian liberalization reform package of 1992/1993 was formulated with due emphasis on the complementarity between trade liberalization and macroeconomic management in shaping the reform outcome. Trade liberalization was accompanied by a significant exchange rate reform backed by a firm commitment to fiscal and monetary discipline.

2.2. EXCHANGE RATE REFORMS

From the late 1940s through to the early 1990s the Ethiopian currency, the Birr remained rigidly pegged to the US dollar. During 1945-71 Birr/$ rate remained unchanged at 2.5. It was revalued to 2.3 in December 1971 and then to 2.07 in February 1973 and remained at that level until October 1992. The natural outcome of this passive exchange rate policy was the development of an illicit parallel market for foreign exchange, where at times the spread between the two rates reached as high as 230 percent. The overvalued official exchange rate coupled with stringent foreign exchange rationing provided fertile ground for illicit cross border trade, particularly in coffee and live animals.

As part of the overall reform program of the new government, the exchange rate was adjusted from Birr / $ 2.07 to 5.00 on 1 October 1992 (a 142% devaluation). Following the devaluation, the exchange rate was allowed to be determined according to demand and supply conditions in the foreign exchange market, with the National Bank of Ethiopia (NBE, the Central Bank) intervening only to smooth out erratic fluctuations in the rate. By the end of 2002, the rate was around Birr / $ 8.75. By the end of August 2003, the rate was Birr / $8.61[1]. As of 16 July 2004, the rate was Birr / $8.64[2]. What obtains today can be broadly described as a managed float.

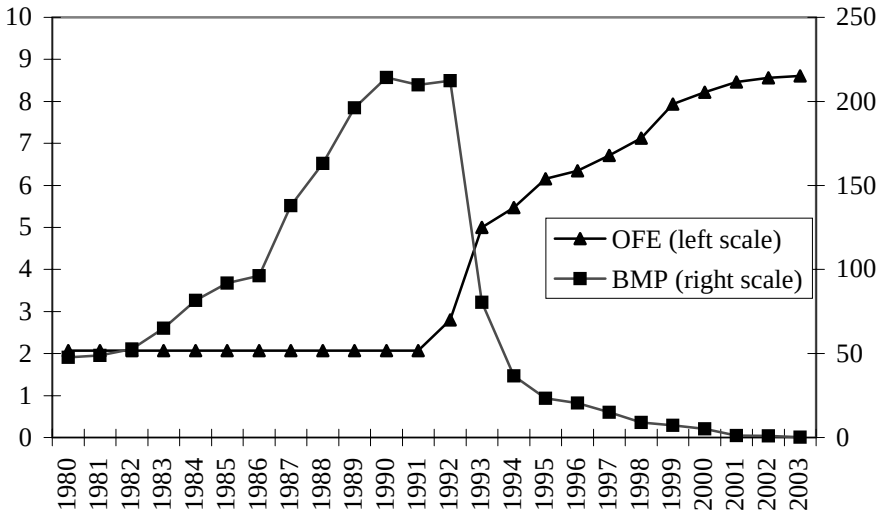
The NBE has taken a number of initiatives to improve the functioning of the foreign exchange market with a view to help keeping the exchange rate at realistic levels and to gradually harmonize the official and parallel foreign exchange markets. These included eliminating foreign exchange rationing, inaugurating a foreign exchange auction in May 1993 (on a fortnightly basis to begin with and on a weekly basis since September 1998)[3], permitting commercial banks to open foreign exchange bureaus to engage in retail foreign exchange trading (October 1996), and permitting inter-bank foreign exchange trading (September 1998). Currently, the NBE is using the US dollar as the sole intervention currency, but has the option of pegging the Birr to other specially tailored basket of currencies.

One indicator of the success of the stabilization relates to the exchange rate. Following these reforms, the gap between marginal and parallel exchange rates (the black market exchange rate premium) has declined sharply (Figure 2.1). By 2002 / 2003, the black market premium was below 0.2 percent compared to 238 percent in 1991 (during the highest range in the black market rate). The floating exchange rate has been appropriately backed by a firm commitment to maintaining medium term macroeconomic stability. The fiscal deficit had been kept well within the limits (below 4 percent of GDP) agreed under structural adjustment programs, except during 1999-2001, when it increased to 11.2 percent of GDP because of war expenditures.

[1]Source: International Monetary Fund: International Financial Statistics

[2] Source: Walta Information Center

FIGURE 2.1 OFFICIAL EXCHANGE RATE (BIRR / US$) (OFE) AND THE BLACK MARKET EXCHANGE RATE PREMIUM (BMP), 1980-2003



Source: IMF, International Financial Statistics Database (official (rf) series), and International Currency Yearbook (black-market rate)

The foreign exchange reforms also included the lifting of restrictions on remittances by foreign nationals. Restrictions on the amount of foreign currency allowed for overseas medical and business expenses have been abolished. Foreign currency purchase of up to U$1200 is now permitted per person for holiday travel. Exporters are allowed to retain up to 10% of their foreign exchange receipts in foreign currency deposits and sell the balance to any local bank or foreign exchange bureau at freely negotiated rates over an extended conversion period of four weeks.

2.3 MACROECONOMIC ENVIRONMENT

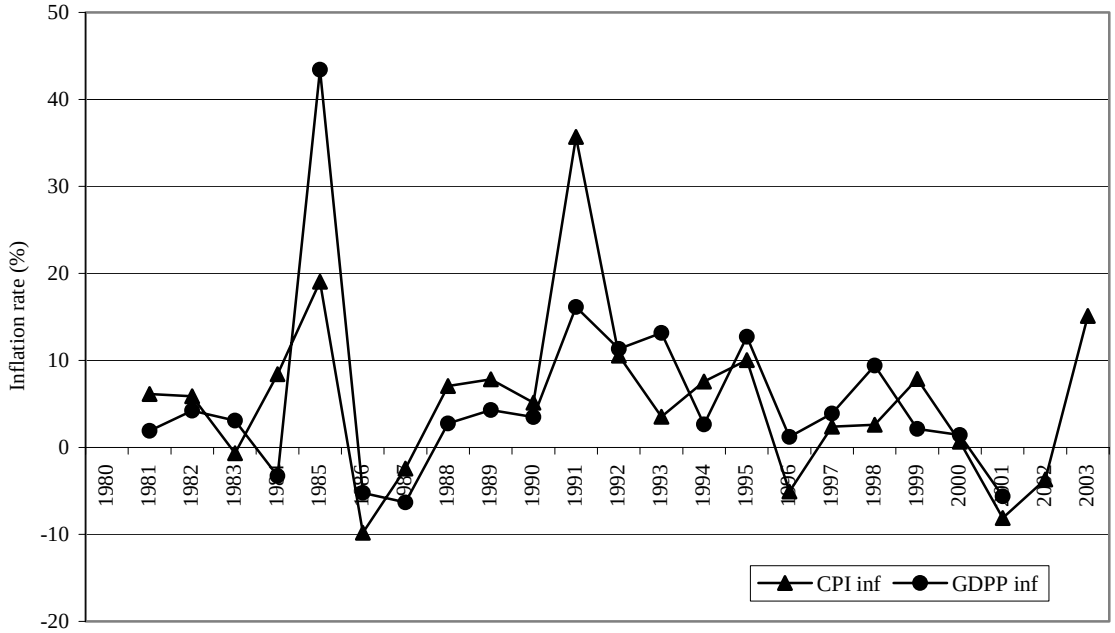
The floating exchange rate has been appropriately backed by a firm commitment to maintaining macroeconomic stability. The fiscal deficit has kept well within the limits (below 4% of GDP) agreed under structural adjustment programs, except during 1999-2001 when it increased to 11.2% of GDP because of war expenditure. The fiscal deficit was 8.4% of GDP at the end of 2002-03[3]. In terms of the mode of deficit financing, the government has used non-inflationary sources, mainly external sources and to some extent non-inflationary domestic sources like public borrowing. Monetization of budget deficits has been largely eschewed while relying predominantly on borrowing from non-bank sources, mainly through the sale of bonds and treasury bills of 28, 91 and 182 days maturity.

[3] All 2002-03 figures are provisional

The Central Bank has kept growth of broad money (M2) in line with the growth of nominal GDP. During the post-reform period until 1995, ceilings were maintained on commercial bank lending. Following the initial period, market interest rates allocated credit.

Despite massive currency depreciation, domestic inflation measured by the Addis Ababa CPI has continued to remain low. In fact, during the immediate aftermath of the introduction of the new exchange rate system, the exceptionally good harvest resulted in decline in food prices (See Figure 2.2). However, even when corrected for this effect, inflation remained very low. The average rate of CPI inflation during 1992-93 to 2001-02 was a mere 1.4%, compared to over 15% in the first half of 1990s. But in 2002/03 inflation rose to 15.1% due to a decline in agriculture output caused by a severe drought. It has to be noted that the core inflation rate (excluding cereals and pulses) was only 3.0%. The rise in inflation in 2002/03 is due to a supply shock. This was in contrast to 2001-02 when inflation was negative 7.2% primarily due to the bumper crop of the previous year and large inflows of external assistance. The government is projecting a decline in inflation to an average of 5.5% as the food production is expected to return to normal levels. Price levels have become more stable over a declining trend, as also indicated by the low core inflation rates. Over the medium term, price variations were more determined by supply side factors than demand factors. This meant that the fiscal and monetary stances had supported the efforts to open the economy.

FIGURE 2.2: INFLATION IN ETHIOPIA
MEASURED IN TERMS OF CPI AND GDP DEFLATOR, 1980-2003



2.4 RECENT DEVELOPMENTS

For 2002/03 drought led to a 12.2% drop in agriculture production, with a 25% drop in cereal production, leading to a decline in real GDP of 3.8%. The government is projecting real GDP to grow by 6.7% in 2003/04. The overall performance of the economy has suffered in the three years 1999-2002 due a large fall in coffee prices and a drought last year that led to a decline in exports and output growth. However, the macroeconomic situation remains stable and broadly within the parameters agreed with the IMF in the Poverty Reduction and Growth Facility program. When revenue declined with the decline in output the Government made every effort to sustain poverty targeted spending. The decline in revenues was matched by a reduction in defense spending. The overall budget deficit (including grants and emergency programs) declined from 9.3 per cent of GDP to 8.4 per cent, well within the overall PRGS program.

The external current account deficit (including official transfers) declined from 5.7 per cent to 4.7 per cent. Though both coffee prices and volume have gone up in 2002-03, the prices are still around a historical low in real terms. The low prices along with higher oil prices has led to deterioration in the terms of trade by 33.9 percent in 2000/01, by another 6.3% in 2001/02, and by yet another 8.9 percent in 2002/03. Total exports increased by 6.9% in 2002-03, driven largely by growth in non-coffee exports mainly consisting of oils seeds, meat and meat products, sugar, gold and chat. Total imports have increased by 9.4% driven mainly by increases in imports of fuel, capital goods and food. The gross official reserves have increased to US$ 929.4 million, enough to cover 4.5 months of imports. The net official reserves have increased to US$ 760 million, enough to cover 3.5 months of imports.

The FDRE has garnered much success in maintaining macroeconomic stability. This has allowed the country to make steady, if slow progress with trade reforms such as the adoption of the 6 band tariffs in 2003. However, despite these advances there are a few items in the financial sector that need to be addressed, including a dearth of short-term capital that could be made available from the banking system to the private sector. Short-term capital constraints are found in many sectors, despite the high level of liquidity in the banking system.

2.5 CONCLUSION

Ethiopia has maintained macroeconomic stability in the medium term despite a number of supply shocks, including a particularly harsh one last year. To date, trade integration is helped by sound fiscal and monetary management that have led to stable prices and exchange rates. This augurs well for greater integration with the world economy. However, it is noted that as the economy gets more closely integrated with the world

economy, it will challenge the monetary and fiscal authorities to maintain stability in a more open economy. The fiscal and monetary authorities have to ensure that their policies would not become a source for instability. This is a basic condition to realize gains from greater integration.

CHAPTER 3:
TRADE AND INCENTIVE REGIME

3.1. INTRODUCTION

The trade regime is a part of the overall incentive structure. Trade reforms are important for the modernization of the economy and are an aspect of the transformation from an inward oriented to an outward oriented economy. They help to increase the international competitiveness of the economy along with other policies such as the exchange rate policies. Trade policies are also of vital importance for the transfer of technology, management know-how and for increasing the efficiency of the economy including the non-tradable sector through the competition for resources.

For a country like Ethiopia, which has little market power, open trade policies are an instrument available for the transformation to a modern economy. However, for a variety of reasons, discussed in different parts of this study, Ethiopia has not fully realized the full benefits from its trade reforms that began in earnest in the early 1990s. It is equally true that the country is certainly better off under the liberalized trade regime compared to the highly restricted trade regime of the Derg period. But as often will be reminded in this DTIS, trade is but one aspect of the transformation of the economy. It needs support from other policies, institutions and infrastructure to realize full benefits from increased integration with the world economy.

3.2 TRADE POLICY REFORMS

During the Derg era import trade of Ethiopia remained severely restricted though a combination of high tariffs and a plethora of quantitative restrictions. Tariffs were as high as 230% on certain luxury consumer goods and many of intermediate and investment goods imports to public sector enterprises were allowed at zero or low duties. The quantitative import restrictions on imports by the private sector included direct import prohibition (a long 'negative list'), quotas, strict licensing and foreign exchange rationing.

In August 1993, the new government embarked on a comprehensive trade reform program aimed at dismantling quantitative restrictions and gradually reducing the level and dispersion of tariff rates. The negative list used to determine eligibility for imports through the foreign exchange access was reduced significantly. Currently quantitative import restrictions are applied only to used clothes, harmful drugs and armaments for security reasons. Both tariff levels and dispersion have been reduced significantly under tariff reforms. Specific tariffs have been converted into *ad valorem* rates. By 2002, only 2.7% of total tariff lines had specific rates. The range of tariff rates narrowed from pre-reform 0-240% to 0-80% in 1995 and then to 0-35 in 2002 (Table 3.1).

The average (un-weighted) tariff rate declined from 28.9% in 1995 to 17.5% in 2002. The degree of dispersion of tariff rates, measured by the coefficient of variation declined from 82.4% to 69.7% between these two years. The implicit import duty rate (import duties collected as a percentage of total CIF imports) declined from over 23%in mid-1990s to 12% by 2001/02 (Table 3.2).

TABLE 3.1: ETHIOPIA: SUMMARY OF THE IMPORT TARIFF STRUCTURE, 1995 AND 2001

Tariff rate	Tariff lines		Tariff lines	
	Number	%	Number	%
0	122	2.4	521	10.1
2.5	1	0.0		
4			1	0.0
5	1052	20.9	1240	24.1
7.5	16	0.3	35	0.7
8			2	0.0
10	401	8.0	721	14.0
11			6	0.1
12.5	34	0.7	54	1.1
15	433	8.6	166	3.2
17.5	11	0.2	27	0.5
18			1	0.0
19			3	0.1
20	614	12.2	762	14.8
22	4	0.1	1	0.0
22.5	18	0.4	15	0.3
25	44	0.9	14	0.3
27	4	0.1	3	0.1
27.5	1	0.0	3	0.1
28	1	0.0		
30	536	10.7	633	12.3
32.5	1	0.0		
35	27	0.5	12	0.2
37.5	6	0.1	2	0.0
40	606	12.1	913	17.8
41	2	0.0		
42.5	14	0.3		
45	2	0.0		
47.5	2	0.0		
48	2	0.0		
50	163	3.2		
52.5	6	0.1		
53	1	0.0		
57.5	8	0.2		
60	8	0.2		
62	2	0.0		
65	486	9.7		
72.5	5	0.1		
80	390	7.8		
Total	5023	100.0	5135	100
Total tariff bands	34		22	
Range	0-80		0-40	
Mean	28.9		18.8	
CV*	82.4		69.7	

Note: CV: Coefficient of variation – standard deviation as a percentage of the mean.

Source: Compiled from the tariff schedules for 1995 and 2001 (World Bank dataset on Trade and Production).

The declared aim of revising the tariff code was to move to a six-band tariff structure of 5%, 10%, 15%, 20%, 30%, and 35% was accomplished in 2003. Earlier, there were 22 tariff bands (down from 34 in 1995); with 82% of tariff lines at the six bands, 10% of

tariff lines having zero duties and the balance representing various fractional rates (that is, rates in between the above rates). These fractional rates complicated tariff administration and provided room for administrative discretion, without any economic justification.

On the export side, duties on all exports other than coffee (the main export product) were removed. Until 2002 there were three different taxes on coffee exports - customs duty of Birr 15 per 100 kg; 2% transaction tax and a cess of Birr 5 per 100 kg. In 2002 these three taxes were consolidated into a single rate of 6.5%, resulting in a significant reduction in the tax burden on coffee exporters. In addition exports of unwashed coffee below US $ 0.55 and washed coffee below US $ 1.05 were exempted from export duty altogether.

Effective Rates of Protection

The impact of the tariff structure on profitability of domestic production operates through both tariffs on final good imports and exports, and tariffs on intermediate goods used in domestic production. The analytical tool used to measure the combined effect of both end product and input tariff is the effective protection (ERP). ERP measures the proportionate increase in per unit value added of a sector in the presence of these two types of tariffs. More specifically, it takes into account the protection on output and the cost-raising effects of protection on inputs.

ERP estimates prepared by the DTIS study team for the Ethiopian economy together with the related nominal tariff rates are reported in Table 3.4. Since Ethiopia currently does not have an input-output table, the input coefficients used in these estimates have been derived from the regional input-output tables for Sub-Sahara Africa used in the Global Trade Analysis Project (GTAP) database. For this reason, the ERP estimates are only suggestive of the underlying incentive structure arising from tariffs on both inputs and outputs. The use of a regional average input-output structure for policy analysis for an individual country limits its value. But not having any such estimates make the analysis much less meaningful. Moreover, empirical studies done on other countries showed that GTAP averages are closely correlated with national input output cooeficients. Simply to assume that there are only tariffs on final goods would not give a realistic picture of the underlying incentive structure. For some industries, in particular ferrous metal, other metal products and motor vehicles, Ethiopian input coefficients are much larger than the average Sub-Sahara African levels. This mean the estimated *ERP*s tend to understate the degree of protection enjoyed by these industries.

TABLE 3.3: IMPLICIT IMPORT DUTY RATE1 (%)

1990-91	21.8
1991-92	15.3
1992-93	20.4
1993-94	11.2
1994-95	12.9
1995-96	11.8
1996-97	12.6
1997-98	14.4
1998-99	11.7
1999-00	11.2
2000-01	10.8

Note: 1 Total import duty collection as a percentage of total import value (CIF).

Source: Ethiopian Customs Authority.

The estimates need to be qualified for three other limitations. First, despite significant trade liberalization over the past eight years there is still considerable administrative discretion impacting on import trade (see Chapter 6 on the Legal and Regulatory Environment). In the presence of such non-tariff barriers, protection enjoyed by some industries (presumable those dominated by SOEs) could be much higher than those suggested by these estimates. Second, most light manufacturing industries (textiles and garment in particular) are believed to face considerable competition from illegal cross-border imports. Illegal trade normally results in 'water in the tariff' (that is, in the presence of illegal imports the actual price-raising impact of existing tariff structure could be much lower than what is interpreted from the official tariff rates and ERP estimated based on these rates). Third, given Ethiopia's geography, 'natural' protection to domestic industry (and negative protection to export-oriented production) arising from transport cost could be substantial (see Chapter 7 on Trade Facilitation). The *ad valorem* tariff equivalents of transport cost tend to be lower for more highly fabricated goods. Therefore, in contrast to the typical tariff structure, for a given industry, the effective rates of natural protection tend to be lower than nominal rates. Moreover, in an inter-industry comparison, light manufactured goods producing industry (eg. garments, footwear, toys) naturally tends to experience lower degree of effective natural protection compared to heavy industries.

Despite these limitations, a comparison of NRP and ERP estimates reported in the Table 3.4 serve to drive home the point that the use of the latter (as is commonly done in the current Ethiopian policy debate) tends to give a misleading picture of the net resource allocation effects of the existing tariff regime. In both years for which estimates are reported, ERP estimates for most industries / product sectors are much larger than NRP estimates, reflecting the cascading nature of the tariff structures (that is, the tendency to

tax intermediate imports at lower rates compared to end products). An economy-wide weighted-average rate of protection of 22.2% in 1995 was associated with an effective protection level of 36.2%. The comparable figures for 2001 were 14.7% and 26.0% respectively.

TABLE 3.4 NOMINAL AND EFFECTIVE RATES OF PROTECTION: CLASSIFICATION, 1995 AND 2001[1]

Input-Output Industry Number3	Input-Output I-O Sector	Nominal tariff rate (%)		Effective rate of protection (ERP)2	
		1995	2001	1995	2001
	(A) Agriculture, forestry and fishing3	29.0	9.3	36.6	8.5
1	Paddy rice	30.0	5.0	35.4	3.4
2	Wheat	30.0	5.0	38.2	1.7
3	Cereal grains nec	25.8	5.0	31.4	3.7
4	Vegetables, fruit, nuts	35.4	19.7	42.6	23.2
5	Oil seeds	30.0	5.0	38.4	3.9
6	Sugar cane, sugar beet	0.0	0.0	-4.4	-2.5
7	Plant-based fibres	6.3	6.3	2.9	5.5
8	Crops nec	35.2	25.9	46.5	34.9
9	Bovine cattle, sheep and goats, horses	17.5	7.5	15.4	6.7
10	Animal products nec	24.6	17.2	26.2	22.2
11	Raw milk	0.0	0.0	-17.7	-7.4
12	Wool, silk-worm cocoons	5.0	5.0	-11.1	0.8
13	Forestry	24.1	13.8	26.9	15.0
14	Fishing	38.1	29.4	51.8	40.8
	(B) Mining3	5.1	6.7	0.8	-2.6
15	Coal	5.0	5.0	-13.2	-5.6
16	Oil	5.0	5.0	0.9	2.8
17	Gas	5.0	5.0	4.0	4.7
18	Minerals, other	10.3	6.7	-4.8	-2.6
	(C) Manufacturing3	22.7	14.9	39.1	26.6
19	Bovine cattle, sheep and goat, horse meat prods	57.5	20.0	124.4	34.9
20	Meat products, other	62.5	29.5	160.0	63.6
21	Vegetable oils and fats	31.7	27.7	87.7	117.8
22	Dairy products	37.6	26.8	90.2	71.4
23	Processed rice	30.0	5.0	39.5	-8.4
24	Sugar	50.0	5.0	218.2	-1.3
25	Food products, other	52.3	28.9	118.3	66.3
26	Beverages and tobacco products	44.6	32.7	85.4	72.8
27	Textiles	47.5	30.1	98.5	63.0
28	Wearing apparel	77.7	39.9	180.2	83.4
29	Leather products	50.8	35.5	95.9	71.9

30	Wood products	32.5	20.4	47.7	29.6
31	Annex products, publishing	26.4	12.1	38.5	11.1
32	Petroleum, coal products	7.7	5.7	21.4	9.6
33	Chemical, rubber, plastic products	17.9	11.9	23.6	16.0
34	Mineral products, other	30.0	21.6	55.5	41.4
35	Ferrous metals	6.7	6.4	-10.0	-2.3
36	Metals, other	11.5	10.0	-2.4	6.6
37	Metal products	22.6	19.8	46.8	44.7
38	Motor vehicles and parts	30.8	19.2	61.4	35.3
39	Transport equipment nec	9.4	8.9	5.3	7.6
40	Electronic equipment	23.0	21.1	33.6	35.1
41	Machinery and equipment nec	17.0	14.0	22.9	20.5
42	Manufactures nec	48.3	32.1	93.4	61.6
	Memorandum Items4				
	Weighted average	22.2	14.7	36.2	26.0
	Simple average	27.5	15.5	48.7	26.3
	CV	67.1	71.2	110.0	114.9

Notes

1 Industry classification is based on the Global Trade Analysis Project (GTAP) data base.

2 Estimated using the formula,

$ERP_j = [t_j - \sum (a_{ij} * t_i)) / (1 - \sum a_{ij})]$,

Where, t_j and t_i are the nominal (scheduled) tariff rates on given industry and input-supply industry respectively, and a_{ij} is the input coefficient indicating the share of industry *i*'s production used as inputs in industry j's output,

3 Global Trade Analysis Project (GTAP) classification.

4. Import-weighted average of the product sectors listed below.

5 Relate to the 42 I-O sectors.

Source: World Bank estimates. (Nominal tariff rates are from official Ethiopian sources. Input-output coefficients are from the Sub-Saharan Africa regional input-output table (based on data for the early 1990) in Global Trade Analysis Project (GTAP) database.

The estimates also points to a clear incentive bias in the protection structure in favor of manufacturing compared to agriculture. The level of protection for agriculture has come down at a faster rate compared to that for domestic manufacturing. The weighted-average ERP for agriculture declined from 36.6 in 1995 to 8.5 percent in 2001. By contrast, ERP for manufacturing declined from 39.1 to 26.6 between these two years. Given the limitations already noted in the data used in these estimates, the actual degree of anti-agricultural bias embodied in the tariff structure could well be much larger than what is suggested by these estimates. The anti-agricultural bias in effective protection has largely been the outcome of high protection enjoyed by input-supplying manufacturing industries.

Ethiopia does not yet have an effective, duty rebate scheme (or bonded warehouse arrangements) for compensating export producers for duties paid on imported inputs or any other significant export incentive scheme. (See Chapter 6 on the Legal and Regulatory Environment for Trade and Environment) This means that the measured

degree of ERP for domestic manufacturing essentially imply an, 'anti-export bias' of the same magnitude.

3.3 EXPORT PROMOTION

As part of the market-oriented reforms, initiatives have been taken to facilitate private sector participation in export trade. Perhaps the two major reform measures implemented to achieve this objective are the dismantling of government monopoly in coffee trade and abolishing the mandatory approval requirement for exports contracts by the NBE. Under the latter policy, exporters were required to obtain the approval of the NBE of the invoicing price before any shipment can be made. This approval requirement, which constituted an important element of the foreign exchange control regime, hampered exporting by limiting flexibility of deciding prices in line with market conditions and through and delays in obtaining approval.

A foreign exchange retention scheme was also introduced to allowing exporters to retain part of their foreign exchange proceeds. The scheme went through a series of amendments and currently exporters are allowed to retain 10% of their proceeds for an indefinite period and of course sell the remaining within 28-days.

There is a Bonded Manufacturing Warehouse Scheme and an import duty rebate scheme aimed at providing exporters of manufactured goods at world market prices (The schemes were announced in 1993, but the Ministry of Finance issued implementing directives only three years later). These schemes however remain virtually inactive because of administrative bottlenecks and some opaque operational rules. Exporters of manufactured goods currently rely sole on an import voucher scheme to obtain duty exemption on imported input. Under this scheme Ministry of Finance and Economic Development issues vouchers to be used as deposit for duties payable.

An Export Promotion Council (EPC) consisting of high level government officials, exporters, and service providers led by the Prime Minster was set up in 1992 to design, implement and monitor export development policies. The EPC was reconstituted as the Ethiopian Export Promotion Agency in 1999 to implement a wide-ranging export development agenda including conducting market research; facilitating participation of exporters in trade fairs, exhibitions and trade missions; and disseminating market information.

However, the only export support service EEP has provided to exporters is the publication of a bi-monthly newsletter "Trade Point", which lists few addresses of importers and exporters and itemizes certain tradable products. The performance report presented last year to the Parliament by the General Director of EEP indicated that the Agency had so far been preoccupied with its own capacity building: designing regulations, organizational restructuring, establishing information system and training

its personnel [Abebe, 2002]. The Agency also suffers from financial constraints, lack of skilled and experienced personnel, and inadequate facilities, and asked for the creation of an "Export Development Fund" to provide the intended service at least in a cost-sharing basis [Berhanu, Kibre and Worku, 2002.

To cushion banks against the risk of export financing by banks, the NBE has established an Export Credit Guarantee Scheme. This scheme aims to encourage banks to provide non-coffee exporters with short-term credit for working capital requirements relating to exporting of all products other than coffee.

The Ministry of Foreign Affaires has taken some initiatives to promote Ethiopian exports through its commercial attaches in foreign diplomatic missions. The tasks assigned to commercial attaches include gathering information about trade fairs, facilitating trade missions, distributing leaflets, and organizing discussion forums. Ministry of Trade and Industry (MOTI) has a foreign trade department, which largely focuses on policy related issues (See Chapter 8 on Institutions and Institutional Support for Trade).

According to a survey conducted by the Ethiopian Economic Association [Berhanu, Kibre and Worku, 2002] exporters have not benefited much from these various government-sponsored export support services. Although private sector business associations have made some attempts to fill this gap, little progress has been made because of various financial and institutional constraints.

FIGURE 3.1A: ETHIOPIA: REAL EXCHANGE RATE INDICES, RER1 AND RER2

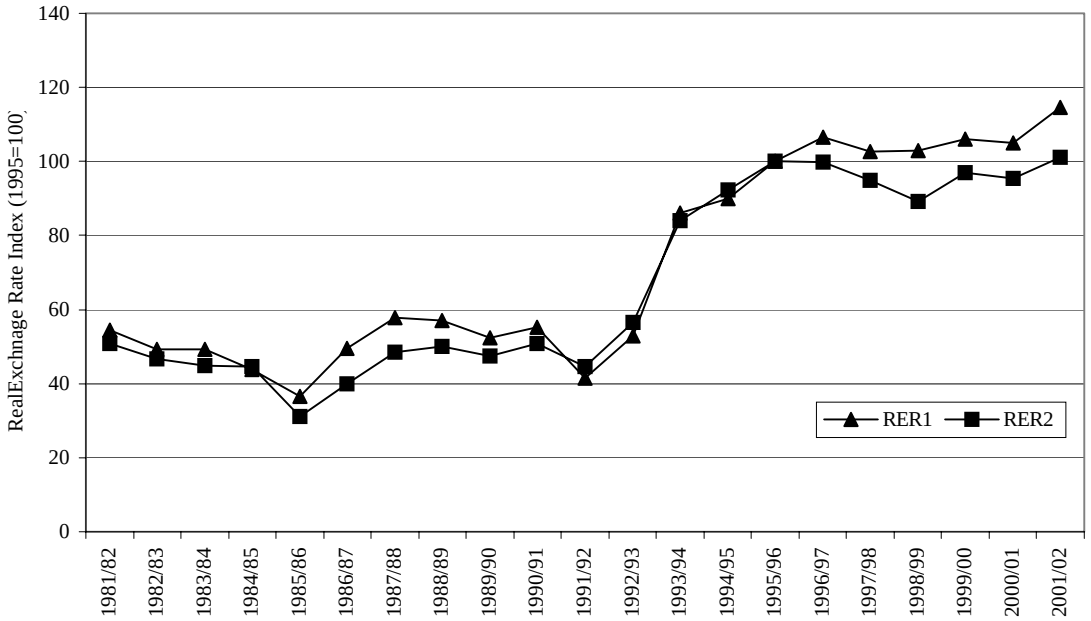


FIGURE 3.1 B: ETHIOPIA: REAL EXCHANGE RATE INDICES, RER3 AND RER4

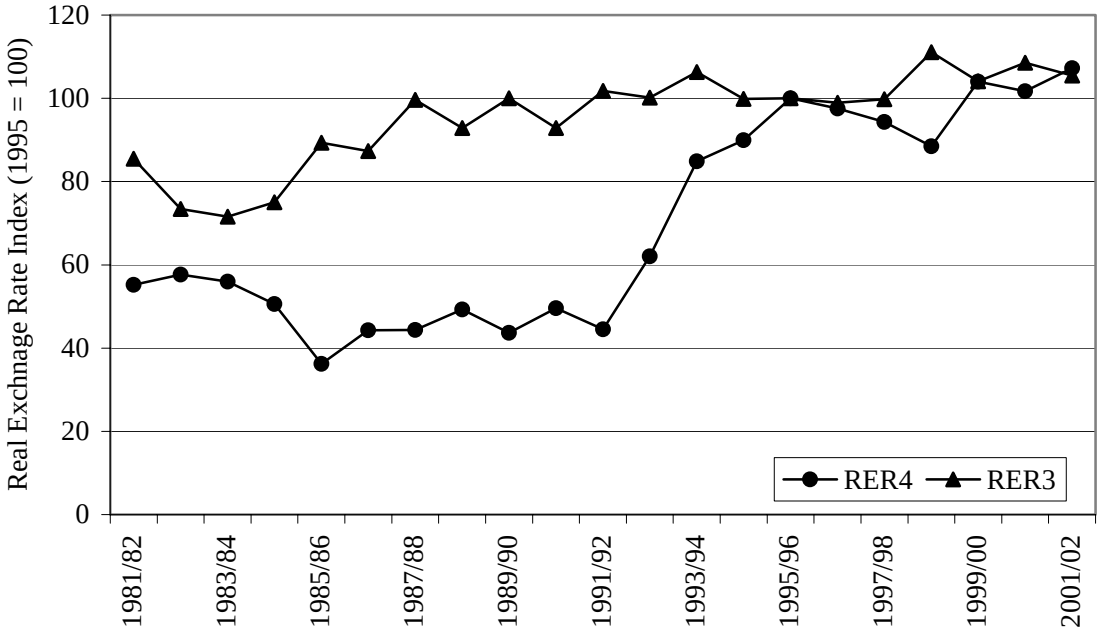
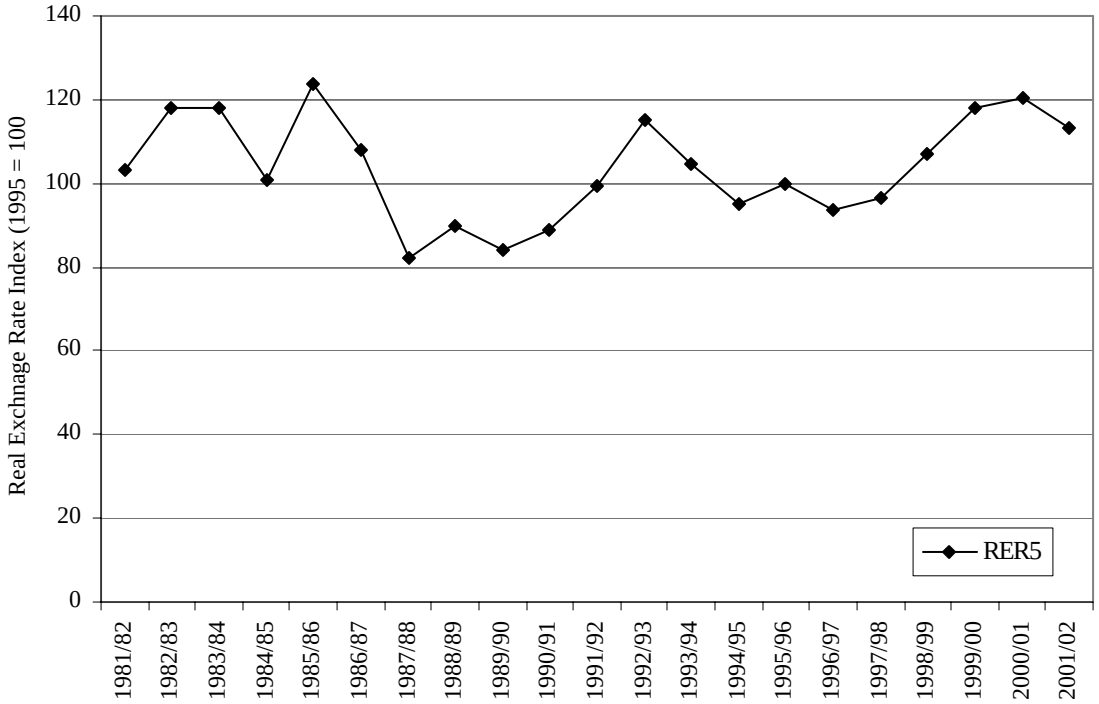


FIGURE 3.1 C: ETHIOPIA: REAL EXCHANGE RATE INDEX, RER5 (AGRICULTURAL TERMS OF TRADE)



3.4. COMPETITIVENESS OF THE ETHIOPIAN ECONOMY

The term international competitiveness is used here to refer to price competitiveness of domestically produced goods *vis-à-vis* foreign produced goods, both in domestic and world markets. The indicators commonly used to measure a country's competitiveness in international trade are collectively known as measures of the 'real exchange rate (*RER*)'. The *RER* is a deceptively simple concept that has different meanings in different contexts. The precise definition of the term in a given context is important to ensure clarity in analysis and discussion.

Five real exchange rates have been complied for the study showing various forms of competitiveness.

RER1 and RER2 measure 'internal competitiveness' (that is relative competitiveness of traded goods production compared to non-tradable production in the domestic economy). Foreign prices refer to the trade weighted wholesale price indexes (WPI). This is the more appropriate choice for capturing world tradable prices. RER1 is estimated using the CPI that is the most widely used to measure domestic inflation, RER2 uses the GDP deflator (GDPP). This is preferable for two reasons: first, GDPP naturally provides a broader (economy-wide) coverage of domestic price movements compared to the CPI which capture price trends in Addis Ababa. Second, CPI, being a

'politically visible' economic indicator may not be wholly accurate (Athukorala and Rajapatirana 2003).

RER3 aims to capture international competitiveness of domestic manufacturing. Here the implicit price deflator of manufacturing production derived from the national accounts is used as the domestic price measures. Conceptually, this price index should capture the net effect of exchange rate variation and tariff reforms on the domestic prices faced by domestic manufactures. Thus RER3 should reflect the relative competitiveness of domestic manufacturing both in domestic and international markets. RER4 is an index of internal competitiveness of domestic manufacturing that measures relative profitability of manufacturing production vis-à-vis non-tradables production. Finally RER5 is an index of internal competitiveness of domestic agriculture relative to domestic manufacturing. An alternative term for it is the agricultural terms of trade (AGTOT).

The five RER series estimated for Ethiopia over the period 1981/82 are reported in Table 3.5. The series are plotted in Figures 3.1A through 3.1C. All five RER series generally point to an improvement in the particular aspect of competitiveness over the post reform years, in particularly from about 1994-95. A comparison among the indices, however, reveals some noteworthy differences.

- Improvement in internal competitiveness (that is relative competitiveness of tradable production vis-à-vis non-tradable production) revealed by RER2 is relatively smaller in magnitude compared to the degree of improvement measures in terms of RER1. The reason is that domestic inflation rate measured by CPI has been relatively smaller in magnitude compared to that measured by the GDP deflator (Figure 3.1A). The upshot is that the common method of using the CPI (which presumably incorporate some regulated prices) overstates the improvement in competitiveness.
- Both international and internal competitiveness of domestic manufacturing has improved following the reforms. The relative improvement in internal competitiveness (that is profitability of domestic manufacturing compared to domestic non-tradable activities) is slightly smaller, but the estimates clearly suggest that the price raising impact of exchange rate depreciation has been powerful enough to compensate for the price-lowering effects of trade policy reforms in maintaining competitiveness of domestic manufacturing production (Figure 3.1B).
- RER5 (agricultural terms of trade) has recovered from the low levels prevailed during 1984-85 to 1991-92. However the degree of improvement in profitability indicated by this index is the lowest compared with the improvements recorded by the other four indices. Deterioration in world- market prices of the major export products (coffee in particular) may have depressed agricultural prices relative to manufacturing prices.

TABLE 3.5: COMPARISON OF TOTAL GTAP INPUT COEFFICIENTS (USED IN ESTIMATING ERP) AND ESTIMATES FOR ETHIOPIA BY I-O INDUSTRIES

I-O Industry	GTAP input coefficient for Sub-Saharan Africa, circa 1990	Ethiopia 2000/01
Bovine cattle, sheep and goat, horse meat prods	59.9	NA
Meat products nec	63.8	59.6
Vegetable oils and fats	68.7	78.6
Dairy products	54.3	47.1
Processed rice	66.2	NA
Sugar and confectionary	70.5	17.3
Food products nec	65.0	47.1
Beverages and tobacco products	55.4	23.1
Textiles	46.5	52.7
Wearing apparel	54.8	51.2
Leather products	53.4	72.5
Wood products	52.6	25.8
Annex products, publishing	51.0	46.6
Petroleum, coal products	82.0	NA
Chemical, rubber, plastic products	54.1	52.0
Mineral products nec	42.3	17.4
Ferrous metals	45.8	70.5
Other metal products	46.3	77.3
Metal products	52.9	49.9
Motor vehicles and parts	54.8	68.8
Transport equipment nec	48.9	NA
Electronic equipment	49.7	NA
Machinery and equipment nec	49.9	42.7
Manufactures nec	41.6	47.7
Total	57.5	45.6

Source: GTAP data base and Ethiopian Central Statistical Authority, *Report on Large and Medium Scale Manufacturing*, April 2002.

TABLE 3.6: ETHIOPIA: ALTERNATIVE REAL EXCHANGE RATE SERIES, 1981-2002 (1995 =100)

	RER1	RER2	RER4	RER4	RER5
1981 / 82	54.5	50.7	55.2	85.5	103.1
1982 / 83	49.3	46.7	57.6	73.4	117.9
1983 / 84	49.2	44.8	56.0	71.6	118.2
1984 / 85	43.7	44.7	50.6	75.0	101.0
1985 / 86	36.6	31.0	36.2	89.4	124.0
1986 / 87	49.5	40.0	44.3	87.3	107.9
1987 / 88	57.7	48.5	44.3	99.6	82.2
1988 / 89	57.1	50.1	49.3	92.9	90.0
1989 / 90	52.3	47.4	43.6	100.0	84.3
1990 / 91	55.3	50.9	49.6	92.9	88.9
1991 / 92	41.5	44.6	44.5	101.8	99.4
1992 / 93	52.9	56.5	62.0	100.2	115.4
1993 / 94	86.0	84.1	84.9	106.3	104.8
1994 / 95	90.0	92.2	89.9	99.9	94.9
1995 / 96	100.0	100.0	100.0	100.0	100.0
1996 / 97	106.4	99.8	97.5	99.0	93.8
1997 / 98	102.7	94.9	94.3	99.8	96.4
1998 / 99	103.0	89.3	88.5	111.1	107.0
1999 / 00	106.0	97.0	104.0	104.1	118.3
2000 / 01	105.1	95.4	101.7	108.5	120.6
2001 / 02	114.5	101.2	107.2	105.5	113.3

Notes:

RER1 = $NER*WPI_w / CPI_{d;}$ RER2 = $NER*WPI_w / GDPP$

RER3 = $NER* WPI_w / MFDF$ RER4 = [MFDF / NTDF]*100

RER5 = {AGDF / MFDF]*100

NER: Trade weighted nominal exchange rage of trading partner countries,

WPI_w: Trade-weighted wholesale (producer) price index of trading partners,

CPI_d: Domestic Ethiopian): consumer price index;

GDPP Ethiopian GDP deflator

MFDF The implicit GDP deflator for manufacturing production

MFDF The implicit GDP deflator for nontradables

AGDF, The implicit GDP deflator for nontradables

Source: Compiled for data obtained from World Bank, *World Development Indicators database* and IMF, *Direction of World Trade Yearbook 1996* (for trade shares)

3.4 CONCLUSION

The following conclusions emerge from the analysis of competitiveness of Ethiopian products. First, there has been an improvement in competitiveness overall in Ethiopia following the reforms of the early 1990s. This can be attributed to the managed floating exchange rate regime of the country and the maintenance of fiscal and monetary stability despite significant external shocks. Second, competitiveness measured by the RER1 using the CPI as the relevant price index overstates the competitiveness of the economy. Third, agriculture competitiveness was less than that of manufactures, probably also due to the terms of trade shocks that were associated with the decline in coffee prices. Finally, it is observed that public enterprises that are associated with more capital intensive sectors tend to be protected more, contrary to the allocation of resources that could take place under a more liberalized and private sector driven economy, particularly those relating to manufacturing. Thus, reducing the size of the public sector could serve greater competitiveness through the better allocation of resources.

CHAPTER 4:
MARKET ACCESS: BEYOND THE BORDER ISSUES

4.1 INTRODUCTION

Efforts by Ethiopia to address poverty and raise general living standards through trade policy reforms, creation of infrastructure and institutions for the purpose will not be fully realized to the extent it faces market access constraints. Moreover, such beyond the border barriers prevent the country from diversifying its trade structure particularly exports, leading to continuous instability in export receipts. In particular diversification would be hampered by low export growth.

In spite of some progress in the second half of the 1990s, Ethiopia's export bundle remains relatively small and very concentrated, both in terms of products and markets. Moreover products exported by Ethiopia have been experiencing negative growth in world markets, even though some of Ethiopia's exports have sometimes been able to grow in these declining markets by capturing a larger market share. Part of the explanation lies in the fact is that products exported by Ethiopia faces higher tariffs and quantitative restrictions in both developed and developing countries

4.2 EXPORT DEVELOPMENTS

Exports contributed on average 0.8 percentage points per year to the 2.2 percent average GDP growth during 1993-1998 and accounted for 36 percent of total GDP growth.[4] Between 1998 and 2001 exports have been declining at a high annual rate of 8 percent[5]. Part of this decline is due to the deterioration of Ethiopia's terms of trade. The price index of Ethiopia's export bundle declined by 22 percent over this four year period – mainly driven by a deterioration of the price of coffee in world markets. There is not a single product exported by Ethiopia that has experienced a growing demand in world market in the late 1990s. However, the declining trend reversed in 2002 with exports increasing by 5.9% compared to 2001.

More than half of Ethiopia's exports went to the European Union in 1995. Four countries (EU, Japan, Djibouti and Saudi Arabia) represented more than 80 percent of

[4] The export growth between 1993 and 1998 (before the war with Eritrea) has been much higher: around 2.3 percent, whereas the average GDP growth during that period was only slightly higher: 2.6 percent. During that six year period, the average contribution of exports to GDP growth was around 1.6 percentage points or 62 percent of GDP growth. Note that part of the reason for the decline in exports between 1998 and 2001 could also be attributed to declining terms of trade. The index of Ethiopia's export prices went down 22 percent during this period. Source for all these data is the World Bank's Africa region database.

Ethiopia's exports (see Figure 1). By 2000, the European Union (EU) only absorbed 34 percent of total exports. The top four importers of Ethiopia's were still the same (EU, Japan, Djibouti and Saudi Arabia), but their share fell to 65 percent (see Figure 2).

4.3. TARIFF BARRIERS

Ethiopia's export bundle is generally subject to higher tariffs in both developing and developed countries. In a sample of 114 countries (for which tariff information available at the six digit of the HS), 87 countries impose a higher tariff on products exported by Ethiopia than on products on exports by other countries in the sample. (See Table 1)

On average, across the whole spectrum of countries, the tariff imposed on products exported by Ethiopia is 25 percent higher (17 versus 13 percent). In nine countries, the tariff imposed on Ethiopia's export products is double their average tariff. These includes the EU –Ethiopia's main trading partner—where the average MFN tariff on products exported by Ethiopia is 16 percent instead of the 8 percent average over all products.[6]

4.4. NON-TARIFF BARRIERS AND ETHIOPIA'S EXPORTS

Non-tariff barriers (NTB) represent a serious problem for Ethiopian exports, especially in the QUAD, and are directed towards agriculture and livestock related products. Sanitary and phyto-sanitary requirements in QUAD markets, for these products are costly to meet when technically possible. Cereals, buckwheat, citrus and meat of sheep and goats are all exported by Ethiopia but not to QUAD countries.

All of the top 10 export products at the 6 digit of the HS (representing around 90 percent of exports) are subject to some type of NTB in all QUAD markets. These include technical requirements and tests to protect human health (coffee for example) and technical requirements to protect animal health (meat of sheep or goat) or non-automatic licenses or labeling requirements. The costs associated with satisfying these standards are not easily determined, but if one accepts the 10 percent value suggested in some recent studies,[7] the cost could be as high as 4 percent of total Ethiopian exports ($20 million).

[6] Some may argue that Ethiopia is a LDC and therefore enjoys duty and quota free access under the EU's Everything But Arms GSP program. For a discussion of benefits to Ethiopia associated with EBA see the next section.

[7] See World Bank (2000), *Global Economic Prospects*, chapter 4 and references therein.

4.5 IMPROVING MARKET ACCESS

Tariffs and non-tariff barriers abroad act as important barriers to export growth and diversification efforts of Ethiopia. Here the study estimates potential export gains for Ethiopia associated with the elimination of these barriers through multilateral, regional or bilateral trade negotiations. First optimistic scenarios are assumed to indicate what a complete elimination of barriers would do. Then a more realistic benchmark is used to indicate the outcomes under different simulations. These are considered under multilateral, regional and bilateral levels.

At the multilateral level the study considers a 50 percent reduction in subsidies across all WTO members, an optimistic outcome of the Doha agenda.

At the regional level the study estimates the potential export gains associated with full duty free access to COMESA members. Ethiopia as a member of COMESA, is expected to adopt the Common External Tariff by 2004. However, to date it provides no duty free access to other COMESA members and therefore does not enjoy any preferential access for its exports to COMESA members' markets.

At the bilateral level, the study considers two recent initiatives by two of Ethiopia's major trading partners: the European Union (EU), which represents 34 percent of Ethiopia's exports; and the United States, which is the sixth largest export market for Ethiopian products. The EU offers duty free and quota free access for all Ethiopian export products (except arms) under its Everything But Arms (EBA) initiative. The United States offers duty free access for a large set of Ethiopian products under its Africa Growth and Opportunity Act (AGOA).

TABLE 4.1: INCREASE IN EXPORTS FOLLOWING PREFERENTIAL ACCESS TO DIFFERENT MARKETS ('00 US$)

Product	COMESA	EBA	AGOA	Saudi Arabia	Japan
Hides-Skins	0	0	0	0	0
Meat	58204	211014	0	0	0
Sugarcane	0	0	12509	6720	0
Milk	0	51254	0	0	0
Barley	15499	28380	0	2790	7750
Maize	15535	73405	0	3797	36397
Millet	0	4349	0	775	0
Sorghum	0	45072	308	5384	0
Wheat	8484	93554	0	9898	14259
Oilseeds	0	0	10555	2319	0
Coffee	0	0	0	0	0
Pulses	0	0	0	0	0
Food products	0	0	0	0	0
Beverages	0	0	0	0	0
Tobacco	0	3145	865	0	0
Textiles	0	0	0	0	0
Wearing apparel except footwear	0	0	0	0	0
Leather products	0	0	0	0	0
Footwear except rubber or plastic	0	0	0	0	0
Wood products except furniture	0	0	0	0	0
Furniture except metal	0	0	0	0	0
Paper and products	236	0	0	39	0
Printing and publishing	1490	0	0	0	0
Industrial chemicals	126	0	0	72	0
Other chemicals	1089	0	0	0	0
Petroleum refineries	0	0	0	0	0
Miscellaneous petroleum	0	0	0	0	0
Rubber products	0	0	0	0	0
Plastic products	0	0	0	0	0
Pottery china earthenware	0	0	0	0	0
Glass and products	0	0	0	0	0
Other non-metallic mineral products	0	0	0	0	0
Iron and steel	1388	0	0	839	0
Non-ferrous metals	0	0	0	0	0
Fabricated metal products	0	0	0	0	0
Machinery except electrical	40	0	0	9	0
Machinery electric					
Transport equipment	464	0	0	0	0
Professional and scientific equipment	0	0	0	0	0
Other manufactured products	0	0	0	0	0
TOTAL	102555	510172	24237	32642	58406

Source: Central Statistic Authority, Statistical Abstract, 2001, Addis Ababa; UNIDO database, FAO database, UNCTAD's Trains database; OECD (2000) Tariff Compendium; Hoekman, Ng and Olarreaga (2002), Working Paper Series #2918m The World Bank and World Bank's staff calculations.

Table 4.2 provides information on production by sector in Ethiopia as well as tariffs in Ethiopia and some of its main trading partners. Changes in world prices associated with a 50 percent reduction in agriculture subsidies and tariffs are also provided in

Table 4.2.[8] Products that were exported in the year 2000 are highlighted in italics in Table 4.2.

4.5.1 WTO

A reduction of 50 percent of agriculture subsidies across all WTO members could bring an increase in Ethiopian exports of $4 million.[9] The largest increase in exports is in Sorghum.[10] Only $256 thousand of Sorghum were exported in 2000 (mainly to Djibouti), but these simulations suggests that following a 50 percent reduction in agriculture subsidies across all WTO members, exports of Sorghum form Ethiopia could increase to $2.5 millions. This would imply a large re-orientation of domestic production out of domestic sales to export markets. Exports of coffee and sugar would also increase by a little bit less than $1 million each.

A 50 percent reduction in agriculture tariffs by WTO members would bring an increase in exports twice larger (or $10 million). Exports of Sugar Cane would double –an increase of $7 million. Products that will also see an increase in exports include Coffee, Millet, and Sorghum, but they will all increase by less than $1 million.

To summarize, the Doha Agenda will probably have a limited impact on Ethiopia's exports in the short run. The simulations suggest that even if tariffs and agriculture subsidies were eliminated across all WTO members in the Doha Agenda –a very optimistic scenario-- the increase in Ethiopia's exports would only reach $30 million (or 6 percent of current exports).[11]

[8] For the methodology that allow for the calculation of these changes in prices and data description see Hoekman, Ng and Olarreaga (2002), "Reducing agriculture domestic support vs tariffs: what's more important for developing countries?", Policy Research Working Paper #2918, The World Bank.

[9] All the simulations in this section assume an elasticity of supply equal to zero. Thus the increase in exports comes only through price increases and re-directing domestic sales to export markets. We also set the elasticity of substitution between domestic and export products at 2. Finally, in the case of increases in world prices –i.e., in the WTO sections—we only allow for an increase in exports if the product was originally exported. The idea is that increases in world prices would only increase domestic production, but not exports if the product was not originally exported. This may under-estimate the increase in exports if the changes in world prices are sufficiently large to provoke a trade pattern reversal.

[10] Meat products generally experience a large increase in world markets and Ethiopia exports and produces a large amount of meat products. However, it exclusively exports Goat Meat (HS 020450) to Saudi Arabia and Algeria. Production of these products are not heavily subsidized across WTO members and therefore the increase in exports of Meat products is actually negligible.

[11] The numbers given above need simply to be doubled, as the models used are linear on changes in subsidies, tariffs and world prices. For more on modeling see Hoekman et al. (2002), quoted above.

4.5.2 COMESA

Duty free access to COMESA members can significantly increase Ethiopian exports.[12] The second column of Table 3 provides estimates of the increase in Ethiopian exports associated with full preferential access to COMESA. Total exports may increase by more than $ 100 million (or more than 20 percent of current exports). Almost 60 percent of the total increase in exports would occur in Meat products. Currently Ethiopia is only exporting Meat products (Goat Meat) to Saudi Arabia and Algeria for a total of $3 million. Thus, this would represent a significant increase in Meat exports. However, the ratio of exports to domestic production will remain below 6 percent. Exports of Barely and Maize can increase by more than $30 million also.

Manufacturing exports would increase by $5 million or slightly more than 1 percent of current exports. The main increase would occur in Iron and Steel (ISIC 371), Printing and publishing (ISIC 342), and Other chemicals (ISIC 352).

To summarize, duty free access to COMESA members can not only provide a significant increase in exports, but may also help diversify Ethiopia's export bundle.

4.5.3 Everything But Arms (EBA)

EBA grants full duty free access to all products exported from Ethiopia to the European Union (EU). The simulations suggest that if EBA was to fully work, then Ethiopian exports could more than double. All of the increase occurs in agriculture products. A very important and crucial assumption behind these estimates is that there are no sanitary or phyto-sanitary restrictions in the EU that could prevent such an increase.

More than 40 percent of the increase would occur in Meat products which will increase by more than $200 million and exports to the EU would reach 20 percent of domestic production. Exports of wheat would reach $94 million or 30 percent of domestic production. Similarly, Maize exports would reach $73 million or 20 percent of production. These numbers are very large and probably unrealistic, but they suggest that in the absence of SPS restrictions or rules of origin, exports from Ethiopia could significantly increase under the EBA initiative. It also indicates the potential income loss to Ethiopia due these barriers.

Unfortunately these are largely optimistic assumptions. Of the $50 million exported by Ethiopia to the EU in 2001 that could potentially benefit from EBA treatment (the rest

[12] The assumptions here are as described in footnote 18. The only difference is that because we are dealing with preferential access rather than increases in world prices, we take as the change in export price the difference in tariffs between Ethiopia and COMESA. This time given that there is preferential access all products can become exported to the partner providing preferential access (i.e., we may be observing trade diversion that will benefit Ethiopia's producers).

are exports in products where the EU MFN tariff is zero), only $4 million actually entered under the EBA program.[13] Thus it is likely that the optimistic scenario, assuming that everything that would be granted duty free access is not likely to come to pass. In any case, even if only 10 percent of the simulated increase occurs –as suggested by figures provided above for the year 2001—this would still imply an increase in exports of 10 percent or more than $40 million.

4.5.4 African Growth Opportunities Act (AGOA)

AGOA only provides duty free access to certain products into the US market. In the simulations reported in Table 4.3 (fourth column) it is assumed that AGOA provides duty free and quota free access to all products. Also, as in the case of EBA and For COMESA, it is assumed that non-tariff-barriers and rules of origin do not represent a significant barrier to exports to the United States under the AGOA regime. Under these assumptions, exports of Ethiopia could increase by as much as $24 million or 5 percent of 2000 exports.

More than 50 percent of the increase in exports would be observed in the Sugar sector. Exports of Sugar to the United States would then represent 10 percent of domestic production. Exports of Oilseed would also significantly increase by more than $10 million. However, as in the case of EBA, these simulated increases in exports would probably be much smaller due to rules of origin and other non-tariff-barriers (e.g., SPS). Of the $21 million exported to the United States in the first three quarters of 2002, only $1.9 million actually benefited from AGOA preferences (less than 10 percent).[14] Apparel exports were an exception with all of the $1 million of apparel exported during the first three quarters of 2002 entering under AGOA preferences.[15] On the other hand, only 10 percent of agriculture exports, which represented more than 90 percent of Ethiopia exports to the United States in the first three quarters of 2002, benefited from AGOA preferences. Thus, if one were to apply the 10 percent ratio to the simulations that assume no friction, the increase in Ethiopia's exports associated with AGOA would be only 0.5 percent.

[13] See Paul Brenton (2003), "The value of trade preferences: the economic impact of Everything But Arms", mimeo, The World Bank.

[14] See USITC web site at http://reportweb.usitc.gov/africa/by_country.jsp.

[15] Note however that as discussed by Olarreaga and Ozden (2003), "AGOA and Apparel exports" mimeo, The World Bank, African exporters of apparel only seem to grab a third of the tariff preference granted under AGOA. The other 2/3 are captured by US importers.

4.5.5 Other Markets (Japan and Saudi Arabia)

The study has considered improvements in market access in two additional important export markets for Ethiopia: Japan, which represents 12 percent of exports; and Saudi Arabia, which accounts for 8 percent of Ethiopian exports. In the case of Japan, it has actually extended its list of GSP preferences granted to LDCs in 2001 to include a large number of products. The simulations provided here assume that all products would enjoy duty free access to the Japanese market. Moreover, as in all previous simulations, no friction from non-tariff-barriers or rules of origin, are assumed. Saudi Arabia is included in these simulations because it is an important trading partner for Ethiopia.

Full duty free access to the Japanese market could provide an additional $58 million dollars, as shown in Table 4.3 (last column). Exports of Maize to Japan would increase by as much as $36 million dollars –around 10 percent of domestic production. Exports of wheat would also experience a large increase: $14 million. Again phyto-sanitary measures are likely to be a source of friction.[16]. If one applies the 10 percent rule (observed in the EU under the EBA initiative and in the US under AGOA), then the total increase in exports would represents slightly more than 1 percent of current exports.[17]

In the case of Saudi Arabia, the increase is even smaller. Without any friction, exports would increase by as much as $32 million. The increase in exports is quite equally distributed across all agricultural products. The largest increase would be experienced in Sugar cane and Wheat. Again, rules of origin and other barriers may lead to a much smaller increase in exports. If one applies the 10 percent rule, then the increase in exports associated with duty free access to Saudi Arabia (obtained under bilateral or unilateral concession) would be less than 1 percent of current Ethiopian exports.

4.6 ETHIOPIA: WTO ACCESSION

Ethiopia has recently applied for accession after having been an observer for the last five years. That status has been renewed and will prevail until accession takes place.[18] Ethiopia has come to this decision after considerable deliberation.

There are many benefits to membership in the WTO. Principal among them are the following: (a) poor and small countries including Ethiopia have no redress to trade rules in relation to he large and rich countries if they remain outside the rule-based trade system. (b) Ethiopia can avail itself to well established processes for impartial

[16] Customs information on the extent to which Ethiopian exporters have been able to benefit from preferential access to the Japanese market under its GSP program is not available at this time.

[17] Note that in the year 2000, 96 percent of Ethiopia's exports to Japan were coffee (HS 090111).

[18] See WTO document WT/ACC/ETH/1. Its request for accession was welcomed by the WTO members at the General Council Meeting of 11 and 12 February 2003. The General Council has agreed to establish a Working Party on Ethiopia's accession.

dispute settlement as a member of the WTO. (c) Ethiopia has already undertaken many trade reforms that have lowered its own barriers and the economy is more open now than in the last two decades. WTO accession will help the country to reap larger benefits from its own trade reforms. (d) Membership in the WTO and meeting of various obligations including the binding of its tariffs is a guard against domestic interests groups that may lobby for protection for furthering their own interest at the expense of national interest. (e) Membership in the WTO will send a strong signal that the country is committed to the various obligations and rules with respect to trade that also spills into investment and thus would be a factor in attracting foreign direct investment. (f) the accession process itself will help Ethiopia to address some of the remaining barriers to trade such as high tariffs in some sectors, opening some remaining sectors to foreign investment and adopting rules for contingent protection such as for anti-dumping, safeguards, subsidies and countervailing duties (g) as a member Ethiopia can influence the outcome of multilateral trade negotiations by working with other countries that have similar interests with respect to commodities and markets and (f) finally, membership entails analysis of the country's trade regime under the Trade Policy Reviews that allow the evaluation of the trade regime on a regular basis and also provide information to potential trading partners and future investors in Ethiopia.

As the estimates above show, there will not be an immediate benefit except to signal the international community that Ethiopia's trade regime is bound to international rules of the game. Also, even if Ethiopia were not a member it could get benefits from the trade liberalization of others, since they are done on a most favored nation basis. But for the reasons given above, Ethiopia would benefit in the medium term to the long term.

Accession to the WTO involves acceding to it basic rules and disciplines. These include, three multilateral agreements (GATT, GATS and TRIPs) and their enforcement through consultation, transparency and dispute settlement mechanisms. The agreements have both policy and institutional implications. Meeting these obligations may be considered a "cost" in some sense. But it may not be significant for several reasons. First Ethiopia has already undertaken reforms that are consistent with WTO rules and disciplines such as non-discrimination, reduction of quantitative restrictions to less than 2 %of imports. Second, it also does not impose performance standards either for exports or FDI. Nor does it change trade policies arbitrarily or in a non-transparent manner. It will however need to discuss issues relating to the GATS agreement with respect some services such a financial services, telecommunications and tourism where there are restrictions on foreign participation. In these fields it can enter into discussions with the working party and agree to the extent and a timetable for bringing these sectors into compliance over a mutually agreed timetable. There will of course be costs associated with the implementation of Intellectual Property Rights.

As a least developed country, Ethiopia can take recourse to a longer period for implementation, even though earlier reforms that are beneficial to the country could

bring earlier benefits through greater competition and increased transparency. Some could argue that since other countries who are members of the WTO extend concession to all on a most favored nation basis, Ethiopia could "free –ride" to gain access to markets without having to meet WTO obligations. But this is not a longer term or viable situation because in certain areas concessions are extended only to the WTO members such as the Textile and Clothing Agreement. Besides, a non-member has no recourse to the dispute mechanism. For example, since Ethiopia's faces formidable barriers in the area of sanitary and pyto-sanitary barriers, it can use the WTO accession process to improve domestic capability to adhere to standards and to work together with its development partners to address this issue.

First, there will be initial work to be borne in terms of preparation for accession, which is of course a one-time cost. This implies first a description of the trade and economic policies of the country such as what is provided by the present study to a large extent. Second, it entails engaging into discussions with the working party to discuss principles and policies with respect to accession and membership and also conduct negotiations in parallel with different trading parties with respect to tariff rates, specific market access commitments and other policies in goods and services. Third, once the work with the working party is completed and the parallel bilateral market access is negotiations are also completed the working party will finalize the terms of the accession. These will be put in a draft membership treaty or protocol of accession and lists of the commitments that Ethiopia has agreed on. Finally, when the report of the working party is completed, the protocol and the list of commitments are presented the WTO General Council will take a vote. If two thirds vote in favor , the country is free to sign the protocol. It may be necessary to have the legislature to ratify the agreement.

4.7 CONCLUSION

Ethiopia's decision to join the WTO augurs well for the country's development efforts as it will come under multilateral rules and disciplines. There will be some short-term costs to prepare for accession and to adopt rules and regulations consistent with WTO rules and disciplines. The country has already gone substantially ahead with its own reforms, what remain are mainly in areas relating to institutions and adopting the appropriate laws. Ethiopia will have a longer period to adapt to all the rules in its status as a least developed country compared to other developing countries. Assistance for the accession in terms of design of policies, rules and change of institutions is available from donor sources.

CHAPTER 5:
FOREIGN DIRECT INVESTMENT AND TRADE

5.1. INTRODUCTION

Market-oriented policy reforms in Ethiopia over the past decade have placed a major emphasis on attracting foreign direct investment as a means of achieving rapid industrial growth. This chapter documents the evolution of government policy towards foreign direct investment (FDI) during this period and assesses the outcome, with a view to providing broad direction for further policy reforms. The chapter also reviews the current state of investment; trends and patterns of FDI inflows to the country, and the role of FDI in export expansion.

FDI can help the transformation of the present economy to a modern economy in a number of ways. It can supplement domestic savings by facilitating resource transfer to the Ethiopia to raise the level of investment. Equally, importantly it will be an efficient conduit for the transfer of technical and management know-how, so essential for a modern economy. It can also serve as an instrument to foster market access. As seen in Chapter 4, market access issues are crucial for the transformation of the economy, to raise general living standards and to support poverty reduction. While the FDI regime is more open than ever in Ethiopia since the early 1990s, the country receives much less FDI than other Sub-Saharan African countries. Many sectors can benefit from FDI including textiles and garments, horticulture, tourism, leather products and light industry. However, some sectors are not open to FDI at present, despite the change in the FDI regime. FDI can help Ethiopia take greater advantage of market opportunities offered by AGOA and EBA, among other preferential access granted by a host of industrial countries. Moreover, in the medium term, when trade barriers are reduced following the adoption of a CET with COMESA, FDI can take advantage of a larger market. There are some existing barriers to FDI and constraints in the policy environment with respect to the legal framework, institutional make up of the country and inadequate infrastructure to facilitate trade. Thus FDI policy has to be cast as one aspect of the transformation of the economy and be supportive of the overall strategy as articulated in the PRSP.

5.2. FDI POLICY IN ETHIOPIA

The present regulatory regime governing FDI in Ethiopia has undergone significant changes as part of the reform process started in 1992/93.[19] The main features of the present regulatory regime are summarized as follows.

[19] The key proclamations of these changes are 7/1996, 37/1996, 35/1998, 36/1998, 116/1998, and 168/1999 and 280/2002.

More sectors are now open to foreign investors. However, there are numerous sectors currently reserved for domestic private investors and the State. Trade is still excluded from FDI. Transmission and supply of electrical energy and postal services with the exception of courier services are exclusively reserved for the government. Manufacturing of weapons and ammunitions as well as the provision of telecommunication services are open ventures both foreign and domestic investors only with joint venture with the Government. Generation of electricity from hydropower is allowed for both foreign and domestic investors without any limitation on generation capacity. Banking and insurance businesses are open only to Ethiopian nationals.

Ethiopian FDI policy does not require foreign firms to meet specific performance goals or guidelines, for instance, in terms of exports, foreign exchange restrictions for imports, minimum local content levels in manufactured goods, or employment limits on expatriate staff. This portends well for the future accession to the WTO.

Ethiopia has signed the World Bank's convention on the settlement of Investment Disputes and Nationals of other States. MIGA (Multilateral Investment Guarantee Agency) guarantee program will become operational as soon as pending claims for compensation left over from the period of the previous military Government have been resolved.

The main investment incentives offered to foreign investors are the following:

- Foreign investors are fully exempted from customs duties and import tariffs on all capital equipment and up to 15% on spare parts; and from export taxes. Income tax holidays are given varying from one to five years (depending on the sector and region within Ethiopia), taxes deductible from R & D expenditures and capital remittance are tax-exempt.
- Foreign investors could carry forward initial operating losses and can use any depreciation method in their financial statement. These incentives apply to eligible sectors open to FDI.
- Investment guarantees for FDI include full repatriation of capital and profits. This encompasses profits, dividends, interest payments on foreign loans, asset sale proceeds and technology transfer payments. There is also a guarantee against expropriation, except in major cases of public interest when full market value compensation will be paid promptly.

To increase foreign direct investment in the economy, the FDRE also revised the minimum capital limit applying to foreign investment in joint-ventures to be US $25,000 and US dollars 50,000 applying to sole ventures in engineering, architectural, accounting, project studies and management consultancy. Any foreign investor is to be allowed to invest a minimum capital of US dollars 100,000 for a single investment

project and US dollars 60,000 if he or she invests jointly with domestic investors on any area allowed for private and in particular foreign investor.

Foreign investors could remit profit and dividends accruing from investment, principal and interest payment on external loans, payments related to technology transfer agreement, registered in accordance with the proclamation, proceeds from the sale/liquidation of an enterprise and proceeds from the transfer of shares or of partial ownership of an enterprise to a domestic investor.

5.3. FDI PERFORMANCE

According to the Ethiopian Investment Authority (EIA), 8369 projects have taken business licenses between 1992/93 and 2002/2003. These projects have planned to invest Birr 90.1 billion. The shares of domestic private capital, FDI and public capital were 63.9 %, 20.9% and 14.8% respectively. Capital registered for approved projects was steadily growing until a sharp decline was observed in 1998/99 and 2001/02. This could be largely attributed to the border conflict between Ethiopia and Eritrea and the subsequent economic slow down and reflects the sensitive nature of FDI to the local conditions. Peace and stability greatly determine the extent the FDI flows. For 2002/2003 there was significant increase in FDI and the capital registered for approved projects. Table 5.1 shows that FDI projects are much larger compared to domestic private sector investments.

Only 65 (16.5 %) new and expansion FDI projects worth of Birr 3.9 billion have become operational during the 1992/93-2002/2003 period, compared to over 2,007 domestically funded projects (See Table 5.3). FDI held only about 22.6 percent of the value of operational project investment in Ethiopia, and concentrates in a relatively large investment projects. The average foreign direct investment per project is about Birr 48.3 million, which is more than six fold of the average value of domestic projects, Birr 7.3 million. Of the total 8369 projects approved during the period 1992-2003, only 2082 (24.9%) with an investment capital of 15.5 billion birr (21.2% of total capital of approved projects) have commenced operation. The share of operational and under implementation projects together constituted about 50% of the total approved projects up until the end of 2002. Operational projects have already created temporary employment opportunities for about 308587 people (60% of the total approved), whereas permanent employment was proportionally lower than what was intended in the plan.

TABLE 5.1: NUMBER AND INVESTMENT CAPITAL OF APPROVED PROJECTS – (1991/2 – 2001/2)
INVESTMENT CAPITAL IN MILLION BIRR

Fiscal year	Domestic Projects		Foreign Projects		Public Projects		Total	
	Number	Investment	Number	Investment	Number	Investment	Number	Investment
1992/93	542	3750	3	233	0	0	545	3982
1993/94	521	2926	3	438	1	57	526	3421
1994/95	684	4794	7	505	2	39	693	5338
1995/96	897	6050	10	434	1	6	908	6491
1996/97	752	4447	42	2268	1	7	795	6722
1997/98	816	5819	81	4106	1	14	898	9940
1998/99	674	3765	30	1380	9	4915	713	10060
1999/00	561	6740	54	1627	9	5760	624	14127
2000/01	635	5676	45	2923	7	257	687	8556
2001/02	756	6117	35	1474	10	1599	801	9190
2002/03	1089	7621	83	3514	7	826	1179	11962
Average annual[20]	720	5237	35	1711	4	1212	760	8190
Total	7925	57603	390	18821	46	13331	8369	90089

Source: Ethiopian Investment Authority

[20] Average annual number refers to the average number of projects undertaken each year from 1992/93 to 2002/03. Average annual investment refers to the average amount of capital that was invested each year from 1992/03 to 2002/03.

TABLE 5.2: INVESTMENT PROJECTS BY IMPLEMENTATION STATUS AND TYPE OF INVESTMENT
(INVESTMENT CAPITAL IN MILLION BIRR)

Description	Domestic Private	FDI	Public	Grand Total	% to Total Approved
Approved					
No. of Projects	6003	274	31	6338	100%
Investment	44300.20	13882.60	11055.57	69238.37	100%
Permanent Jobs	265172	56661	3133	324966	100%
Temporary Jobs	453899	59691	487	514077	100%
Operational					
No. of Projects	1825	58	8	1891	29.84
Investment	9575.64	3616.55	2261.78	15453.97	22.32
Permanent Jobs	68234	8477	203	76914	23.67
Temporary Jobs	273195	35339	53	308587	60.03
On Implementation					
No. of Projects	1077	79	7	1163	18.35
Investment	7712.24	6073.63	5328.09	19113.96	27.61
Permanent Jobs	49373	12731	2707	64811	19.94
Temporary Jobs	40565	10911	408	51884	10.09

Source: Ethiopian Investment Authority (2002).

The number and status of FDI projects for the period 1992-93 to 2001-2002 is displayed in Table 5.2. Between 1992-93 and 2001-02, around 311 projects were approved, subject to the possibility of under reporting the actual capital outlays. They planned investment of over 15 billion Birr. The trend of approved FDI projects has been erratic. On the other hand, only 59 projects with an investment capital of about Birr 3.8 billion became operational during the same period. It was only in two consecutive years, 1995-96 and 1996-97 that about 77% of the total operational investment was disbursed. A year after, the capital outlays declined drastically but the number of operational projects declined by less. The country has witnessed a big gap between intention and commitment reflected by the gap between the number of projects approved and those that commenced operations. This was perhaps due to unfavorable global economic trends, and in particular the conflict between Ethiopia-Eritrea.). Investors might have developed a "the wait and see attitude and/or an indication of the difficulties investors face from the implacable bureaucracy" (Befekadau 2002).

Of the total approved projects, about 52% are wholly foreign while the remaining are joint venture projects. Joint venture projects were found to be relatively, better implemented compared to wholly foreign owned projects. Foreign investors are responsible for the delivery of equipment and machinery. Their domestic counterparts follow the construction and other assignments in the country.

Of 274 approved projects, on which there is information on employment opportunities, 58 (21.2%) actually commenced operations while 79 (29%) others have been under implementation. The number of permanent jobs secured has been only 15% of the planned. Consequently capital intensity was higher than what was anticipated.

TABLE 5.3: NUMBER AND INVESTMENT CAPITAL OF FDI (1992/93 - 2001/02) (CAPITAL IN MILLION BIRR)

Fiscal year	**Approved FDI**		**Operational FDI**	
	Projects	Million Birr	Projects	Million Birr
1992/93	3	233	2	88
1993/94	4	438	0	0
1994/95	7	505	1	5
1995/96	10	434	1	18
1996/97	42	2268	4	1194
1997/98	81	4106	12	1699
1998/99	30	1380	12	357
1999/00	54	1627	18	317
2000/01	45	2923	9	84
2001/02	35	1474	6	105
2002/03	83	3514	N.A	N.A
Cumulative	394	18902	65	3867

Source: Ethiopian Investment Authority; N.A: Not Available.

FDI is concentrated (approximately 98 %) in the three regions of Addis Ababa, Oromia and Amhara. Addis Ababa and Oromya are central region with large size of population with better access to the international airport at Addis Ababa and the road networks to ports in Djibouti and Somalia.

TABLE 5.4: APPROVED FDI BY SECTOR (1992/93 – 2000/01) - INVESTMENT IN MILLION BIRR

Sector	Approved Projects		Operational Projects		% Share	
	Projects	Investment	Projects	Investment	Projects	Investment
Manufacturing	128	5496	32	774	25	14.1
Agriculture	31	2711	4	1243	12.9	45.8
Real Estate	10	2519	0	0	0	0
Hotel and Tourism	8	236	1	1162	12.5	492.4
Education Services	14	410	1	6	7.1	1.5
Health Services	12	263	0	0	0	0
Construction	32	1400	5	83	15.6	5.9
Trade	7	230	0	0	0	0
Mining and quarrying	2	60	1	3	50	5.7
Others	32	590	7	13	21.9	2.2
Total	276	13,914	51	3285	18.5	23.6

Source: Ethiopian Investment Authority

In terms of sector-wise distribution, industry accounted for about 46 percent of the total licensed FDI projects and 40 percent of the investment. Agriculture, real estate and construction sectors took about 19.5, 18.1 and 10.1 percent of the total planned capital and other sectors jointly had 12.5 percent share. Despite its potential and source of livelihood for the bulk of the population, private investment in agriculture has not been satisfactory. Poor infrastructure facilities such as irrigation schemes, roads, communication and power supply, inhospitable climate in some lowland areas, and problems related to acquisition of land are some of the reasons that contributed to low private foreign direct investment in the sector. Still, most agriculture and manufacturing sector projects are oriented towards the local market. For instance, foreign investments in carbonated soft drinks (and to lesser extent breweries) are often made to establish or re-establish brands, especially in countries with a sizable domestic market.

The rate of implementation of projects in the manufacturing sector was relatively better at least in terms of number of projects although the actual investment outlay was relatively low. In the hotel and tourism sector, only one of the eight approved projects became operational and it cost around five times of the total envisaged investment for all of the eight projects. No single project was accomplished in education, health and

trade sectors. These are the kind of ventures whose social benefits might outweigh financial profitability of individual firms. They will not invest in such projects since they must have private benefits to exceed private costs.

Ethiopia receives only meager FDI inflows compared to other sub-Saharan countries. According to the data reported in the World Investment Report total global FDI inflows in 2000 for the world were around 1167.3 billion. Sub-Saharan Africa accounted for only about 0.57% of these flows. Of this meager resource coming to Africa, Ethiopia had a share of about 0.74 percent (and 0.004 of the world). Compared to some African countries, the per capita FDI inflow to Ethiopia was the lowest, and it was only about US dollars 1.08 for the period 1999, for instance. The trend of the FDI inflow to Ethiopia was very erratic compared to other countries with the exception of Zimbabwe.

According to the Ethiopian Investment Authority, around 20 percent of both wholly owned and joint venture projects involve investors from two (occasionally three) countries joining together to make investment. This makes it difficult to accurately classify capital inflows by source country or region. A review of investment applications and direct contact with investors revealed that a large number of these multi-nation FDI consortia are expatriate Ethiopians (sometimes from a single family) initiating steps to invest in new projects or rebuild long-established Ethiopian businesses (UNCTAD, 2002). Since Large number projects registered are not be implemented, they exaggerate the picture of FDI.

Middle Eastern investors accounted for one-third of the new FDI projects and contributed about 57 percent of the capital. Saudi Arabia is by far the largest source of investment with Birr 7,201.0 million of committed capital to date, or 52 percent of the overall FDI approved. MIDROC Ethiopia PLC represents a significant share of these Saudi Arabian investments. The second most important source of FDI to Ethiopia over the period 1992/1993 to 2000/01 has been the European Union with a share of about 28 percent of the projects but only 15 percent of the new capital approved. Within the European Union, no single country had a dominant role and investors from all major states invested in the country. Expatriate Ethiopians also invested jointly with investors from one or more countries. The remaining 28 percent of FDI capital originated from North America, Asia (predominantly India), and European Countries other than the EU.

5.4. FDI AND EXPORT EXPANSION

Not only have FDI inflows to Ethiopia have not met the expectations of the FDRE, but more importantly export-oriented FDI projects have been few and far between. Of the fifty-one foreign or joint venture investments that became operational between 1992 and 2001 in agriculture, industry and service sectors, few were directed primarily to export markets. These investments were found in growing export crops, tanneries and leather products, cotton garments, cut flowers and marble. The major reasons for low

attraction of investment to the export sector are related to the country's limited competitiveness, poor infrastructure facilities and the restricted access to external markets.

Of the 33 operational FDI projects that came on stream during 1994/95 – 1999/00, 16 had plans to export about 35.5% of their products to the external market. But a considerable share of their products was still targeted to the local markets. If conditions were favorable, these projects would have a substantial potential for export. Foreign investments to Ethiopia have been driven more by market seeking motives than exporting, as compared to local investors. In this sense, FDI has been influenced by the incentive structure that has a bias against exports.

TABLE 5.5: EXPORT ORIENTED FDI MANUFACTURING INDUSTRIES (1994/95-1999/00)

	Total		Export-oriented Projects			
Type of Project	Projects	Investment (Equity)	Projects	Investment (Equity)	% Share from total investment)	(Export/ total Sales) %
Domestic Investment	905	1484443	60	146264.7	9.9	64.2
Foreign (Joint and wholly)	33	801267.1	16	479393	59.8	35.5
Total	938	2285710	76	625657.7	27.3	50.0

Source: Ethiopian Investment Authority (2000), Unpublished.

Foreign investors had envisaged to export manufacturing items including beer, soft drinks, soap, incandescent and fluorescent lamps, tumblers, beach sandal and slipper, tanned hides and skin, processed leather, human and degeneracy medicines and drugs, assembled computers, galvanized corrugated iron sheet, tube and pipes, plastic packaging, plastic products and tire. These products originated from seven different industrial groups. Some products were entirely targeted towards export. In the majority of cases export-oriented industries supply a considerable percentage of their product to internal market as well. Despite targeting a certain part of their products to the export market, these industries are highly import-intensive and about 87 percent of their raw materials demand was met from imports. But the high ratio is not a problem if the value adding activity is profitable.

TABLE 5.6: EXPORT ORIENTED FDI MANUFACTURING INDUSTRIES (1994/95-1999/00) BY SECTOR

Sub-sectors	Investment	Import intensity	Share of foreign sales	Investment share of the Sub-sector
Beverages	80225.1	95.7	48.1	16.7
Chemicals	26180	57.0	35	5.5
Electrical machinery & equipment	182199	100	100	38.0
Leather & footwear	25276.2	48.5	70.5	5.3
Medical& Parametrical	1625	100	25	0.3
Metal products	72556.2	100	37.2	15.1
Rubber and plastic	91331.1	78.5	61.2	19.1
Total	479392.6	86.5	35.5	100

5.5. CONSTRAINTS AND POLICY IMPLICATIONS

Ethiopia's record in attracting FDI has been poor. More than three-fourths of the projects that have received licenses including FDI has, not been implemented. Foreign investors have tried to exploit the narrow local market rather than export. The few firms that had proposals to export either whole or part of their products have not yet produced tangible results.

This lackluster record reflects several constraints that stifle the development of the private sector, and also arise from a negative perception of FDI by many in authority. The latter issue cannot be ascertained without a careful attitude survey among the FDI. The low ratio of actual implementation to approved projects is a result of bureaucratic red tape, and also the biased incentive structure. Among the key constraints, particular mention must be made of the issue of land lease, about the slow process of land allocation and the monopoly land lease price charged by the local authorities. In addition to limited access to domestic capital, limited domestic purchasing power and the strong competition from imports are reasons for the low level of FDI.

Ethiopia needs to embark on aggressive promotion activities besides further reforming the incentive structure; it should consider major changes in regulatory measures in order to create a better perception among FDI (see Chapter 6 on The Legal and Regulatory Environment).

The impact of high cost of land lease and the lengthy bureaucratic process should be seen in light of the potential benefit of FDI on government revenue, employment, foreign exchange earnings and linkage impacts. Thus, procedures for screening, clearing and servicing plots of land for commercial use need to be improved together with improved land titling, plot demarcation, registration and title documentation in both urban and rural areas.

The government has shown great interest in attracting FDI and has undertaken significant reform policy over the past several years. The results have so far been mixed. The scope for further changes remains considerable, in terms of both policy reform as well attitude vis-à-vis FDI.

There are many reasons why FDI can play a more positive role in the future. Most importantly FDI can provide a link to external markets that are limited to some extent as discussed in Chapter 4 on Beyond the Border Market access issues. Such investments can allow the country to obtain greater benefits from EBA and AGOA than at present. In addition given that production processes are broken into different value adding activities, Ethiopia can participate more fully in the worldwide production process using FDI as an agent to attract these activities.

In the medium term at least, removing some of the short-term constraints to FDI can be addressed. These include the influencing the perceptions of the public and some public servants that FDI can bring net gains to the country. Improving in the legal and regulatory framework should also help to reassure potential foreign investors that the country is FDI friendly. The fact that FDI has largely national status is certainly a plus sign for FDI. However, restricting FDI participation in some key sectors reduces the opportunities for greater benefits from these flows.

5.6 CONCLUSION

Ethiopia should consider major changes in the regulatory environment in order to create a better perception among foreign investors and address such issues such as the high cost of land leases and the lengthy bureaucratic approval processes.

CHAPTER 6:
THE LEGAL AND REGULATORY ENVIRONMENT FOR TRADE AND INVESTMENT

6.1. INTRODUCTION

The chapter focuses on the remaining regulatory issues that impinge on the transformation to a modern economy. Several of these issues, act as constraints to private sector development. The removal of these constraints is crucial, as a weak regulatory environment results in high transaction costs that reduce both investment returns and the gains from trade. High transaction costs would reduce competitiveness of Ethiopian goods in the international markets. By contrast a good, strong regulatory environment would facilitate Ethiopia's transition to a market economy, facilitate integration into world trade and is an important step toward WTO accession.

6.2. PRIVATE SECTOR DEVELOPMENT AND INVESTMENT REGULATION ISSUES

Privatization

The FDRE has been keenly aware of the importance of privatization and has in place a substantial privatization program since 1995. The result s so far has been mixed and the program has experienced some setbacks. The program had gone well with the sale of small units but began to slow down when relatively bigger units (e.g. over a million Birr) were offered.

Local investors are said to be financially weak to purchase the big enterprises. Valuation and pricing appear to be problems as well. According to the Ethiopian Privatization Agency (EPA), business people claim the prices are too high; prospects for selling to foreign buyers so far have not been good. Apparently, incentives are not adequate and that neighboring countries like Uganda and Zambia offer more attractive incentives. Yet the FDRE is keen to have larger FDI flows for a variety of reasons as discussed in Chapter 5 of this study.

Privatization process by its very nature is contentious and complicated in least developed countries. Since there is hardly a market for equity issues of competitive sales and valuation are problems. More particularly, in the case of Ethiopia, the process is more difficult, the steps are more numerous, and the outcome is more uncertain.

Despite setbacks, the privatization needs to be vigorously pursued, as privatization has proven to be a good complementary means to a successful transition to market based economy. The FDRE should not consider changing direction and should avoid new investment in potential privatization candidates. Instead, the authorities should

prepare for the sale with legal, managerial and organizational changes, financial workouts; in this context, it should be remembered that the primary objectives of privatization is to increase efficiency, not to maximize revenue. Thus, valuation must be realistic and market-based. And in all cases, the transaction must be transparent.

6.3 ENTRY RESTRICTION ISSUES

Unlike in many other transition countries, Ethiopia's Investment Proclamation governs both domestic investment and FDI. The incentives system is the same for both domestic and for FDI. This is a sound policy as the treatment should be the same for both category, and this is also the direction pursued by other countries that started with two-policy strategy. There are however important biases against FDI in terms of sub-sector restrictions (see below) that need to be reconsidered. (See Chapter 5 on FDI)

The latest Investment Proclamation still maintains an extensive list industries and activities reserved for domestic investors only. The list of activities where FDI is not allowed covers important activities such as banking and insurance businesses, air transport service, rail transport, road and water transport, forwarding service and shipping, retail trade and brokerage, import trade, long list of traditional exports (such as raw coffee, pulses, hides and skins) tanning of hide and skin, hotels, tour operations. Investment in telecommunications and defense require partnership with the government. Telecommunications has been opened to FDI in regulation, though not yet in practice.

6.4 OPERATIONAL ISSUES FOR INVESTMENT

Access to Land

Four main issues appear to be impediments to access to land. These are the *availability* of the land for leasehold, the *variance of land regulations* according to different regions, the *affordability issues* arising out of pricing of the land-use rights, and the *inability to pledge* land use rights. The last mentioned issue is the most serious, unless complete private ownership can be re-established, it would take a long time to overcome as this has been shown in countries using similar system of lease hold or land-use right. In the meantime, if land-lease system is to be retained, urban land must be made more available for lease, and pricing should be more rational. Variations between regions must be better justified.

In the area of real property, Ethiopia still has not decided to reestablish to private ownership of land although it has adopted a market economy. As is the case of transition countries, Ethiopia has adopted the land-lease system to replace the issue of land ownership. This concept is similar to the concept of land-use right as applied in China or in Vietnam, which are moving towards a market economy, but still retain a

socialist political structure. It is understandable that this is a transitional step from a command system to the market, but it has made the legal concept of real property more complicated and hinders the transformation to a market economy.

Legal Framework Issues

Unlike many other countries that chose to start to build a new legal framework from scratch, Ethiopia has simply retained major basic laws promulgated since the 1960's prior to the Derg regime. As a result, for most areas related to commercial transactions, Ethiopia's legal system already has the basic laws in place. The difficulties lie in deficiencies in some substantive laws and weak enforcement.

The remaining agenda for reforming the legal environment can be best seen in three ways: first to perfect the existing legal system to support and complete the transition to the market; second, to reinforce law enforcement and third, to begin examining laws and regulations in detail to make them compatible with WTO requirement. The last task involves a time consuming work program, requiring substantial external technical assistance. The three areas above are interrelated and reinforce each other, as a more mature market economy with effective rule of law regime would help facilitate integration into world economy and WTO accession.

Intellectual Property

The existing intellectual property system is not adequate to attract foreign intellectual property owners. There are elements of intellectual property for which there is not protection. The include trade and service marks, plant varieties, trade secrets and appellations of origin. Furthermore some of the existing intellectual property laws suffer from gaps and limitations to adequately protect foreign intellectual property rights. The existing laws that protect copyrights and govern unfair competition are inadequate. There is thus a need to revise the laws to fill gaps as well as amend some of the provisions that are inconsistent with the requirements of international property agreements such at the WTO Agreement on Trade Related Aspects of Intellectual property (TRIPS). However, as far as the WTO accession is concerned, Ethiopia can select the pace at which it needs to adopt intellectual property norms related to WTO membership according to a overall most beneficial strategy for the country. In terms of reinforcing the enforcement of laws, Ethiopia has a reasonably working court system that can be built upon. But the arbitration system needs to be changed as a means to resolving contractual disputes, particularly disputes in such areas as FDI. Of course, the mere existence of intellectual property laws would not by itself attract FDI without the other factors discussed in chapter 5.

Enforcement issues

A good legal framework requires good enforcement of the laws. Ethiopia has a reasonably working court system that can be built upon, but the arbitration system needs to be changed as a means to resolving contractual disputes, particularly disputes involving FDI. Within the court system, the areas need immediate attention are *delays in rulings* where some commercial cases takes years to be resolved, *in conveyance* where transfer of titles also takes a long time, and *notarial activities* where the state still has monopoly. This last issue can be resolved by increasing the number of state notarial offices and at the same time allowing private notaries.

The current system where arbitration is performed according to Ethiopian laws[21] may have worked well for resolving disputes among local litigants. For FDI, a contract involving FDI should have a clause that allows the choice between arbitration laws of the host country, or a different set of arbitration laws agreed by the parties concerned.

It would be a good idea to consider creating some form of an "International Arbitration Commission" to handle contractual disputes involving foreign investors, separate from the existing arbitration system.

Issues of the incentives system

Ethiopia's investment incentives themselves are not excessive; the problem is the existence of too many lists that makes the system unduly complicated. All investors, domestic as well as FDI, who have received an investment permits are entitled to an incentives package that includes tax holidays, duty free importation of machinery and equipment plus spare parts (up to 15% of value), the right to carry forward losses, among other incentives. The pioneer activities are given a longer period of tax holidays than the Promoted activities. There are some tax privileges provided for exporters. The incentives differ according to the industries, its locations and other criteria in four schedules (lists) that are divided in sub-lists. For example, a list in Schedule One called Pioneer Investment Activities list 49 subsectors; Schedule Two lists industries under category of Promoted Investment Activities and has 80 items; these include for example, under Livestock Farming, dairy farming, agriculture, etc. Schedules Three and Four list industries and conditions for import duty exemptions, all are elaborate and complicated.

The use of priority or encouraged industries lists, especially when they are tied to tax privileges is not a good idea. The use of "lists," a by-product of inward-looking development strategy of the 1960s and most popular in South Asia's countries, has proved to be ineffective and counter-productive in the long run. For this reason, these lists should be abolished, or drastically streamlined.

[21] For a description and analysis of the system, see Bezzaworq Shimelash, "*The Formation, Content and Effect of an Arbitral Submission under Ethiopian Law*", Journal of Ethiopian Law, Volume XVII, 1994

6.5. REGULATORY ISSUES OF INTERNATIONAL TRADE

Neither QRs on imports nor import licensing requirements presents a notable trade barrier. They can still be further improved along with some other remaining regulatory impediments that work as a hindrance to import and export activities (see chapter 3 on Trade policies and Incentives).

Importers interviewed reported problems ranging from state monopolies, contraband goods, unfair competition from "endowment organization", or party-affiliated organizations, to high transport cost, to custom clearance problems. Party-affiliated organizations have large resources and are said to have imported goods without paying duties. Transportation cost is high because Djibouti is the only seaport Ethiopia has access. (See chapter 7 on trade facilitation).

Private importers and forwarders interviewed also reported that they are obliged to ship their goods on the Ethiopian Shipping Lines (ESL), an SOE that charge higher fees than private company.

Despite efforts to liberalize licensing, and reform tariffs, the trade sector does not seem to expand in terms of number of importers and exporters. The number of exporters has actually decreased. This made improvements all the more necessary in the areas of licensing, customs clearance and most importantly, access to financing for exporters. The last mentioned issue again involves legal framework aspects such as the use of land-lease for bank collateral.

Abolishing Import and Export Licensing

As trade policy has been liberalized, "licensing" can be abolished if it is no longer used as a means to restrict import quantity or entry to import business. For statistical purposes, import activity as a trade or profession can be added to the information contained in the registration certificate. As such, the current procedure of licensing can be streamlined by collapsing the two-step process (registration certificate then apply for business license) into one step. Control for income tax purpose can be achieved simply by providing a tax identification number for each registered business, including import/export business.

6.6. OTHER CONSTRAINTS TO TRADE

Access to Bank Credit

While, SOEs in Ethiopia dominate large and medium industries, they seem to control inputs for export production only in a few cases. However, exporters face other constraints. Chief among them is access to bank credit, which first-time exporters have had difficulties in obtaining although the banking sector has excess liquidity.

Working capital is most important for export development, but bank lending has been constrained by legal problems involving the use of land-use rights for collateral. Banks are unwilling to accept land use rights for collateral although the law allows the transfer of land-lease. The reason being that in case of foreclosure, the bank is unable to find takers for the land-lease without the building attached to it, even if court ruling may allow selling the foreclosed land-use rights. As a result, the banks only accept real estate that included both the lease of the land (land use right) and the building attached to the land. Banks complain that it is difficult to sell off buildings used as collateral by defaulters outside of the urban areas. Land-use right alone in this sense is not marketable.

For cases where there is no problems of collateral, import financing for export production it is currently practiced only benefits old exporters, but not first-time exporters as approval of credit is based on not just L/C but also shipping documentation as well.

There is still no financing facility for the so-called indirect exporters in Ethiopia. Yet, from the experienced of successful exporting countries in East Asia, this form of financing has long been an integral part of their export financing strategy. Ethiopia will need some external assistance in this matter.

Private sector have almost no source of term borrowing as all 6 private banks have no policy for term lending, except from the government-owned Ethiopia Bank of Development (EBD). The Bank has a rather conservative lending policy in that it requires high collateral value to protect the loan performance. For example, under the requirement of 125% collateral of fixed asset, the collateral would actually amount to nearly 100% of the value of loan amount if the borrower puts up a minimum of 30% of the total project cost and borrow the rest from EDB. For projects located in rural areas, the project itself cannot be used to guarantee the loan, as the Bank requires 100% collateral outside the project. Bankers claim that they cannot find eligible borrowers, given the poor past records of repayments.

There is a shortage of funding for term lending at EDB and for commercial banks to start lending on long term. Although short term credit is most important for export expansion in a mature market economy, but long term financing for investment is also crucial to enable Ethiopian emerging private sector to expand and to develop a more diversified export industry, beyond the current simple products mix beside coffee.

Issues on Ethiopia's Export Support System

Ethiopia's Export Support System has a financial support program in the form of an Export Credit Guarantee, and an Export Promotion Program focusing on service to assist exporters. For a variety of reasons, both programs have only limited success.

Export Credit Guarantee Scheme

The Export Credit Guarantee (ECG) has not worked well, and the problems have already been well documented in a World Bank report[22]. The main issue is the two risks covered in the same scheme– exporter's manufacturing non-performance risk, and foreign buyers' non-payment risks- is not separate for coverage purpose. This combined risks coverage resulted in high premiums and also relatively high value of physical collateral. There is indeed the need to separate the two risks, and there must be two different agencies to be in charge of each category of insurance. Currently, the NBE is in charge of both.

Another problem reported by exporters interviewed is the rate of risk coverage of foreign buyer's non-payment 80% is low particularly regarding new customers. As perceived by exporters, and there seems the have been delays in NBE in effecting the guarantee. But the most serious problem with the scheme is that first-time exporters and exporters from SME find it difficult to benefit from the scheme. Because of this and technical problems involved, the number of exporters using the scheme decreasing. At one time there were 28 exporters utilizing it.

The Ethiopian Export Promotion Agency

The Ethiopian Export Promotion Agency (EEPA) is a state agency established for the specific purpose of promoting export. Private sector suppliers of service do not exist.

EEPA recognizes that its services are rather limited as result of budget constraints, lack of skilled personnel and inadequate facilities.

Given Ethiopia's current simple export structure, and the needs of exporters at this early stage of market identification and product development for export, support service should be more selective and more realistic. Support services can be simple but more relevant to new exporter's need, such as helping setting goals and strategy at the industry and product level, assisting new firms to understand the whole process of exporting to targeted markets such as AGOA and EBA. Special attention should be given to existing capacity of production in view of minimum export shipment, before arriving at a production capacity worth marketing. The scope of support service can be broadened over time in light of progress made by government officials in terms of better understanding of exporters' needs and by exporters in terms of know-how acquisition and export diversification.

[22] See World Bank, *Developing Exports to Promote Growth*, April 25, 2002. Opt.cit.

Demand-driven Support Service/TA possibilities

To meet the need of service of exporters in the current conditions of Ethiopia's early stage of export diversification; the government may consider a Technical Assistance Program with external assistance to provide support service to exporters in need of help.

The guiding principle for operation and organization is the service has to be demand-driven and should be managed by the private sector, or mainly by private sector in a spirit of synergetic partnership with the government. Export associations can participate in management the Ethiopian Export Promotion Agency can have a useful role as facilitators.

The objective is to assist exporters with real information on markets, i.e. help new exporters with the process of export particularly to major markets, guide exporters to privileged market arrangements such as the AGOA, identify and short listing prospective buyers and sellers of consequence i.e. opportunities with good chances of leading to real business (actual orders), not just broad market research.

The service *should not be provided free of charge*, but should be fully priced, and is charged on the basis of *cost-sharing*, e.g., charged at discount say 50%, the rest would be matched by a grant from the government. This grant form government can be financed by a loan from an external source. The project should be *time-bound,* and eventually should be *self-financed*. The Ethiopian Export Promotion Agency is aware of the merit of cost-sharing assistance, but the project will need outside assistance, technical as well as financial.

As regards assistance to production process as advocated by most people in the export milieu, the project can have a component to provide technical assistance on plant organization and management at firm level and on product design and packaging suitable for export. To be effective, the program for production process assistance must be well designed and target on a few selected products, identified as promising.

6.7 CONCLUSION

- Privatization needs to be vigorously pursued, as it is the means to a successful transition to a market based economy.
- The latest Investment Proclamation still maintains an extensive list of industries and activities reserved for domestic investors only. This needs to be revised to broaden the eligibility list and made less specific.
- The remaining agenda for reforming the legal environment can be addressed in three ways: first, to perfect the existing legal system to support and complete the

transition to the market; second, to reinforce law enforcement; and third, to begin examining laws and regulations in detail to make them compatible with WTO requirement.

- Devise ways to reduce the delays in rulings. Some commercial cases take years to be resolved; *in conveyance* transfer of titles also takes a long time; in *notarial activities* where the state still has monopoly. These services can be privatized or the private sector can play an important role.
- Export development issues have to be addressed as a package by addressing other constraints such as limited bank lending for the purpose, legal problems involving the use of land-use rights for collateral among others. With respect to long term capital the private sector has almost no source of term borrowing. There is need for financial sector reforms that improve the financial market and policy making in that area to allow long term lending to take place.
- Export promotion requires a more hands on support service where the Government can play the role of a facilitator, not favoring any activity, party or persons.
- The government's reluctance to opening the door to foreign banks seems to be based on sound reasoning (needs to put a rigorous regulatory and supervisory framework in place in the domestic financial system). However, complete closing of the door is not consistent with the objective of promoting private-sector-led growth. A compromise solution would be to permit foreign banks to operate in the country though liaison offices (rather than through full-fledged branches).
- Avoid sending mixed signals about the government's position on the role of the private sector in the economy and take initiatives to redress the prevailing perception in the business community. A firm commitment to the implementation of a privatization program can play a pivotal role in building up private sector confidence and making the overall reform process including trade reforms credible.

CHAPTER 7:
TRADE FACILITATION ISSUES

7.1 INTRODUCTION

Facilitation of external trade refers to the services associated with export and import activities. It is a determinant of competitiveness. The chapter focuses on three major features of Ethiopia's trade facilitation in relation to the country's main exports and imports – Customs, Clearing and Forwarding (C&F) and Insurance services, and Transport and Communications.

Facilitation is important in Ethiopia's context. Though the country's structural adjustment and reform program has been generally successful, presently traded commodities are largely agricultural. Product concentration is high and there has been little diversification as noted in Chapter 4 on Market Access. In addition Ethiopia's participation in the global economy has been very small. If the country is to move up the value added chain, as well as diversify into other goods – manufactured and industrial products – barriers to trade have to be reduced, if not eliminated, and the entrepreneurial abilities of the private sector have to be deployed in the external trade sector.

While this does not mean that basic infrastructure needs remain important. Focusing on facilitation issues would constitute a deepening and strengthening of the reform process initiated in 1992. These are areas where modifications of policies and small investments can lead to large economic benefits. Of course, infrastructure expansion must continue and has to be supported by external assistance.

Since almost every country has to participate competitively in trade, dealing with facilitation issues is in its own interest in order to diversify and enhance its share of world trade. This is of particular significance because Ethiopia is land locked. Its competitors in traditional agricultural exports, as well as manufactures, are more advanced in trade facilitation and efficiency of service delivery through implementing policy reforms and removing barriers to trade. They also enjoy advantages of location and easy access to markets. The "nominal transport rate" relative to merchandise exports and imports is very high for Ethiopia, highlighting the need to pay attention to facilitation. It is two to three times higher than similar ratios of other littoral developing countries in Africa. Table 7.1 shows a comparison.

TABLE 7.1: NOMINAL TRANSPORT[23] RATE OF SELECTED COUNTRIES

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Sub-Saharan Africa											
Ethiopia	34.4	40.7	61.5	40.2	44.3	33.4	31.0	31.6	28.4	25.9	29.1
Ghana	9.5	9.1	9.5	10.3	11.1	10.6	9.8	9.5	10.1	9.0	8.9
Kenya	20.3	22.7	22.3	22.4	22.2	19.6	17.4	16.6	14.5	13.8	15.3
Mauritius	13.7	14.3	15.1	15.7	14.5	13.5	14.2	12.5	13.2	13.1	13.7
South Africa	8.3	9.8	9.1	7.2	7.0	7.3	8.0	7.4	7.6	7.6	8.0
Tanzania	12.9	13.3	14.1	11.5	18.1	11.1	11.8	16.5	15.3	15.0	-
East Asia & Pacific											
China	5.4	6.7	4.7	5.3	5.1	7.2	8.0	4.9	4.4	3.5	3.5
Philippines	6.5	6.4	6.6	6.4	6.1	5.2	5.7	5.3	5.1	4.0	4.2
Thailand	9.9	10.0	9.7	9.8	9.9	9.2	9.5	9.7	9.2	8.9	9.1
South Asia											
India	12.0	11.6	11.9	13.0	12.6	12.5	12.0	11.9	11.8	12.3	11.7
Bangladesh	9.9	9.5	9.5	9.7	9.6	9.0	9.3	9.0	9.0	8.6	8.6

Source: World Bank Report 23294-ET, *Developing Exports to Promote Growth*, based on International Monetary Fund data

Streamlining the present arrangements is an essential requirement for attracting investments (both internal and external) in any set of activities oriented towards production and export of non-agricultural products, or agricultural products that are of higher value and more competitive than currently exported primary commodities. It is true that, by their very nature, mere attention to facilitative issues cannot solve basic problems related to investment climates, availability of skills and raw materials etc. Equally, inattention to facilitation could result in inhibiting such investments and developments.

7.2 THE MAIN FACILITATION ISSUES

The main trade facilitation issues are: -

- Ethiopia is unique in following a Customs import procedure that requires consignment documents to be presented twice to the final Customs clearance post. This is unnecessary and a costly exercise. More recently, a task force has been working on ways to streamline the procedures and reduce the costs.

[23] Nominal transport rate=(freight credit+freight debit+passenger credit+passenger debit+other transportation services credit+other transportation services debit+insurance credit+ insurance debit) / (merchandise exports+merchandise imports).

- Customs procedures and institutional issues require attention since they are a major factor in causing unnecessary transit delays. Customs delays act as a trade barrier on both exports and imports and delays in equivalent
- Though 60-70 per cent of dry cargo imports are containerized for the sea journey, land transport of goods on the Djibouti corridor is mainly break bulk. This leads to duplication of effort and vitiates the advantage of containerization.
- The dominance of state enterprises in arranging shipping, C&F services and insurance is not conducive to a competitive environment. Formal and de facto monopolies are only being dismantled slowly.
- There is substantial competition in road transport, but the Government of Ethiopia should exit from providing freight transport services through entities owned by it and open to great competition that would lead to lower costs.
- The Chemin de fer Djibouto Ethiopien (CDE) is not performing satisfactorily and plays a negligible economic role in transit services.
- There are capacity shortages in the air freighting of exports. The industry is at a nascent stage and services are far from stable.
- There is a shortage of telecommunication services in Ethiopia on account of the monopoly of Ethiopian Telecommunication Corporation (ETC). This delays the development of efficient Internet services, so essential for modern international commerce.

7.3. CONCLUSION

- Since the first inspection of documents takes place while goods are held in transit in Djibouti, this has serious cost implications. This procedure should be abandoned and Customs' revenue leakage concerns should be addressed by more efficient technologies and systems.
- As an interim measure, the threshold at which pre shipment inspection should be made mandatory should be raised to US $12,000 or Birr 100,000 from the present level of US$ 2,000.
- This should include the medium to long-term objective of moving containerized goods on the land bridge in boxes, not break bulk.
- The C&F monopoly (or dominance) in Djibouti will reduce with these arrangements. The problem with shipping and road transport can be addressed through an enhanced privatization program and inter modal competition.
- Selective rather than 100 per cent inspection based on risk analysis, and enhanced training and skill levels are necessary in the customs administration.

- Concessioning the CDE should receive high priority.
- In the period when air freighted exports are growing towards a critical mass that will attract services, methods of tapping air freight providers at Nairobi should be explored.

CHAPTER 8
INSTITUTIONS AND INSTITUTIONAL SUPPORT FOR TRADE

8.1. POLICY MAKING INSTITUTIONS

Strong institutional arrangements for trade are a crucial requirement for a sound trade policy framework. Ethiopia, like other least developed countries, faces the challenge of putting in place an effective policy framework for trade. In order to ensure that trade facilitates growth and development, there is a need for a well structured national institutional framework that would not only formulate and analyze trade policy, but also ensure its implementation, monitoring and evaluation. Specifically, this institutional set up is needed to ensure 1) an effective policy making organization for investment and trade; 2) to provide effective support for export development and promotion; and 3) to ensure policy reform is properly implemented and anticipate impact of the reform on producers and consumers alike.

Ethiopia has a number of public as well as private institutions involved with trade but their effectiveness is limited. In the public sector, the Ministry of Trade and Industry; the Ministry of Foreign Affairs and the Ethiopian Export Promotion Agency are the three important public institutions. The Ministry of Trade and Industry (MOTI) is the main institution responsible for trade policy matters. The Ministry of Foreign Affairs (MFA) is responsible for signing agreements including trade related agreements, with other countries. MFA is also the Ministry that selects and appoints commercial attaches abroad. Inter institutional coordination between MOTI and MFA is limited, and there is no clear cut demarcation of the trade functions between the two ministries.

Trade Analysis: Ethiopia's ability to analyze trade related information is hampered by the limited access to such information. In addition, MOTI and the other trade support institutions lack experienced trade analysts.

Policy and Strategy formulation: Ethiopia's capacity to formulate a sound trade policy framework would be improved if an effective mechanism for intra-governmental policy coordination were put in place. Equally important is the involvement of all stakeholders including the private sector and the civil society.

Negotiations: Ethiopia is involved in a number of trade agreements/negotiations the main ones being COMESA, ACP/EU and the WTO. Having been an observer since October 1997, Ethiopia applied for membership to the WTO on 11 February 2003. In this regard, Ethiopia needs to enhance its understanding of WTO agreements and the multilateral trading system. The training of officials on trade negotiating skills is crucial if Ethiopia is to actively participate in COMESA, ACP/EU negotiations and the WTO. Ethiopia's representatives at these forums need to have the appropriate skills and level

of understanding of trade issues as well as a thorough knowledge of Ethiopia's interests and concerns. Coordination between MFA, the ministry responsible for appointing offers abroad and MOTI is therefore crucial.

8.2 EXPORT PROMOTION

Some institutional factors are hindering the expansion of export trade in Ethiopia. The private sector has identified a number of issues limiting the contribution of the public trade support institutions. These issues include the bureaucratic nature of the institutions as well as the lack of adequate mechanisms for monitoring and evaluating their effectiveness. Exporters complain about the lack of information on markets and foreign trade opportunities as well as difficulty in complying with international standards. As a result, Ethiopia is not able to take full advantage of market access opportunities such as AGOA and the EU's Everything But Arms Initiative.

The Export Promotion Agency has the specific mandate of promoting Ethiopian exports. Like other institutions, its effectiveness is hampered by lack of skilled personnel and inadequate facilities.

Export support services in the private sector practically do not exist beyond routine work by traditional institutions. In the private sector, the main institutions involved with trade include the Ethiopian Chamber of Commerce, the Addis Ababa Chamber of Commerce, and the Ethiopian Coffee Exporters Association. The Chambers of Commerce are faced with financial and human constraints as well as an absence of a coherent policy framework. In addition, knowledge of trade related issues are weak. The main objectives of the Ethiopian Coffee Exporters Association include advocating the views and opinions of its members to the government and other agencies on measures regarding production, quality and trading of coffee.

Creating a cooperative environment between the public and private sectors would help promote trade in Ethiopia. Currently, the Ethiopian Chamber of Commerce represents the private sector in discussions with the government. The capacity of the Chamber needs to be strengthened if the objective of enhancing the interface with the government is to be achieved. The establishment in 2002 of the Public-Private Dialogue Forum, chaired by the Minister of Trade and Industry, is an important step towards the improvement of the dialogue between the public and private sector.

As regards export support service, there is a need for external assistance to create a more effective supply system of export service based on cooperation between private sector and the government. (see Chapter on Legal and Regulatory Environment for Investment and Trade.)

8.3. MONITORING POLICY REFORM

There is no apex institution in Ethiopia responsible for trade policy analysis, formulation, negotiation, monitoring and implementation. The recently created National Steering Committee, chaired by the Minister for Trade and Industry, could act as an apex institution on trade. There is also a need for an independent body to monitor trade reform (see below). The National Steering Committee is chaired by the Minister for Trade and Industry is composed of various ministries, agencies and other stakeholders. A WTO Unit within the Ministry of Trade and Industry has also been created. This should assist with the WTO accession process.

8.4. CONCLUSION

- Ethiopia needs to face the challenge of putting in place institutions, institutional support, and sound trade policy framework to participate more in world trade
- Greater coordination is needed between principal public sector institutions dealing with trade.
- Access to trade related information needs to be improved and number of trained MOTI staff needs to be increased.
- Greater negotiating capacity and knowledgeable staff are needed to carry on with the WTO accession negotiations.
- Steps need to be taken to overcome bureaucratic processes used by public trade support institutions.

CHAPTER 9
AGRICULTURE AND TRADE TRANSFORMATION

9.1 INTRODUCTION

Agriculture is the most important sector of the Ethiopian economy, comprising more than 90% of exports, 85% of employment, and 55% of GDP.[24] In spite of its importance, its potential remains largely untapped. Although 65% of the land is arable, only roughly 10% of this arable land is under food crop cultivation. [25] Further, 96% of cropped land and 90% of agricultural output is managed by small-scale farmers, most of whom practice non input-intensive, rain-fed farming that does not result in high yields.[26]

The government's poverty reduction strategy of Agricultural Development Lead Industrialization (ADLI) recognizes the importance of raising rural incomes. The centerpiece of this strategy has been a massive extension program aimed at diffusing agricultural technology dubbed PADETES for Participatory Demonstration and Training Extension System. Recent work by the Ethiopian Economic Association (EEA)[27] suggests that the results of ADLI have been somewhat disappointing. For most crops, average yields have remained stagnant in spite of increased imports of agricultural inputs.[28] Raising the productivity and profitability of smallholder agriculture is a sine qua non for poverty reduction in Ethiopia.

9.2 CEREALS

Cereals are the staple of the Ethiopian diet. But in spite of increased output in the cereals sector, Ethiopia remains dependent on food aid. These increases have been largely driven by increases in cultivated area - while this area has increased, average farm size has decreased and yields have remained flat. This combined with the recent declines in cereals prices imply that the average farm family is worse off now than they were a decade ago. However, if one looks beyond the aggregate statistics, there is some evidence that the extension packages have been able to increase productivity - yields on cereals demonstration plots far exceed the average. This encourages the hope that more targeted interventions could be beneficial. The question is what are the most appropriate interventions and at what cost?

[24] Degu et al 2000.

[25] EEA, Annual Report on the Ethiopian Economy 1999/00, pp 146-147. It is important to note that while there is potential for expansion, it depends on possibilities for irrigation and may be partially offset by the need to withdraw severely degraded land.

[26] Kuma 2002

[27] Annual Report on the Ethiopian Economy, Vols. I and II.

[28] A more detailed discussion of input usage will follow.

A growing body of evidence suggests that a more comprehensive approach, incorporating both technical and institutional changes, is required to improve the productivity and profitability of cereals farming. The recent decline in cereals prices that left some farmers imprisoned because of their inability to repay fertilizer loans is a case in point - raising land productivity alone is not enough to make poor farmers better off. Though productivity increases achieved through extension packages have the potential to increase the profitability of cereals farming, these can be offset by reductions in output prices. In addition, "behind the border" constraints such as high transport costs, lack of storage facilities and insecure property rights also depress profitability.

Problematic technological factors mainly concern the extension packages themselves. Packages have not been adequately adapted to location-specific agro-ecological conditions. Also, the net effect of heavy and widespread use of fertilizer, both as part of the packages and independently from them, has been an increase in indebtedness with very little to show for it. The impact of fertilizer on land productivity has been widely variable – demonstration plots have shown a substantial increase, while traditional plots in some areas may have actually seen a productivity decline with fertilizer usage. It is likely that on some demonstration plots, combined usage with other inputs such as improved seeds played a key role. Extension packages have not led to increases in land productivity, partly because there has been very little use of any other modern inputs, and partly because these packages are not aptly suited to the land on which they are used.

Appropriate input packages are not enough to raise productivity - farmers must have an incentive to invest in the land. But the current institutional setting hinders this incentive to some extent. Prices in recent years have been extremely low and variable across seasons and across the country, and since there is very little in place to help farmers mitigate this price risk, investing in modern inputs may be extremely risky. Also, high transport costs make it difficult for farmers to take advantage of price differentials between geographic locations. Finally, it is reported that farmers feel very little security in the future of their land holdings under the current land tenure system, which also detracts from their incentive to invest in the future productivity of the land.

Better information can help to raise productivity and profitability, but it is not enough. Because of the great deal of diversity of crop-growing conditions in Ethiopia, there is a need for location-specificity in farming technology recommendations. Thus, there is a need for increased research on crop production – research that identifies which crops would be most bountiful in certain agro-ecologies, and what farming practices could improve productivity in these agro-ecologies. Through this research, crop productivity can be increased. This is perhaps especially important for teff, as it is the most widely consumed cereal in Ethiopia, no international research network exists for the crop and, though its yield is relatively low, it appears to have some unique drought resistant

qualities. Research could also play a critical role in the development of new seed varieties. Technical assistance could help to fund and support this research.

Another institutional problem relates to input markets, which are inefficient and largely dominated by the state. A recent World Bank evaluation of a fertilizer loan to Ethiopia rated this loan unsatisfactorily, citing a lack of private sector involvement in the purchase and distribution of the fertilizer as a partial reason for this rating. Technical assistance could help to identify ways in which other countries in transition to a market economy have gradually encouraged private sector involvement in the input market.

Another way of stabilizing prices and raising profitability is through the local procurement of food aid. Recent studies have shown that Ethiopians may actually produce enough food to feed their population, but that the grain market is not developed enough yet to facilitate trade from surplus to deficit areas. This shows how important further development of the market could be in improving food security.[29] Technical assistance could help in making clear both the nature of the problem and the scope for expanding the food aid local purchase program. It could also help train Ethiopians in this aspect of business by including them as integral parts of the program.

Farming is an inherently risky business, and lack of insurance is likely to lead to a misallocation of resources both within agriculture and between agriculture and other sectors. The Warehouse Receipts System - currently in its pilot phase - is one way of mitigating price risk to farmers and traders, but there are others. For example, Standard Chartered in Kenya used to have loan officers work with farmers to make medium and long-term projections, and loan agreements were adjusted for the possibility of weather-related crop failure. Though some have suggested that Ethiopia is not yet ready for a commodities exchange, surely the time will come. Technical assistance could help to identify alternative strategies for risk management and possibly help with the implementation of such strategies.

Lack of tenure security clearly inhibits investments to raise the productivity of land. As the EEA's report on land tenure suggests, there needs to be a public debate over ways to increase tenure security. If things continue as they are, the quality of the land may continue to deteriorate, making it more difficult for the country to feed itself and ultimately for the government to achieve its goal of poverty reduction through ADLI. Technical assistance may be able to help by informing and facilitating this debate.

9.3 COFFEE

Coffee is Ethiopia's most important export and has traditionally accounted for between 60-70% of total exports. However, a decline in world prices in 2001 by 28.5% reduced

[29] Gabre-Madhin 2001.

coffee's share to only about 39.7% of exports in 2001[30]. The world coffee prices fell by about 4% in 2002, further reducing coffee's share to only about 35.5% of exports in 2002. The world prices have recovered somewhat after 2002, increasing by 4.3% in 2003 and by 17.8% so far in 2004.[31] All in all, the coffee sub-sector impacts approximately 15% of the population, providing millions of jobs for farmers, processors, traders and exporters. Ethiopia accounted for less than 2% of world coffee production and exports between 1980 and 2000.[32] Brazil dominates the world coffee market (with a share of 20% for the same period) while countries like India and Vietnam have witnessed an increase in market share.

Like cereals, problems in the coffee sector can be partly blamed on technology. Lack of research in recent years has led to a loss of variety in coffee plants. Specifically, there has been no new Coffee Berry Disease (CBD)-resistant varieties developed since those prepared in the late 1970s – and work at that time was carried out on an emergency basis with selections restricted to a few landraces from the southwest of the country. Also at that time, there was little attention given to liquoring characteristics, and the quality of the introduced varieties was little more than fair-average quality.

The overall collapse in prices has been disproportionately passed on to farmers, leading to an overall decline in the profitability of coffee farming. This decline has created anxiety among smallholders, and many have been forced to sell assets and reduce household food consumption. The result has been an increase in rural poverty leading to reductions in tax revenues and increased defaults.[33] Low prices have also caused problems for coffee exporters - five years ago there were about 200 companies licensed to export coffee, but by 2002 this had dropped to 64. Traders are also suffering.

The institutional setting in the coffee sector discourages investors. Until 1998, all legally marketed coffee had to be sold through auction. Regulations are gradually being relaxed and some producer cooperatives have been permitted to sell directly to foreign buyers. However, the auction still inhibits exporters from making long-term contracts with importers since buyers cannot be certain of their ability to purchase the quality of coffee specified in the contract. Further, the anonymity of the auction system also prohibits traders from building a reputation for quality coffee. All in all, the system does not enable Ethiopia to fully exploit its position as a producer of very high quality coffee.

In terms of technical assistance needs, much of what we said about raising yields in the cereals sector applies to coffee. In addition, raising the profitability of cereals

[30] The World Bank Group: http://www.worldbank.org/data/ , World Development Prospects: Commodity Price Data Pinksheet

[31] January-April 2004: Annual Average

[32] Data on Ethiopian production in a world context taken from World Bank (2002)

[33] T. Chekon et al. 2002

production could have a directly beneficial impact on coffee yields and output by removing farmers concerns over food security and allowing them to focus efforts on increasing the quantity and quality of production.

Ethiopia has not fully exploited its position as the origin of Arabica coffee and producer of some of the highest quality coffee in the world. According to recent research performed on behalf of the Ethiopian government, there is tremendous potential to increase exports in niche markets like organic, fair trade, and ecological coffee. But in order to take advantage of these markets, there are two things that must take place. First, Ethiopia must institute a system that allows producers to certify the origin of their coffee. Second, these certifications must be publicized – for example, through a website visually displaying the growing areas, giving agro-ecological information about these areas to potential buyers, and listing growers and cooperatives. Technical assistance could play a role in further designing the certification system and developing the website, and well as other means of advertising such as coffee "cupping" and tourism.

Risk associated with the volatility of world coffee prices is clearly a deterrent to investing in the coffee sector. Plans are underway to revamp the marketing system, including a review of the function of the coffee auction and the possibility of replacing the auction with an exchange. Technical assistance could help to study the feasibility of a coffee auction, and to formulate a strategy for implementing such a scheme in addition to identifying possible alternative means of reducing the risks of coffee production and export.

9.4 HORTICULTURE

The contribution of horticulture to Ethiopia's export earnings is negligible – the share of horticultural products in total exports between 1994 and 2001 was 6% in quantity and less than 2% in value. Further, horticulture is one of the most underdeveloped economic sub-sectors in Ethiopia. However, it remains a potential resource for the country, capable of acting as a backup for farmers who grow other crops.[34] The potential for horticultural exports to supplement the European off-season market was recognized over thirty years ago.[35] More recently, the country was recognized to have many attributes favorable to horticultural crop production, including fertile areas in close proximity to Addis Ababa airport, a variety of altitudes and micro-climates, year-round production possibilities, extremely low labor costs, and accessible irrigation

[34] Horticultural crops are typically not the main crops grown by small farmers. Instead, these farmers use horticultural crops as supplements to their main crops.

[35] Greenhalgh 2002

sources.[36] All of these factors enable a wide range of fruit and vegetables to be grown at low cost. However, constraints still abound, and will be outlined here.

Unlike cereals and coffee, horticultural products are extremely perishable and require special attention in handling, packing and transport techniques. Technology for transporting these goods is expensive and requires a large space for proper ventilation. Though volume is related to transport costs, it is likely that even if yields were increased, transport costs would remain the biggest obstacle to exports. The availability and cost of airfreight is also problematic. Volumes typically exceed available passenger flight cargo capacity but are insufficient to warrant regular cargo charters, which would typically be cheaper than passenger flights. Further, trade procedures are extremely complex, tedious and time-consuming. Streamlining the process could enhance the profitability of exports.

Technical assistance could help in many areas of the sub-sector in order to enhance production. For instance, the Ethiopian Agricultural Research Organization (EARO) recently drew up detailed plans for research strategies in horticultural products. Based on this analysis and anticipated international market requirements, commercially orientated research and extension activities should be developed for the sub-sector, and there should be a link between researchers and producers. Technical assistance could play a role in supporting this research and development.

Until recently there were no training courses specifically designed for the horticultural sector. The programs that exist now need to be strengthened. Technical assistance could play a role in strengthening these programs, and in training Ethiopians in all stages of the production process. This training could involve trips to other countries – like Kenya – that have been successful in developing horticultural exports.

9.5 SUGAR

Sugar differs from the other crops discussed in this section on a number of fronts. Sugarcane yields in Ethiopia are among the highest in the world and have increased steadily over the past ten years, as did total sugar production. Only 15% of sugarcane is grown by smallholders - the rest is grown on estates that are managed by the factories. Sugarcane is processed into white sugar and molasses by four state-owned factories and roughly one third of all processed sugar is exported. Export performance deteriorated in the 1990s due to internal conflict, drought, the removal of restrictions on domestic sales and breakdowns in processing plant equipment. However, since 2000 exports have increased due in large part to the EBA initiative. Sugar exports accounted for 2.4% of total export earnings, 6.5% of manufacturing employment and 24.2% of

[36] These opportunities presented by the horticulture sub-sector were gathered from interviews of participants in a workshop organized by Department For International Development (DFID) that was held at the Addis Ababa Chamber of Commerce in April 2002.

manufacturing value-added in 2001. The sugar industry provides roughly 20% of total indirect tax revenue to the government in the form of sales taxes (15%), and excise taxes (33%). Finally, sugar processing requires a considerable amount of imported inputs in the form of chemicals, fuel and spare parts. For most of the past decade, the sugar industry was a substantial net drain on the country's trade balance.

Part of the problem has to do with the fact that the industry has been under state ownership for nearly three decades. Management of enterprises complains about heavy centralization of resources and decision-making by central government. Two outstanding issues are emphasized. One is the 'Sugar Development Fund' (SDF). Government fixes the factory gate price of sugar for the domestic market. Most revenue is turned over to the government, mainly entering the SDF. However, nothing feeds back from the SDF for investment or innovation, and enterprises have no say in the SDF. The second issue is associated with the institutional structure of the industry. All activities related to marketing are, carried out by the Ethiopian Sugar Industry Support Center. Factory managers argue that they face delays in procurement and supply of inputs, costly purchases, and at times, duplication of activities as a result of this setup. The Center is not involved in marketing research; no aggressive marketing is done except overseeing bids for sale in the domestic market. With little power to decide on resources and marketing, enterprise managers are left to deal only with technical aspects of the enterprises. Finally, managers do not have absolute hiring and firing power.

Technological constraints to increased productivity fall into two categories: outdated equipment and plant size. Economies of scale play a critical role in reducing production costs in the industry. Fixed costs are relatively high compared to variable costs. Other countries show that amalgamating factories to form large economies of scale goes a long way towards reducing unit costs. In this regard, the current daily crashing capacity of the factories is relatively small. As noted earlier Wonji/Shewa, Metahara and Finch have 3300, 5000 and 4000 TCD, respectively. In light of enterprises in other countries with up to 10,000 TCD, Ethiopian factories are dwarfed and can hardly compete – so there is a need for expanded capacity. An additional measure that could help reduce unit costs is the recycling of molasses - further processing to produce byproducts. Currently, Fincha is the only factory with the capacity to recycle molasses.

Production costs must be reduced and technical assistance could play a role in assessing the feasibility for reducing costs of production. For example, very little is done with the byproducts of sugar processing – but this is a major opportunity for cost reduction. Also, scale economies are an important means for reducing the unit costs of production and technical assistance could help to assess the feasibility of establishing larger more cost effective sugar processing plants. Lack of spare parts is one of the major constraints faced by factories, particularly the Wonji factory – though the Akaki spare parts factory has the potential to produce the required parts. So there is a need to provide strong technical assistance to the latter to enable it to produce spare parts for

the industry. Alternatively, technical assistance could help to assess the feasibility of shutting this factory down altogether and re-routing the sugarcane to one of the more efficient factories.

There are major in-house maintenance and related activities routinely carried out in the factories. These include welding, turbo generators maintenance, limekiln operation, field equipment and machinery maintenance and fabricating small spare parts. There is a dire need to update the technology of the equipment and tools used for maintenance, as well as the skill of technicians. Upgrading irrigation management technology also deserves due attention. It is useful to adopt techniques and skills from successful firms in other countries. To this end study visits/tours to leading sugar producers like South Africa, China, Brazil and Australia, for management and key technical staff, is of great importance.

Another major area of technical assistance is in R&D. The current status of research on improving productivity and cane variety development is not adequate. There is a need for intensive research on the soil, which is highly affected by alkaline and salinity.

9.6 CONCLUSION

- Given the importance of agriculture in the economy, raising agriculture productivity is a *sine qua non* for growth and poverty reduction. The Government has focused attention properly on this need through ADLI with some successes, but some problems still remain in implementation.
- In terms of technology there is need to develop ecologically suitable and crop specific packages of extension services, fertilizer and related inputs.
- Similarly, markets need to be improved by better infrastructure, as well as by the Government allowing input markets to work on their own.
- Other constraints to raising agriculture productivity lie in issues of land security and lack of market integration. Both institutional and physical factors account for this as well as forward looking research into crop development.

CHAPTER 10
LIVESTOCK AND MEAT

10.1 INTRODUCTION

The Ethiopian's livestock sector is a key component of the livelihoods of rural poor. It is significantly dependent on international trade and standards.

With about 35 million cattle, 24 million sheep, 18 million goats (FAO, 2002), 7 million horses and donkeys, 1 million camels and 50 million chickens, Ethiopia has the largest livestock population of the continent. This livestock perform multiple functions for the approximately five million households (or 25 million people) involved in the sector. The livestock sector provides the power to cultivate about 70 percent of the 10 million ha of arable land of Ethiopia, and produces about 1 million ton milk, 450,0000 ton meat, and organic fertilizer. Moreover, livestock is the preferred vehicle for savings and insurance, as banks are remote and unreliable, and fulfils social functions in ceremonies and exchanges. Livestock provide the majority (40 to 90 percent, Gryseels, 1996) of the cash income of rural households, and, as the most important marketable commodity, is therefore a potentially important entry point for poverty reduction. The contribution of the livestock sector to total GDP and agricultural GDP is estimated at about 15 and 35 percent respectively (MEDAC, 1998), not including the value of draft power and social functions.

The livestock population and production has remained practically stable over the last decades. Thus, while, over the period 1974-1998, the human population grew at an annual rate of 2.5 percent, the cattle and small ruminant population increased by only 1 percent. Production of meat grew less than the livestock population, i.e. by a scant 0.9 percent per year, and milk by about 1.5 percent per year over that period. Thus, productivity per head has remained basically stable, or even slightly declined. Production figures over the last six years are provided in Table 1.

Productivity of the livestock sector is below that of other Sub-Saharan African countries. The off-take rate for cattle is estimated at estimated at 8 percent per year for cattle, at 40 percent sheep and 35 percent for goats, one of the lowest in Africa. The production per head[37] in Ethiopia for beef, is only half that of neighboring Kenya and, for example Senegal, as shown in Table 2. Shoat[38] production is also slightly lower. Economic,

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[37] Production per head is the national production of milk or meat, divided by the total numbers of animals in the national herd of that species, and is a rough approximation of the productivity of a national herd. For Ethiopia it slightly underestimates the total productivity, as traction in Ethiopia is a slightly more important output than in Senegal, and certainly much more important than in Kenya.

[38] Sheep and goats

institutional, and technical resource constraints are behind the stagnating growth, they are detailed below.

Feed

For Ethiopia's somewhat limited and highly variable resource base to produce sufficient feed for its national herd is probably the most important constraint to growth. However, there is a 35 percent deficit in normal years, and a 70 percent deficit in bad years. These already serious feed deficits are expected to increase, as the growing population, and the lack of clear land tenure or usufruct rights, causes the better grasslands (valley bottoms, other sites of higher potential, etc.) now used for pastoral production, to be progressively converted in crop lands.

Disease

Livestock diseases are an important direct constraint to international market access, as well as a key constraint to overall growth of the sector. These diseases include:

- *Rinderpest* is a virus disease of cattle, many wild life species and sheep and goats. Ethiopia has declared itself provisionally free in May 1999, stopped vaccination in April 2000, and is now seeking international approval of its free status, which will officially require the entire country to be three years without vaccinations and new disease outbreaks. The disease is also prevalent in South Asia and the Middle East;
- *Foot and Mouth Disease* is also caused also by a virus and affects cattle, pigs, shoats and wild life. It is endemic in the Middle East, Africa (including Ethiopia, but except some of the Southern African countries), and in a number of Latin American countries. It is transmitted through live animals and meat (especially in quickly frozen or salted products). The multiple strains, which cause the disease, without reciprocal immunological capacity is a complicating factor in its control. Freedom from the disease can be at the country level or at the level of a region of the country;
- *Rift Valley Fever (RVF)* is an insect-borne virus disease of man, cattle and sheep, in particular occurring when climatic conditions are favorable (high rainfall) for the emergence of the mosquito, transmitting the virus;
- Other diseases such as *Peste de Petits Ruminants, Contagious Bovine Pleuropneumonia, Sheep and Goat pox and Blue Tongue,* all occur in Ethiopia, but also in all or parts of the Middle East, and, for the near future, are therefore not a barrier to trade with those countries. They do not occur in Europe or other OECD countries, and carries therefore an export ban from these countries. *Lumpy Skin Disease* occurs in Sub-Saharan Africa, but not in the Middle East, is not transmitted through meat, but would require a one-month quarantine of live animals in a disease free area.

Markets

With its deficient infrastructure network of roads and markets, livestock marketing and processing are major constraints to the development of the sector. Most animals are trekked, causing a significant loss of weight during the trek. For example, a week trek between Bale Mountains and Arsi (about 150 km) signified a nine percent loss in body weight.

The high percentage of cattle (70 percent or 2 million out of 2.8 million see figure 2) and probably an even higher share of shoats are directly slaughtered by the consumer or by small-scale butchers. This is a cause of concern, as it constitutes a human health hazard, and diminished overall tax income for the city councils. The main reason for this high level of outside slaughter is the high transaction costs of the urban markets.

The high level of income and sales tax is another factor in all Addis Ababa livestock markets. A revision of this system, which would benefit all trade, including the exports, is recommended.

Institutions

The Ministry of Agriculture, and in particular the Animal & Fisheries Resources Development and Regulatory Department, is the main public authority responsible for livestock development. Within the Department, the Veterinary Services Team is responsible to maintain animal health and the safety of food products of animal origin. It consists of a small team at the Ministry (eight professionals) and a total of about 500 veterinarians, 800 para-veterinarians and 3400 animal technicians. They manage a network of about 930 clinics, 650 Animal Health posts, and ten diagnostic laboratories, with more being established under an African Development Bank funded project. The private veterinary sector is still weak in Ethiopia, with a total of 57 private veterinarians with 64 private clinics and about 150 private animal health assistants. With a staff to Tropical Livestock Unit[39] ratio of one veterinarian per 55,000 TLU, Ethiopia has one of the lowest animal health care coverage's of any Sub-Saharan country.

While the official trade in live animals over the last three years, at less than US $ 1 million per year, has been negligible, there has always been a thriving informal export of live animals to Somali, and onwards to the Gulf countries and Yemen, and more recently also to Nairobi. In particular the trade with Nairobi has grown rapidly over the last couple of years.

[39] TLU (Tropical Livestock Unit) is a measure to aggregate different classes of livestock. 1 TLU equals 1 camel, 0.7 cattle and 0.15 sheep or goat. 1 TLU consumes about 6 kg Dry Matter per day (2000 kg per year).

10.2 MEAT EXPORTS

Meat export (mostly chilled, some frozen and canned) has grown from almost nothing in the early nineties to an average of about 2000 tons now, thanks to the emergence of a number of private slaughterhouses, meeting the sanitary standards of the Saudi and Gulf countries. In principle, Ethiopia has a strong comparative advantage in those countries, as it can:

- Provide, because of its proximity, those markets with chilled meat in customer-tailored quantities, with short delivery times. In those aspects, Ethiopian meat has an advantage over countries, such as Australia who provide mostly frozen meat in bulk;
- Provide those markets with preferred products, in particular with the favored fat-tail sheep, such as the Somali Blackhead Sheep;
- Serve also niche markets, such as the markets for the fifth quarter (organs, other offal, etc) in West Africa; and
- In principle, be able to deliver at a lower price than the competitors, such as Brazil and Australia.

Main constraints to meat and live animal exports

The main reasons mentioned for this under-performance in meat and live animals exports are:

- *Regulatory constraints, in particular cumbersome documentation requirements and high levels of service charges.* Documentation requirements for meat, covers not less than ten different institutions. Even for live animals eight different institutions are involved, with significant transaction costs. This is particularly critical for perishable goods such as meat, where these administrative arrangements have to be completed, seven days a week and in a short time. However, exporters often need to withdraw shipments of chilled meat, because of absenteeism.
- *Banking sector constraints.* The procedures to obtain Letters of Credit (LC), requiring Central bank approval, are cumbersome, and transfer of funds, through US banks is reportedly slow. Moreover, with the Somali currencies not recognized, L / C cannot be issued for exports to the main market (see para 22) for live animals.
- *Sanitary constraints* such as the shown at the occasion of the recent outbreak of Rift Valley Fever.

Constraints affecting mostly meat exports are:

- *Supply constraints, in particular caused by the lack of quarantine facilities.* Export meat packers are required to quarantine stock, up to one month before slaughter,

but there is inadequate land available to accommodate this stock. Expansion of those areas is seriously constrained by the Government's prevailing land tenure policy, which allows land only to be leased, but not owned. The largest exception is the ALFORA company, which has taken over the parastatal ranches established during the Dergue period;

- *Un-reliable transport schedules and high cost of transport.* While the proximity is an advantage for the Saudi market, airfreight rates are high in the absence of adequate return cargo, and the near monopoly situation of the national airline. Quoted freight costs are about US $ 300 per ton to Yemen, US $ 600 per ton to United Arab Emirates, US $ 700 per ton to Nairobi, and up to US 1200 per ton to West Africa. This ranges from about 15 to 30 percent of the fob costs of about US $ 1750 per ton for the Middle East and brings it to about world market prices cif prices in these countries.

10.3 HIDES AND SKINS

With an export value of about US $ 75 million per year over the last two years, the share of the leather sector exports varies between 17-21 percent of total exports and is thus the second most important export commodity. The share of the leather sector in total exports has risen from an average of about 10 percent in the nineties to where it is now, partly because of the decrease of the other exports, but partly also because of the increased global demand for leather products, resulting from the revival of the East Asian economies.

The main technical issue confronting the industry is the quality of the raw material. The industry reports only a 30 percent of the skins classified as first class, and 70 percent in lower grades, ten years ago this would have been the reverse. A sample taken by LMA (Gebeyaw, 2002) showed 38 percent of the wet-salted shoat skins of first quality, this was lower for air dried skins. Most defects were caused by poor slaying (knife damage). The highland region (Amhara) had a higher percentage of defect free skins. Of the air-dried skins, bacterial diseases become one of the most important causes of poor quality (Deguma, 2002). An insect borne skin disease (eked or mange), with a more pronounced effect in the more advanced stages of processing, is prevalent in most of the Amhara and parts of the Wollo and Tigray regions.

There are nineteen tanneries in Ethiopia, four of which still managed by the public sector, with one additional tannery under construction. Together, they have a capacity of about 25 million skins and 3 million hides at 275 days operation per year, and are thus operating at about 65 percent for skins and 80 percent for hides (Aklilu, 2002). Most tanneries produce semi-processed skins and hides, six (three public and three private companies) produce finished leather and leather products. Eighty percent of the production is exported, with the remainder for the domestic market. The tanneries benefit from an export ban on raw hides, which was instituted under the Derg regime.

10.4 SANITARY CONDITIONS

To be able to meet the increasingly stricter standards, including that of the Middle Eastern markets, there is a need to improve the animal health infrastructure, in particular in disease surveillance and quarantine.

- For an adequate disease surveillance system, a much closer veterinary network at field level will be required. This public sector will not be able to provide all increased staffing and operating costs to develop an efficient network, and a public-private partnership will be required. However, current public sector policies, with significant subsidies for private good services, such as clinical interventions are not conducive for a vibrant private sector to develop. It is therefore recommended that revised policies be introduced, which would (a) government progressively withdraw from the private good services, and (b) the institutional framework be put into place, which will allow private veterinarians to sub-contract, on a part-time basis, disease surveillance tasks. Technical Assistance and credit schemes for starting private operators, if not already covered under the existing arrangement with EU, could be put into place to support this component. The African Development Bank has already pledged support to strengthen regional diagnostic laboratories, and there is probably no more support required in that area. Based on the establishment of about 20 new practices per year, a total of about US $ 500,000 per year would be required.
- For an adequate quarantine system, the establishment of disease free zones needs to be explored. This will require the establishment of zoning according to the OIE and WTO guidelines, the stringent supervision of the disease situation in those zones and the control of the boundaries. Areas with low population density would need to be selected in close consultation with the local population. The critical issue of the land tenure of the proposed disease free zones would have to be addressed before investments can be made.

10.5 ADMINISTRATIVE ARRANGEMENTS

The current cumbersome documentation procedures, requiring the involvement of nine (live animals) or eleven (meat) institutions needs to be simplified, and reduced to a “one window” arrangement, probably best managed by LMA as the focal point. Studies should be undertaken to arrive at the most efficient set-up to complete the procedures in the short time available for the export of chilled meat or live animals. Establishment of databases, and the introduction of “virtual” approval procedures, should be explored. A preliminary cost of US $ 500,000 for the study, and an undefined amount for the establishment of more efficient approval system (including a virtual one) should be envisaged.

10.6 INFRASTRUCTURE

On the live animal input side, there is a need to re-assess the infrastructure needs on the trekking routes. Trekking will remain the main transport mode for the immediate and medium term future, and improvements in watering and holding facilities along the trek routes would reduce weight and mortality losses during the trek. LMA has specific proposals on the rehabilitation of seven routes, which would benefit both domestic and export markets. As these proposals are rather ambitious, and as the basis is not clear, there is a need to set priorities for the most urgent rehabilitation needs. On the processing side, the current network of private slaughterhouses meets most sanitary requirements for export to the Middle East. On side of the transport of animals to the Middle East, and with the closure of the ports of Assab, formal export of live animals depends on Djibouti, which lacks adequate port facilities for livestock exports. Further studies on the needs and organizational arrangements are needed.

10.7 EMPOWERMENT

However, growth is limited by overall productivity constraints, such as (i) the natural resource base, which only in very good years provide adequate livestock fodder for production, (ii) disease prevalence, which causes high mortality and morbidity figures, in spite of the considerable progress made in the control of the major epizootic diseases such as Rinderpest; and (iii) marketing and transport systems, which causes high levels of losses.

Over the last years, formal and informal export of livestock and livestock products amounted to an estimated US $ 190 million per year, at par with the export of coffee. However, it is strongly fluctuating, mostly dependent on sanitary access based regulations of its main markets in the Middle East. With its comparative advantage of proximity, and preferred products (breed type, chilled status of meat, etc), Ethiopia can expand its current niche market in those countries, however, further growth would depend on the following actions:

- Development of a more efficient sanitary system, consisting in the establishment of an enabling environment for private animal health providers, the promotion of effective public-private partnership is disease control, and the development of adequate quarantine and disease-free zones for export;
- Simplification of the current documentation, which now involves a multitude of institutions, and high costs;
- Investments in infrastructure, in particular in trek routes, to reduce weight losses of marketed livestock;
- Empowering of the main export and trade organizations, involved in livestock, meat and semi-processed hides and skins, so that they would become more effective participants in the improvement of the quality of the products (in

particular in hides and skins) and in international and bilateral discussions on market access.

10.8 CONCLUSION

With its comparative advantage for livestock production, proximity, and preferred products (breed type, chilled status of meat, etc.), Ethiopia can expand its current niche market in those countries. However, further growth would depend on the following actions:

- Development of a more efficient sanitary system, consisting in the establishment of an enabling environment for private animal health providers, the promotion of effective public-private partnership is disease control, and the development of adequate quarantine and disease-free zones for export;
- Simplification of the current documentation, which now involves a multitude of institutions, and high costs;
- Investments in infrastructure, in particular in trek routes, to reduce weight losses of marketed livestock;
- Empowering of the main export and trade organizations, involved in livestock, meat and semi-processed hides and skins, so that they would become more effective participants in the improvement of the quality of the products (in particular in hides and skins) and in international and bilateral discussions on market access.

CHAPTER 11
THE MANUFACTURING SECTOR

11.1 INTRODUCTION

Manufacturing is still in an early stage in Ethiopia. Its share in GDP is less than 7%. Nor is it a significant employer. Yet, manufacturing offers future opportunities to the country to achieve a number of development goals. Efficient manufacturing growth will raise income and create demand for agricultural products, provide growing employment opportunities and it is at the heart of modernization of the economy. While its pace cannot be forced, there is a need to remove obstacles to the growth of manufacturing. Given the increasing phenomenon of greater division of labor by value adding processes in the global economy, Ethiopia can participate in it by providing light manufacturing value adding processes and take advantage of its cheap labor.

During 1980-88,[40] growth of manufacturing averaged to 2.3, with significant erratic annual changes. The modest 2.8% average GDP growth per year during the period came largely from the services sector. Following the reforms initiated in 1992 there has been a notable improvement in performance across all sectors, yielding an average annual GDP growth rate of 8.9% for the nine years from 1993 to 2001. The average growth rate of manufacturing during this period was 10.2% per year (11.4% per year, if 1998/99 when there was a mild contraction in output owing to the Eritrea war is excluded), slightly above the average growth rate of agriculture (9.7% per year). These impressive growth figures during the early post-reform years (1993 and 1994 in particular) partly reflect 'natural' recovery of a war-devastated economy. However even after allowing for this, on average, the post-reform growth record is impressive, compared to the 1980-88 period. Despite the rapid manufacturing growth following reforms, the share of that sector in total GDP remained remarkably stable around an average level of 6.5%. This was because of faster growth in services and construction activities.[41]

[40] For the purpose of growth rate comparison, the turbulent years from 1989 to 1992 (inclusive) are excluded for obvious reasons. (The war between the EPRDF and the military government reached climax during 1989-1991, resulting in severe disruption of domestic economic activity. The economic scene regained normalcy under the new regime only from the late 1992 the new government came into power in 1991.

[41] A comparison of the post-reform manufacturing performance with that in the pre-reform years however needs to be qualified for the fact that the share of manufacturing in GDP in the latter period nay have reflected the distorted domestic prices arising from the protectionist regime.

11.2. PRODUCTION STRUCTURE

Like in most least developed countries (LDCs), Ethiopian manufacturing has historically been dominated by food production. By the early 1990s, this sector accounted for 37% of total manufacturing value added (Table 1). The second largest sector, textiles accounted for 17%. Despite emphasis paced on the promotion of heavy industries during the Derg period, industries such as machinery and transport equipment, iron and steel together accounted for less than 20% of total output.

Following liberalization reforms in 1992/93, food and beverages sector recorded the sharpest increase in output share, from 49% in 1991/92 to 50% in 2000/01. Public sector dominated capital-intensive industries such as also recorded output share gains. The greater availability of imported input and investment goods seems to have played a key role. Given heavy transport cost, import competition was also presumably not a threat to these industries. By contrast, industries such as garments, footwear, other manufacturing which are relatively more labor intensive and have greater private sector participation have recorded contraction in output share. Following trade liberalization, these industries had to face stringent competition from imports. At the same time because of various reasons (as analyzed in chapter 3 on Trade Policies and the Incentive Structure), there has not been noticeable export expansion to counterbalance output losses due to import competition.

11.3 EMPLOYMENT

Total employment in organized manufacturing grew from some 82600 workers in 1991/92 to around 93500 in 2000/01. Employment growth has however lagged behind output growth throughout this period. Annual average employment growth during 1992/93-2000/01 was 1.6% compared to 7.1% growth in real output. This comparison clearly suggests that Ethiopian manufacturing sector is still locked in capital-intensive sectors (mostly dominated by public enterprises). Output expansion in the post-reform years has occurred mostly in capital-intensive sectors. Capital per worker (at constant 1991/92 price) recorded three-fold increase between 1991/92 and 2000/01 (from 12.0 thousand birr to 26.5 thousand birr). Labor intensive sectors grew slowly or even recorded output contraction. Of particular importance is the massive contraction in the employment share of SOE dominated textile industry.

The post-reform period has been characterized by modest wage growth. Between 1992/93 and 2000/01 nominal wages increased by about 6.1% and real wages (nominal wages deflated by CPI) by 2.3%. Given massive unemployment in the urban economy, these wage increases seem to suggest significant 'administered' wage increases (discretionary wage adjustment) in the manufacturing sector. But, given the low initial wages, these wage increases have not resulted in an erosion in manufacturing

profitability. The labor share in value added in fact declined persistently from 43% in 1991/92 to 21% in 2000/01. The operation surplus in manufacturing (value added at factor cost less wages as a percentage of gross value of production at market price) has also increased throughout, through with mild year to year fluctuations, from 3.3% to 20.3% between these two years.

To sum, following the 1992 reforms manufactures grew around 10% per year, slightly above agriculture. Manufactures in Ethiopia are dominated by food processing followed by textiles. However, this sector accounts for about a fifth of manufacturing, given the earlier state promotion of heavy industry. As expected the public sector dominates more capital intensive part of the sector, while the more labor intensive part of the sector belongs to the private sector. It is noteworthy, that employment has lagged behind output growth in the sector that increases in output were more associated with increases in capital per worker than increases in productivity. Moreover, labor productivity measurement overstates the productivity growth compared to TFP growth. One important finding is that following the liberalization, labor intensive private sector contracted and there has not been an increase in export orientation. Private sector participation has been limited following the liberalization and the privatization program has slowed. Two main reasons can account for the limited response to reforms in terms of increased productivity and export orientation. First, there may be long lag in supply response to the reforms where the reforms have been fundamental departure form the past. Second, the private sector is small does not still feel confident enough to take advantage of the new opportunities due to the perception that it does not face a level playing field compared to the public sector and party relater enterprises.

11.4 PRODUCTIVITY PERFORMANCE

During 1993/94-2000/01 labor productivity in domestic medium and large scale manufacturing grew at an average annual rate of 5.5% compared to 7.1% rate of value added growth. At the two digit ISIC (International Standard Industry Classification) level, food and beverages, non-metallic mineral products, basic iron and steel products, and fabricated metal products indicated above-average labor productivity growth. Wearing apparel, textile, leather product and footwear recorded low labor productivity growth. Most of the sectors with negative or low labor productivity growth are sectors whose production process is more labor intensive. As discussed below, the apparent positive relationship between capital-intensive of production and labor productivity growth simply reflect the fact that labor productivity growth in Ethiopian manufacturing during the post-reform period has largely emanated from capital deepening (increase in capital per worker) rather than genuine productivity growth.

Average annual total factor productivity growth (TFPG) in total manufacturing during this period is estimated at –2.9% and annual figures show wide fluctuations with only 3 of the 7 years recording positive growth. The average annual growth rate of 7.1 has

come from growth in factor inputs (labor and capital), which more than compensated for negative TFPG (Table 10). More importantly, it was capital accumulation that accounted for 9.42% of the 7.2% growth rate in output. The contribution of labor was a mere 0.42%. Among the 15 two-digit ISIS industries, only 4 industries exhibited positive average TFPG. These are rubber and plastic, non-metallic mineral, fabricated metal products, and machinery and equipment.

There are two possible explanations for the poor TFP performance. First, it may reflect invariable adjustment lags. These lags can be fairly long in an economy like Ethiopia where reforms were undertaken following long period of central planning, which had virtually decimated the private sector in the economy. It would naturally take a long time for the private sector to come to terms with the new economic setting. Second, and perhaps more importantly, the liberalization process has not yet been deep enough to generate the anticipated improvement in manufacturing performance, particularly though private sector participation. Significant trade opening, exchange rate reforms sound macroeconomic management since 1992 have not been matched by adequate reforms to rejuvenate the role of the private sector in the economy.

Finally, it is important to note the deceptive nature of labor productivity growth as an indicator of productivity performance. In a context where trade liberalization reforms open up opportunities to invest in plant and machinery, the incentive structure is characterized by a bias against labor intensive productive, labor productivity growth can emanate from capital deepening even if total factor productivity growth is negative. During 1993/94-2000/01, 5.5% growth of labor productivity in Ethiopian manufacturing emanated from 8.4% annual rate of capital deepening which overwhelmed contraction in TFPG by–2.9 (Table 10). This pattern is observable across all 2-digit industries.

11.5 PRIVATE SECTOR PARTICIPATION

The degree of private sector participation is higher in the four industries with positive TFPG (rubber and plastic, non-metallic mineral, fabricated metal products, and machinery and equipment) are generally compared to total manufacturing. It is also evident that SOE dominated sectors have generally experienced negative TFPG of greater magnitudes. There are however two notable exceptions to this overall patters. These are the garment, and leather product industries. The garment industry faced stiff import competition during the post reform era. At the same time there was no significant export orientation of the industry to compensate for output contraction caused by import competition. The leather product sector is heavily reliant on primary processing of hide and skins, world demand for which has been deteriorating persistently in recent years. Moreover, as a result of stiff import competition, a large number of firms in the footwear and leather goods sub-sectors (mostly domestic market oriented) have downscaled their operation or closed down. Ethiopia is yet to exploit

fully its comparative advantage in the production of leather goods for the export market (Berhanu 2003).

11.6 EXPORT ORIENTATION

Ethiopian manufacturing sector is predominantly domestic market oriented. There is no evidence to suggest that recent policy reforms have at least begun to change the long-standing domestic market dependence.

According to the Survey of Medium and Large Scale Manufacturing conducted by the Central Statistical Authority, in 2000/01 total exports (Birr 77 million ($9.3 million)) accounted for only 9% of total sales turnover. Processed and semi-processed lather accounted for almost two thirds of total manufacturing exports, with textiles, wearing apparel and other light manufacturing accounting for the balance. Almost 55% of total manufacturing exports are accounted for by SOEs.

The case study on Textiles and Garments provides a detailed analysis of export performance of textile and garment industries. According to official statistics, during 1996/97-2000/2001 textile and garment exports grew at an average annual rate of 19% in value terms and at 6.1% volume terms. However, given the low starting base, their share in total exports remained around 0.5% during this period. Exports of textile were limited by and large to semi-processed gray fabrics and garment exports comprised predominantly low-end outer garments. Ethiopia has a long way to go in benefiting from market opportunities available under EBA and the AGOA.

11.7 FINANCIAL SECTOR REFORMS

The Government still commands about 90% of the capital in banking and insurance sectors. It owns the two largest commercial banks, a Development Bank involved in providing long-term development finance, and the largest insurance company (the Ethiopian Insurance Corporation). The state-owned Commercial Bank of Ethiopia (CBE), the largest commercial bank, holds 80% of total bank deposits in the country. Due to its huge excess reserves inherited from the central planning era, the CBE operates independently of the NBE in the interbank credit market. The operations of CBE also dampen the level of interest rates in the treasury bills market and act as a major constraint on NBE's attempts to mop up excess liquidity in the money market as part of its monetary policy.

The entry of foreign banks into the financial sector is not yet permitted. The Government argues that domestic banks have not yet developed the minimum capacity to be a strategic ally leave alone to be strong competitor. The NBE, as a regulatory body has not built supervisory and regulatory capacity to effectively oversee the activities of entrant foreign banks. It also stresses that under such fragile ground for competition and close supervision, permitting foreign banks to operate freely might result an

unanticipated consequences to the national economy. Although these concerns are based on sound reasoning, there is a growing concern that absence of foreign banks in the in the financial systems is a major constraint on promoting foreign direct investment in the country. A compromise solution would be to permit foreign banks to operate in the country though liaison offices (rather than through full-fledged branches) selected commercial banks to operate foreign currency banking units.

11.8 IMPORT INTENSITY AND LINKAGES

As in many other developing countries, in Ethiopia the debate on national industrial policy has repeatedly emphasized high import dependence and the resultant low domestic linkages as a major weakness of domestic manufacturing. This has been a major consideration behind selectivity in tax concession and other incentives offered to different industries.

Of course the greater the linkages between the export sectors and the rest of the economy the greater would be the benefits to the economy from manufacturing expansion (provided such linkages are the natural outcome of industrial deepening). However, attempts to create linkages through direct policy intervention in the context of a labor abundant economy whose initial comparative advantage essentially lies in standard light manufactured good and simple assembly activities, can stifle the evolution of domestic manufacturing in line with changing patterns of internationalization of production. This in turn will frustrate the achievement of employment and income growth objectives There are two key considerations here.

First, intermediate goods industries are generally more capital intensive than are final goods industries. The importation of intermediate inputs for domestic production, therefore, involves an implicit substitution of labor for relatively capital-intensive intermediate products in the overall domestic production process. This would enhance the labor intensity, and hence employment potential, of domestic manufacturing.[42]

Second, emphasis on achieving greater domestic content can run counter to the objective of increasing income levels through rapid market penetration in world trade. In contrast with the closed-economy approach of import-substitution industrialization, the key to success under export oriented industrialization lies in a country's ability to produce what is demanded in international markets. Using imported input is essential

[42] "Some critics have used the pejorative term 'shallow' to describe the development [in the 1960s and 1970s] of Korea and Taiwan, by which is meant that there is relatively little backward linkages. In that case, development in depth must be declared the enemy of employment and equity. All labor-intensive sectors have their *K/L* ratios raised by backward linkages, because all the intermediaries – petrochemical, artificial fibre, steel, non-ferrous metals, etc. – are highly capital intensive. *These intermediaries are the curse of developing countries*." (I.M.D. Little)

in order to maintain high quality standards (and thus international competitiveness) in the end products.

The share of intermediate inputs in total manufacturing has varied in the rage of 51 to 54% during this period. The concern that this ratio is 'too high' is often made without any discussion on how it can be lowered, let alone discussing the likely economic implications of forced import substitution. The estimates relating to the 2-digit industries warrant two important inferences. First, high (above-average) import ratios are for highly capital intensive (and state-dominated) industries such as iron and steel, metal products, machinery and transport equipment. Domestic production of intermediate inputs for these industries cannot be encouraged unless the government is prepared to give excessively high tariff protection or direct production subsidies. Part from the well-known efficiency implications involved, such policy is not consistent with the process of outward-oriented policy reforms. Second, and more importantly, the industries that have low import ratios are the relatively labor intensive sectors, in particular textiles, clothing, leather goods and footwear and other manufactured goods. Low import dependence of these industries is simply a reflection of the lingering effects of the force industrialization in the communist era. Under an increasingly liberal trade regime, these industries cannot survive (that is, they cannot face import competition and or expand exports) without increasing the use of high-quality imported inputs. This point receives added force when one compares the Ethiopian import intensity figures for these industries with those for some Asian countries.

11.9 CONCLUSION

While manufacturing is less than 7 percent of GDP, it has potential for future expansion given the early stage of development of the sector and new opportunities that can arise with market access through AGOA and EBA.

Manufacturing production is dominated by textiles and food processing. Heavy industry has a share of around 20 percent of manufacturing given that this activity has been promoted by the Government under both the Derg and the new regimes.

The biggest challenge is to increase the share of manufacturing in total output through raising TSP growth. In the past, TSP growth in manufacturing was a negative 2.9 percent. Output growth was more the result of using more capital and labor inputs than through increases in productivity. It is noteworthy that the more labor intensive and private sector owned activities have had positive TSP growth in contrast to the more capital intensive public sector owned activities. This is despite the competition from illegal imports in the case of textiles.

Following the liberalization of trade in 1992/93, the labor intensive private sector has contracted when the expected outcome was the opposite.

Ethiopian manufacturing is more domestic market oriented than export oriented. Textiles and garments were a mere 0.5 percent of exports. One reason for this market orientation is that there is a continuing bias against exports through import tariffs, poor export support services and limited access to capital to the private sector.

Emphasis on raising domestic value added per se without regard to efficiency would be counter productive. It will also limit employment opportunities in the manufacturing sector since intermediate goods industries tend to be more capital rather than labor intensive.

Improving the overall incentive structure will benefit the manufacturing sector more than targeting specific industries on the basis of their domestic value added or non-economic criteria of one kind or another.

CHAPTER 12:
THE TOURISM SECTOR

12.1 INTRODUCTION

There is universal agreement that Ethiopia has an enormous potential as a tourism destination. Not only does it offer the usual African game and cultural experiences to visitors, but it also has a rich array of historic and natural sites that set it apart from most of its neighbors. The sector already generates total direct receipts of $258m in 2001, which is 4.3% of GDP and 31% of total exports - outstripping coffee as the number one foreign exchange earner for the country. Direct jobs in hotel, tour operators and the airlines are small (12,430), but this does not include the numerous other direct jobs at tourist attractions and the considerable number of indirect jobs created from the tourism revenues. But while much potential exists, this is currently not being fulfilled with visitors on vacation numbering only 41000 in 2001, out of a total of 148,000 foreign visitors to the country. In contrast, its neighbor Kenya gets around 1m visitors.

12.2 PROFILE OF TOURISM IN ETHIOPIA

Port of entry data shows that in 2001 Ethiopia received 148,483 visitors from abroad. Taking arrivals by air only as indicative of the trend over the past decade[43], arrivals grew annually by 3.6% only. But this figure masks the much higher annual growth rate of 5.8% up until the war began and a high 9.2% growth from 2000 to 2001. The war caused a 20.8% drop in total arrivals (air and road / rail) but there was a rapid recovery as total arrivals almost reached their pre-war level in 2000. However, conference visitor numbers halved during the war and have never recovered since.

The entry data also reveals that almost a third of all visitors to Ethiopia (30.4%) have come on business (including conferences). Only 39% (or 41,083) have come on vacation with the rest visiting either friends or family (14.2%) or in transit (16.4%). However, it is the vacation visitors and those visiting relatives that have grown significantly in the past decade (10.1% average growth per annum) leading to a very different profile to that of a decade ago when business visitors accounted for almost half the visitors.

The primary source of visitors to Ethiopia is Africa, which accounts for 43% of total arrivals by all ports of entry. The other important market is Europe (24.4%), with America, the Middle East and Asia holding 13.8%, 12.3% and 6.4% respectively. However, in the past decade the highest growth has come from the Americas and the

[43] To examine longer-term trends in arrivals it is necessary to focus on air transport only as data for other ports only exists from 1997 onwards. This means that total figures give a false impression of growth from 1996 to 1997 when arrivals from other ports are suddenly added in. For example, total arrival figures show a 28% jump giving a much higher decade growth average of 6.2%.

Middle East with over 8% average annual growth (though admittedly off a low base), with Europe also showing reasonable annual growth rates of 4.6%. Visitors from Africa and Asia are predominately business visitors (40% for Africa and 47% for Asia) or in transit (34% for Africa and 20% for Asia) while visitors from the other regions are predominately on vacation or visiting friends and relatives.

12.3 TOURISM INFRASTRUCTURE

Accommodation

Ethiopia has a limited supply of star and tourist quality hotel rooms, especially outside of Addis Ababa and the neighboring Oromiya region.

While the existing stock of accommodation seems adequate for all but the peak periods, it is commonly argued by tourists and those in the tourism industry that the current supply does not meet the needs of visitors in terms of quality, appropriate style and value-for money. It is also universally agreed that the state-owned hotels are the primary problem. It seems that the stared and tourist recommended hotels were overpriced for what they offered, and they often failed to meet tourist expectations of minimum service levels and appropriate reflection of Ethiopian culture and design.

These problems have been attributed to a lack of incentive to invest in maintenance by government hotels, a lack of competition outside of Addis Ababa, a hotel rating system that prevents the licensing authority from downgrading hotels and inadequate hotel experience and market information by local investors.

Improving the quality of existing accommodation and establishing new, more appropriate hotels, is a priority. Many in the industry are calling for new investment incentives for the sector, but it is not clear that these will necessarily have the desired effect. In fact, they may exacerbate the problem of drawing in domestic investors who lack the knowledge and experience of the hotel sector by temporarily raising the return on hotel investments, allowing even poor projects to make acceptable returns. A more sensible strategy might be to focus on directing the investors in making appropriate choices through a mixture of good tourism intelligence and development codes. Privatizing the government hotel chains that represent the current upper end of the market would also permit greater investment.

Transport

The primary means of getting to Ethiopia is by air into Bole International airport. Ethiopian Airlines has pursued effectively a hub-and-spoke strategy to increase numbers of passengers through Addis Ababa and to lower their overall costs. However, it is not clear that visitors to Ethiopia have necessarily benefited from this. There still exists a price premium for flights into Addis compared to that of Nairobi that ranges from 14% from Johannesburg and London to 81% from the Far East cities of Hong Kong and Singapore. While Ethiopian Airlines faces competition in flights to third destinations via its hub in Addis, it faces far less competition on direct flights to Addis. It also continues to cross-subsidize domestic air travel implying it must be inflating international flight prices.

Air transport is also one of the primary means of accessing the historical sites where there have been large investments in airport facilities and Ethiopian airlines is obliged to offer a service. While the subsidization of domestic air travel has the up side of bringing down the cost of such travel to residents (who pay 44% of non-resident rates), the down side is that it creates little incentive for the national carrier to extend the service beyond the minimum that is required from the government. The reason is that every additional passenger that flies costs them more money, and so the rational response is to limit numbers.

While air transport is the primary means of getting to the historic sites, easy and fast access by road will always be cheaper. A cheaper and quicker means of reaching certain sites by road will stimulate tourist demand by drawing in those tourists (including domestic tourists) that cannot afford the higher cost of air travel. This is evident from the number of visitors to national parks, with the most popular amongst local and foreign tourists being Awash, Shala Abijata and Nechisar, all accessible through good roads from Addis. Currently there are no good roads into the main tourist areas of the north, and no decent roads linking the various northern towns. This greatly increases the time and discomfort of road travel, and also increases its price for those not willing to go on public transport because they need to hire over-priced 4x4s. Road infrastructure to the north is in the process of being upgraded, but there are no plans for inter-town roads in the north to connect tourists sites. These may be important, as the logical option for a middle-budget tourist would be to fly to the north and then travel by road to lower costs.

Facilities at tourist attractions

The quality of facilities at tourist sites impact both on the amount they spend and their relative enjoyment of the site. It seems that many of the tourist destinations outside of the main towns in Ethiopia lack such facilities. Even the urban tourist attractions often fail to get the maximum spending out of tourists at sites (e.g. the national museum has

no shop). The IF team survey found that tourists rated facilities as below average and would spend on average $15 more per day if facilities were better. This translates into lost revenue of $6m for vacation visitors and $2.4m for business visitors. For a country like Ethiopia with limited carrying capacity for tourists due to poor infrastructure, a strategy of raising tourism receipts through increasing spending is appropriate. It also might ensure greater benefits are passed onto surrounding communities. Given that resources are constrained, there would need to be a prioritization of tourist sites for upgrade based on current and potential carrying capacity.

Aside from improving facilities at sites, their preservation is also important. The basis for tourism in Ethiopia is cultural, historical and natural sites. To make the development of the industry sustainable and to preserve these places for Ethiopians themselves, these need to be preserved and ensure that visitor numbers do not exceed the carrying capacity of the sites. There are currently few concerns of excessive tourist numbers at historic and natural sites because of the low levels of tourism (the only exception might be Lalibela). However, the biggest challenge currently is to preserve the historic sites from natural decay and the national parks from degradation by the communities that live inside them. The local communities are a particular problem but the lack of tourism development at national parks (as opposed to historic sites) leaves these communities with few viable alternatives to farming which destroys the land. Entrance fees do not cover the needs of preservation activities and funds from the fiscus are limited given other pressing social needs. Additional funding is required.

Human Resources

The hotel industry is characterized by low education levels and poor training. In this sector only 22.5% of employees have grade 12 or better (i.e. college), and a shocking 69.7% have never received any sector-specific training (not even on-the-job training). Only 15.8% have received any formal hotel-related training. In contrast the tour operator sector is better staffed and better trained. On average, 51.3% of staff at tour operators have a grade 12 or better, and only 41.3% have no sector-specific training. Most saw this as an extension of the problem with local investors who lacked hotel knowledge and were not willing to invest in upgrading quality due to a lack of competition.

The largest training institute of tourism and catering staff is the Catering and Tourism Training Institute (CTTI) based in Addis. CTTI does not seem to have a good reputation in the industry. Many hotels will not use them and others refuse to pay a wage premium for graduates of the school because they feel that additional training is still needed. The problems with CTTI are easy to establish. They are under funded, have poor facilities and their staff is badly paid. They also do not work with the industry itself to define the curriculum, quality and requirements. In addition to CTTI there are 22 private training schools and 2 private colleges. However, all of these offer

training at the low-end of the job market only and not specialist hotel managers, tour operators and guides.

12.4 SECTOR REGULATION AND DEVELOPMENT

Tourism Development Institutions

The Ethiopian Tourism Commission (ETC) is the federal agency tasked with developing the tourism sector, while tourism bureaus also exist at the regional level. These institutions at both levels of government have recently seen their funding and capacity reduced over the past 5 years. The budget is the expression of policy priorities of the government. These budget figures reflect that tourism has become less of a priority for the government of Ethiopia - supporting the common perception that there is a lack of political will to priorities the development of the tourism sector in Ethiopia. This lack of political will is also reflected in the limited influence of the ETC on aspects of government policy that strongly impact on the tourism sector, such as immigration and banking regulations. This is partly because tourism has failed to fulfill its early promise, but also because tourism development planning has not focused on delivering real benefits to the surrounding communities but increasing visitor numbers. It is only when tourism can demonstrate its ability to support national goals of poverty alleviation and job creation that it will establish strong political support.

Tourism Market Intelligence

A primary input to any tourism planning and promotion, as well as tourist facility development is some good market intelligence on tourists to the country. The only information collected currently is from the entry and exit cards filled in by arrivals at Bole International Airport. This provides information on type of visitor, country of origin, and age only. This is inadequate to make good decisions on the use of scarce resources and to effectively promote the country.

Tourism Promotion

Tourism to Ethiopia is promoted to the international traveler by ETC primarily through attendance at trade fairs and arranging free visits by travel agents and journalists. However, the IF team's survey results suggest this may not be an effective strategy as only 11% of the respondents had heard about Ethiopia as a travel destination from actual travel agents and 3% through promotional advertising. The majority had heard about Ethiopia from friends (27%), their own research (28%), travel books (20%) or a previous business visit (12%). It is exactly this type of market intelligence that is needed to ensure better resource use. Furthermore, all industry players readily argue that the biggest promotional problem faced is the poor image of the country - one of war and famine. Changing this image may require a very different promotional strategy to the one currently employed.

Promotion of tourism opportunities to current visitors to Ethiopia on business or those visiting relatives is essential to increase visitor spending. It is as important as promotion of tourism abroad. Current promotion within the country is extremely limited with most hotels carrying no brochures for tourist sites, tour operators, or even maps of Addis Ababa. The Addis Tourism Bureau admitted that although it had printed some brochures providing information of the sites in Addis, these were vastly out of date, of poor quality and were not distributed to hotels.

12.5 ADDITIONAL CONSTRAINTS TO TOURISM

Access to Money and Credit Card Facilities

The ability to pay for goods and services using a credit card is extremely limited in Ethiopia. Currently there are only a few establishments in the entire country that are able to accept credit cards as payment. In addition, it is also difficult to draw cash against a credit card and even where possible, it is often limited to less than $100. For encashment services against credit cards, it appears that commercial banks have been slow to offer this service despite being permitted to do so.

Customs, Import Duties and Taxes

Those in the tourism sector complain that they face high import tariffs and suffer difficulties getting items through customs. An examination of the import tariffs on items that are important inputs to the tourism sector, reveal that the tourism sector faces an average level of tariff that is not only high by international standards (29%), but is also higher than the average manufacturing tariff in Ethiopia (18%). A particular concern is the high tax on motor vehicles. A standard 4x4 vehicle costs an additional 134% over the 'duty-free' price once all tariffs and taxes had been applied. As a result, car hire and tour operator prices are highly inflated[44], making Ethiopia an expensive travel destination. It also serves to limit entry into the tour operating sector by raising the costs of entry, given that a regulatory requirement for any operator is to have 4 vehicles under 3 years old. Costs have also been raised by double-taxation services that the tour operator packages for tourists, such as air tickets.

Entry Visas

Entry visas are generally considered a marginal barrier to tourism in Ethiopia. They are considered expensive and cumbersome to get. This is in contrast to a key competitor, Kenya, which is both cheaper and is not required for residents of 52 countries (compared to 2 for Ethiopia). The recent change to allow 33 countries to get a visa on arrival has improved matters. However, not only is this for tourist and not business visas, but it must also have been prearranged prior to departure through a local Ethiopian agent, making it not much less bureaucratic for the visitor.

[44] The hire of a 4x4 in Kenya is $60 a day compared to $150 per day in Ethiopia.

Entrance fees and Guides

Entrance fees at a number of historic sites were seen as excessive in relation to what was being offered. The IF team survey found that 29.3% of respondents felt entrance fees were overpriced, and what caused the most unhappiness was the 100 Birr camera fee. However, the overpricing seemed to be limited to a few sites only that are owned by the church, which limits what the government itself can do. Entrance fees to national parks where the government does determine the price are more reasonable at 50 Birr.

The tour guides for organized tours that are trained and officially registered received high ratings from the tourists (IF team survey), but this was less the case for tour guides picked up by independent travelers at the sites. Many of these are unofficial guides that lack training and quality control. There is also no control over the rates charged, which vary depending on the bargaining skill of the tourist.

12.6 DEVELOPING THE TOURISM SECTOR

The tourism sector in Ethiopia has huge potential but is currently plagued by numerous problems. The biggest problems are essentially one of development and a historically small tourism sector - a lack of physical and tourism infrastructure. This lack of infrastructure limits the carrying capacity of the tourism sector as a whole, keeping numbers to low levels. It also limits the type of tourists that come to the country to the low and upper-end of the market, missing the largest segment - the medium-budget traveler. Low-budget travelers are willing to endure the hardships and time-consuming nature of travel on poor roads in public transport and staying at budget hotels with few comforts. However, to avoid these problems is extremely expensive. Tourists need to stay at tourist grade hotels that are overpriced, hire 4x4s that are also overpriced, and make use of tour operators for what are simple logistical arrangements such as transport from airports to hotels and securing a reliable tour guide for a historic or natural site. It is these costs make Ethiopia a more expensive destination than it regional competitors like Kenya and Tanzania.

While overcoming these infrastructural problems is often a chicken and egg situation (needing the visitors first to finance the infrastructure), the source of some of the industry woes are due to poor policy as noted in the discussion. It is also possible to focus infrastructural spending to maximize the return in the short run, generating more funds for infrastructure provision rapidly. For instance, if the majority of visitors come to Ethiopia for the historic route, then development plans must focus on this aspect of the tourism product. Developing facilities at sites, access roads and handicrafts must occur first on the historic route before targeting the southern natural sites (especially those without current good road access). If raising numbers on the historic route means improving road infrastructure between sites (to get the middle-income independent traveler), then this infrastructure becomes a greater priority than a possible larger runway at Mago national park.

This suggests that the immediate priority for supporting tourism development in Ethiopia is the development of a coherent strategic plan. The current strategic plan is both dated (produced in 1995) and fails to recognize the real resource constraints that are faced and the development needs of the country. It also does not constitute an integrated strategy but more of a list of activities that need to be completed. A strategic plan should fulfill the following requirements:

- Focus on broader socio-economic development - for a poor country such as Ethiopia, the allocation of scarce resources and capacity to developing sectors such as tourism, must ultimately be justified on how much they contribute to the socio-economic development of the country. Any tourism strategy must make this its focus. A coherent program for increasing the capacity of the ETC and regional offices has to be combined with the improved incentive systems for both tourists and service providers.
- Catering and Tourism Training Institute can be upgraded to include hotel management and more paying students can be admitted to finance more intensive curriculum and training.
- Be sustainable - failure to preserve the cultural, historical and natural attractions adequately will undermine the long-term development of the tourism sector. In this connection there is potential to develop eco-tourism as many other countries have done in the last two decades.
- Use an integrated approach - tourism is multi-sectoral in nature which implies that the return on investments in one part of the package depends on what other services exist. In addition special attention needs to paid to related activities such as handicrafts that will increase the overall returns from tourism to the country.
- Recognize resource constraints - there are large resource constraints relative to the list of infrastructure required.
- Have clear target markets - the current promotion and development strategy has no clear target market, which means that promotional budgets are not used efficient.

12.7 CONCLUSION

The tourism sector in Ethiopia has huge potential but is currently plagued by numerous problems. The biggest problems are essentially one of development and a historically small tourism sector - a lack of physical and tourism infrastructure. This lack of infrastructure limits the carrying capacity of the tourism sector as a whole, keeping numbers to low levels.

While overcoming these infrastructure problems is often a chicken and egg situation (needing the visitors first to finance the infrastructure), the source of some of the industry woes are due to poor policy as noted in the discussion. It is also possible to

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CHAPTER 13
TRADE AND POVERTY

13.1 INTRODUCTION

Ethiopia is one of the poorest countries in the world. Its GDP per capita is estimated to be about US$ 100. Other well-being indicators are also extremely low: life expectancy is 42 years and literacy rates are around 40 percent.[45] Recent estimates on poverty indicate that the number of poor, measured as the individuals not able to fulfill minimum livelihood standards, is in the order of 25 million, or about 44 percent of the total population. Moreover, 80 percent of the population lives with an income of less then US$ 2 a day.

Even, more telling, if Ethiopia's GDP were to be uniformly distributed among all individuals, all Ethiopians would be below the international poverty line of $1 per day. Thus, as dramatic as poverty in Ethiopia may be, simple income redistribution cannot eliminate it. Economic growth is therefore needed, and anything that can promote it should be encouraged. Nevertheless, in spite of the GDP growth, of the 1990s (partially encouraged by export growth), poverty was only reduced by 1.5 percentage points between 1994 and 2000.

Ethiopia is a very diverse country. This translates into large variations of poverty levels across regions. The percentage of people living below the poverty line varies from about 60% in the Tigris regions to about 25% in the Harare region. Urban areas are generally better off than rural areas. Moreover, because 85 percent of the population lives in rural areas, the large majority of poor households are located in rural areas (89 percent of the poor are located in rural areas).

Poverty levels are highly correlated with the performance of agriculture.[46] Because agricultural products account for 80 percent of the export bundle, improvements in terms-of-trade or export performance of agricultural products have significant positive effects on the living standards of the poor. More generally, at least one third of the GDP growth of the 1990s can be attributed to export growth.[47] Thus, an improvement of Ethiopia's export performance will generally increase national income but also reduce poverty.

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[45] These compare respectively with 47 years and 63 percent literacy in Sub-Saharan Africa

[46] Limited agricultural means, almost non-existent irrigation and a very low use of fertilizer lead to low and often unpredictable land productivity. Furthermore, limited infrastructure and poorly integrated markets make it difficult to distribute goods from surplus areas to deficit areas, creating shifts in prices across regions and seasons, which ultimately reduce agricultural income.

[47] See Market Access Section of DTIS.

The extent to which export growth and trade policies produce effects on household welfare is strongly dependant on a series of factors (see box 1). In the case of Ethiopia, as in many LDCs, the benefits to the poor from the increased international integration can be enhanced by taking measures to move from a domestic subsistence economy to a market economy aided by the development of rural markets, improvement of infrastructure (especially transport), and the quality of institutions that deal with trade and the poor. Trade policy alone cannot reduce poverty. It has to be combined with a package of accompanying policies as described in Chapter 1 of this study.

In spite of the challenges of adopting a package of measures in the domestic economy, trade liberalization policies aimed at increasing exports and reducing import protection while obtaining market access in developed countries are a viable path to reducing poverty. When households produce exportable goods and are able to market their products, their levels of income are higher. Moreover, some of the aspects of trade policies, such as obtaining full market access to the EU, have better success in overcoming domestic constraints and raise the benefits of increased international integration to reach the rural poor.

In Ethiopia, there is a strong positive relationship between the average tariff on net household income and the level of household income.[48] This suggests an anti-poor bias in the existing tariff schedule. Similarly, urban households experience a higher level of net protection than rural ones. Thus the current tariff structure could be modified to be more beneficiary to the poor by reducing the variance in protection as well as its level to move to a more uniform tariff such as 10% uniform tariff. The reduction in variance in protection will serve greater efficiency as well as reduce the bias against to poor in the present tariff structure.

Table 13.1 summarizes the effects that different trade policies are likely to produce on the welfare of the poor and the percentage of poor positively and negatively affected.

[48] The richest households are two times more protected than the poorest households (10 and 5 percent respectively).

TABLE 13.1: WELFARE EFFECTS OF SELECTED TRADE POLICIES.

	Average welfare change for the poor	Percentage of poor affected		
		Lose	Not affected	Win
Trade Policies				
Tariff Elimination	4.60%	21%	5%	74%
10% Uniform Tariff	3.40%	19%	6%	75%
COMESA's CET	2.10%	22%	7%	71%
Market access improvement				
Full preferential COMESA access	2.43%	0%	67%	32%
50% reduction tariff WTO members	0.03%	0%	100%	0%
50% reduction subsidies WTO members	0.01%	0%	100%	0%
Impact on preferential access in EU	13.08%	0%	44%	56%
Impact on preferential access in USA	0.78%	0%	96%	4%
Impact on preferential access in Japan	1.82%	0%	85%	15%
Impact on preferential access in Saudi Arabia	1.30%	0%	83%	17%

Note: These results represent the best possible scenarios, in which domestic market imperfections are corrected. In the existing situation of low level of development of domestic markets the welfare results are about one fourth of the ones reported here (see volume 2, poverty chapter).

Source: Authors' calculation based on 1999/2000 household surveys.

After controlling for the effect of missing government revenues and redistribution, complete tariff elimination will positively affect the welfare of the poor of about 4.6%. Similarly, a move to a 10% uniform tariff will increase the income of the poor by 3.4%. A move to a 10% tariff is a viable option for revenue reasons rather than a complete elimination of tariffs. The adoption of the COMESA external tariff will have an effect of 2.10% increase in income of the poor. Considering the number of people positively and negatively affected, almost three quarters of the poor will experience an increase in their level of welfare while about one fifth will lose as a result of those tariff policies.

Table 13.1 also summarizes the effects of COMESA participation and improved market access to developed countries. If Ethiopia were able to market all of its export potential to the European Union, the effect on poverty will be substantial. (13.08%) [49] Significant is also the effect on the COMESA accession (2.43%). Indeed these measures are not mutually exclusive but would reinforce each other. Thus adding both border measure

[49] Even considering the case that the existing market imperfections are hindering the transmissions of the benefits to the poor households, on average poor households will have an increase in welfare of about 4%.

to those beyond the border in terms of market access will have a significant impact on poverty.

As coffee represents an important source of income for a multitude of small farmers in Ethiopia, a final "market access" improvement considered in this section is the adoption of the Fair Trade Coffee initiative.[50] The certification of 50 percent of Coffee production under the Fair Trade Coffee initiative, should it succeed, will affect 3.1 million poor producers of coffee in Ethiopia.[51] In terms of the whole population of poor in Ethiopia, the Fair Trade Coffee initiative would increase the welfare of the poor by 2 percent.

To summarize, given the existing level of development of local markets, tariff reduction will have a positive effect on poor welfare. Improvements on market access to the European Union will have highly significant impact on the welfare of the poor. The initiatives that should be encouraged from the perspective of the poor are the enhancement of the Everything But Arms initiative with the EU and access to COMESA members' markets. The Fair Trade Coffee initiative could also have large welfare gains for poor coffee growers. On the other hand, the Ethiopian poor should expect much from the WTO agriculture negotiations and AGOA in the short term but it will have long term positive impact over the medium to the long term. Preferential access to the Japanese and Saudi Arabian markets could have small effects on the welfare of the poor.

For any of these gains to be substantial, whether they are associated with tariff reforms or market access improvements, it is crucial that price transmission between the border and the rest of the country are improved (see box10. 2). According to the estimates at the regional level, a 10 percent increase in the export price of coffee at the border translates into a 1.9 percent increase in the price of coffee in some regions. Poor road and transport infrastructure is partly responsible. The weak institutional support to local and regional markets is also in part responsible for this low pass through of income. A viable strategy is needed to develop local and regional markets, to increase the gains associated with tariff reforms and market access improvements. The necessary accompanying steps to connect poor households to international markets are to connect them to local, regional and national markets. Steps to improve domestic markets as attempted through ADLI will be necessary to forge a connection. In fact reform of the trade regime will create pressures on domestic markets to increase output and to lead to higher gains to the poor through employment generation.

[50] Fair-trade coffees, are selling at around US$1.26 per pound for regular and around US$1.40 per pound for certified organic beans. This is about double of the price of regular coffee.

[51] The income of poor coffee producers would increase on average by 25 percent.

TABLE 13.2: WELFARE IMPACT ON THE POOR OF IMPROVEMENTS IN MARKET ACCESS

Market access improvement	Average welfare change for the poor	Percentage of poor affected		
		Lose	Not affected	Win
FULL PREFERENTIAL COMESA ACCESS	2.43%	0%	67%	32%
50% reduction tariff WTO members	0.03%	0%	100%	0%
50% reduction subsidies WTO members	0.01%	0%	100%	0%
Impact on preferential access in EU	13.08%	0%	44%	56%
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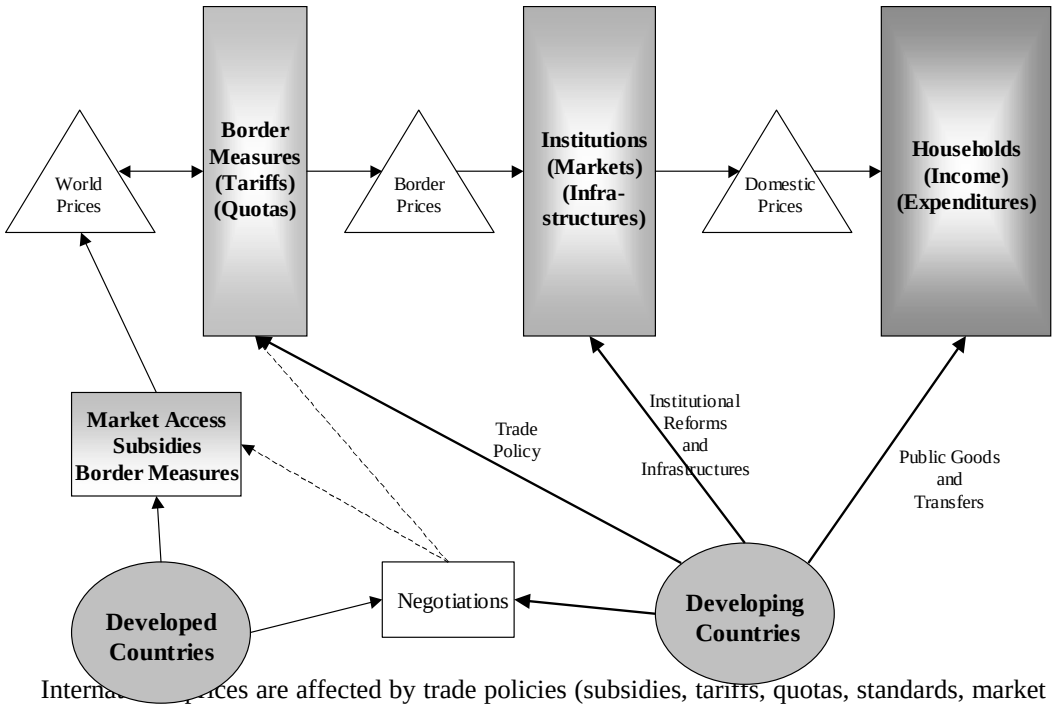
Source: Authors' calculation based on 1999/2000 household surveys.

BOX 13.1: FROM INTERNATIONAL PRICES TO DOEMSTIC PRICES



International prices are affected by trade policies (subsidies, tariffs, quotas, standards, market access) of developing and developed countries. International prices reflect into developing countries' border prices through border measures (tariffs and quotas). Border prices translate into domestic prices through the effect of institutional structures, level of development of markets and the level infrastructures. Domestic prices affect households' welfare through the change in prices of the factors supplied by the households and the change in prices of the goods in the expenditure basket of the households.

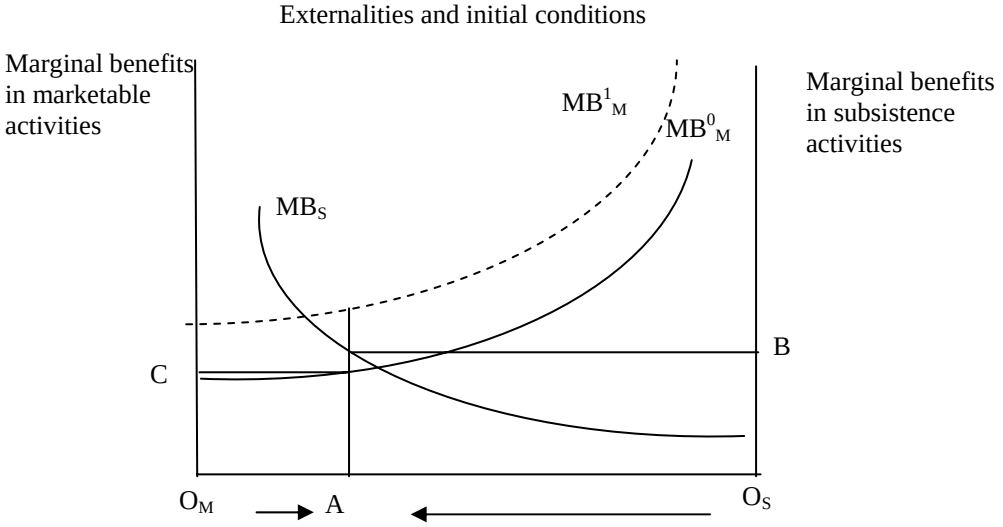
Developing countries governments can affect the level of welfare of the households in four ways:

- Affecting world prices engaging through trade policies and through negotiations with developed countries.
- Affecting own border prices through trade policies at the border.
- Affecting the transmissions mechanisms from border prices through institutions and the level of infrastructures,

BOX 13.1: MARKET ECONOMY AND SUBSISTENCE ECONOMY

Take a poor rural household in a remote area very sparsely populated. The household can engage in two activities, a cash crop or some other marketable activity, M, and auto-consumption (or production for barter in the small surrounding community) which is a subsistence activity, S. Both activities are characterized by increasing returns to the

number of people engaged in that activity. The total number of people to allocate between the two activities is indicated by the length of line O_MO_S in the figure, with the arrows indicating the origin of the activity.

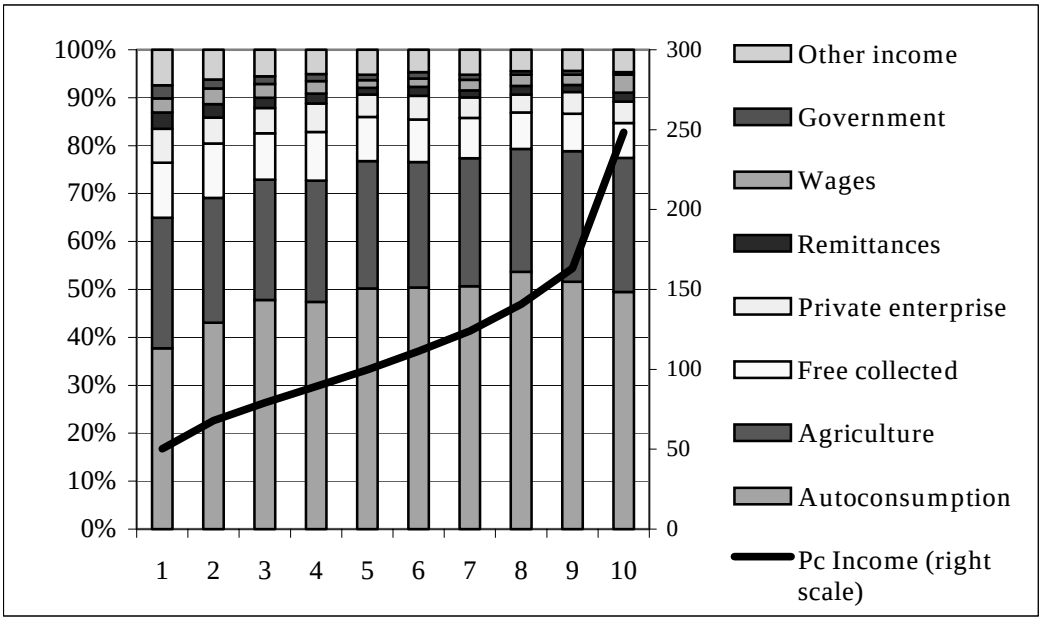


Suppose that the curve MB^0_M indicates the marginal benefits of marketable activities. It has a positive slope because of increasing returns to scale. The same is supposed to hold for the subsistence activity. If initially, most people are engaged in subsistence as depicted by point A, then even though the benefits are greater from allocating an extra person to marketable activity (B>C), it will not occur and the private markets will fail incorporate the social externality, leading to an inefficient outcome. (If initial conditions had put us to the right of the intersection of the two MB curves, then the private markets would have led to a socially efficient outcome with the marketable activity developing.)

A better outcome could be achieved if everyone believes that everybody else will tomorrow go to the marketable activity, as might be the case if the belief develops that the economy is "taking off". Nevertheless, sectoral shifts take time, and people are likely to postpone taking potentially costly decisions beyond what they expect others to do just to avoid the time lag in the build up of returns. Hence, the rural sector is caught in a trap.

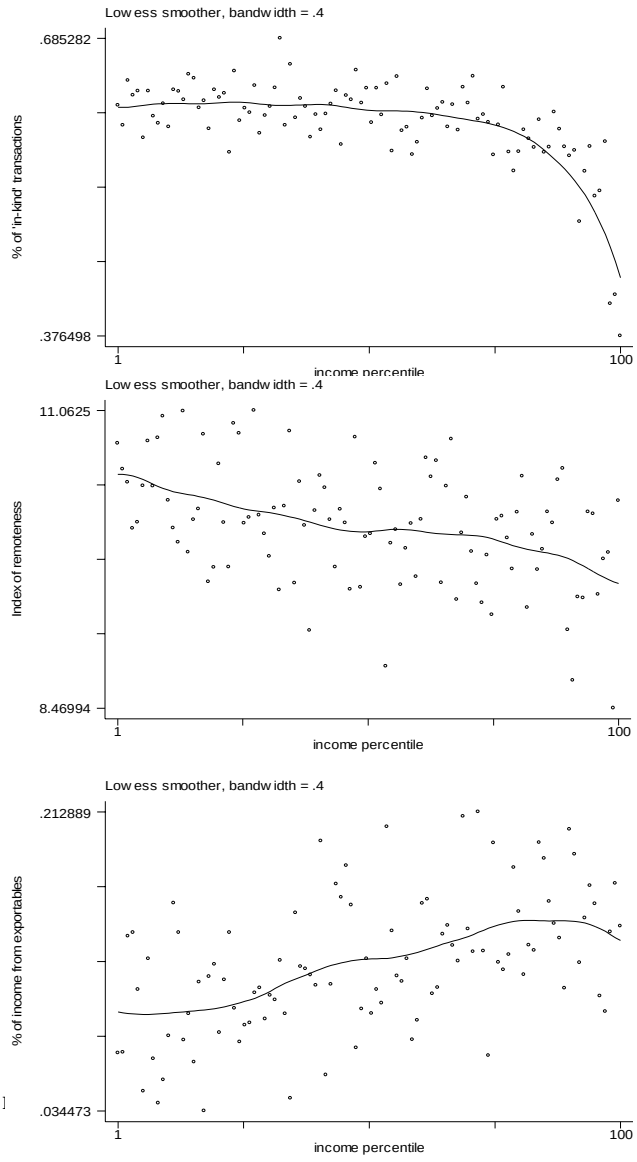
Is there a way out? Suppose that a lack of infrastructure lowers the benefits of engaging in marketable activities caused perhaps by a coordination problem (see chapter 8). Then, if the coordination problem (another instance of market failure) were solved, then improved infrastructure would shift up the marginal benefit schedule to MB^1_M. At this higher return, markets would lead to a shift of activities towards marketable products.

FIGURE 13.1: INCOME SHARES OF THE HOUSEHOLDS, BY INCOME DECILE



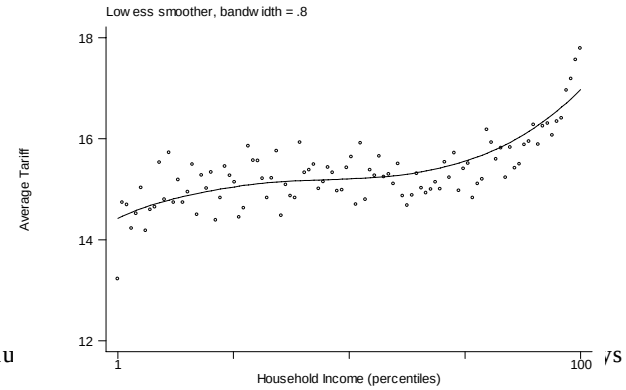
Source: Authors' calculation based on 1999/2000 household survey

FIGURE 13.2: MICROECONOMIC DETERMINANTS OF POVERTY.



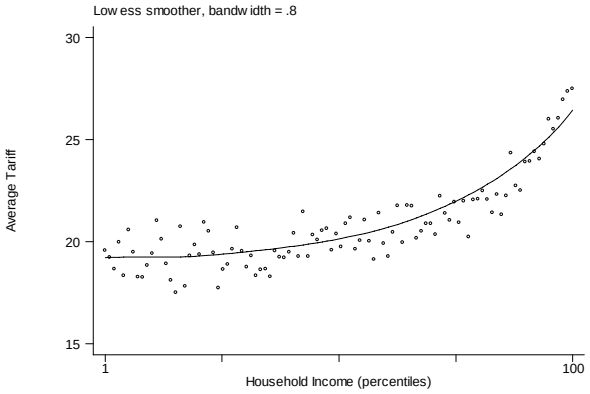
Sou d survey.

FIGURE 13.3A: AVERAGE TARIFF ON HOUSEHOLD CONSUMPTION



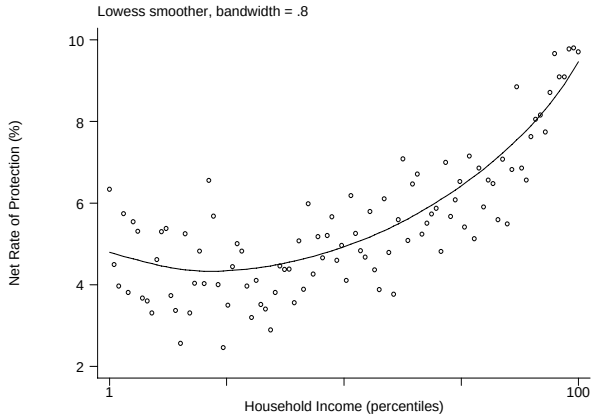
Source: Au /s

FIGURE 1.3B: AVERAGE TARIFF ON HOUSEHOLD INCOME



Source: Authors' calculation based on 1999/2000 household surveys

FIGURE 13.3C: AVERAGE TARIFF ON NET HOUSEHOLD INCOME



13.2 CONCLUSION

Given the existing level of development of local markets, tariff reduction will have a positive effect on poor welfare. Improvements on market access to the European Union will have a highly significant impact on the welfare of the poor. The initiatives that should be encouraged from the perspective of the poor are the enhancement of the Everything But Arms initiative with the EU and access to COMESA members' markets. Public policies to improve the pass through of better market access will require a host of actions including policy reforms recommended in the different sections of this study, addressing of infrastructure, reforming public institutions.

APPENDICES

APPENDIX 1: EXISTING TECHNICAL ASSISTANCE AND CAPACITY BUILDING

One of the main difficulties in identifying technical assistance is the dearth of a single reliable source on Trade Related Technical Assistance in the country or for that matter among the donor partner community. One limited but reliable data source is the WTO / OECD data base on which the list below is based. It does not go far back enough for the present purpose, to evaluate its contribution to the recipient country. When it is available for some countries there is no single and agreed method of evaluation. In the case of Ethiopia technical assistance information is limited and not in one place. It is hoped that the FDRE will make an inventory starting from 2004 to establish a data base that will allow analysts both with the FDRE, the partner donor countries and others to make evaluations of the appropriateness, effectiveness and costs and benefits of TRTA.

For present purpose the DTIS has included the present list which is in two parts, namely, Trade Policy and Regulations and Trade Development.

Trade Policy and Regulations: The main item that appears are various training programs for Ethiopian officials conducted by the WTO ranging from, Sanitary and Phyto-sanitary standards and Technical Barriers to Trade, accession, dispute settlement, Intellectual property rights and dispute settlement agriculture. Few bilateral donor partners have provided programs on investment and technology promotion, human capacity building higher education and training systems.

Trade Development: Under this category many bilateral donors have provided technical assistance ranging from private sector development, business management, trade promotion, design and implementation to market analysis and development. Some very specific programs have been conducted ranging from horticulture marketing, to the development of organic coffee, leather products, credit and ways to improve agriculture marketing systems.

While these programs have substantial value, the Technical assistance recommended in the present study have a number of characteristics that are noteworthy. First, the recommendations are based on a careful analysis of economy-wide and sector specific issues. Second, they are deliberately kept broad enough for the donor partners and FDRE to explore together more narrow and specific technical assistance, within the broad area. Finally, while the recommended technical assistance is prioritized in terms of time-short, medium and long term, the priorities among the different issues and sectors have to emerge in the process of discussing the study before it is finalized.

APPENDIX 2: LIST OF EXISTING TRADE RELATED TECHNICAL ASSISTANCE AND CAPACITY BUILDING PROGRAMS 2001- JULY 2004[52]

Trade Policy and Regulations

Trade Category	Reporter Country / Agency	Project / Activity	Amount ('000 USD)	Start Date / End Date
Trade Mainstreaming in PRSPs / dev. plans	European Commission	Trade Capacity Building	5,368	01 / 10 / 2003 -
Trade Mainstreaming in PRSPs / dev. plans	United States	Development of Competitive Markets	200	30 / 09 / 2002 -
Trade Mainstreaming in PRSPs / dev. plans	World Trade Organization (WTO)	National Conference / Briefing		04 / 02 / 2002 - 11 / 02 / 2002
Trade Mainstreaming in PRSPs / dev. plans	World Trade Organization (WTO)	National Conference / Briefing		06 / 02 / 2002 - 06 / 02 / 2002
Trade Mainstreaming in PRSPs / dev. plans	World Trade Organization (WTO)	Technical mission		18 / 02 / 2002 - 19 / 02 / 2002
Trade Mainstreaming in PRSPs / dev. plans	World Trade Organization (WTO)	Conference / Briefing	4	03 / 03 / 2002 - 08 / 03 / 2002
Trade Mainstreaming in PRSPs / dev. plans	World Trade Organization (WTO)	Conference		24 / 10 / 2002 - 26 / 10 / 2002
Trade Mainstreaming in PRSPs / dev. plans	World Trade Organization (WTO)	Symposium	14	26 / 06 / 2001 - 28 / 06 / 2001
Trade Mainstreaming in PRSPs / dev. plans	World Trade Organization (WTO)	Conference	8	29 / 10 / 2001 - 30 / 10 / 2001
Trade Mainstreaming in PRSPs / dev. plans	World Trade Organization (WTO)	Integrated Framework	6	18 / 11 / 2002 - 30 / 11 / 2002

[52] Source: **WTO/OECD Trade Related Technical Assistance and Capacity Building Database**. The activities listed above are those in which Ethiopia participated either as a beneficiary country and / or as a host country.

Trade Mainstreaming in PRSPs / dev. plans	World Trade Organization (WTO)	Integrated Framework	10	31 / 10 / 2002 - 01 / 11 / 2002
Trade Mainstreaming in PRSPs / dev. plans	International Development Agency (IDA)	Integrated Framework Diagnostic Trade Integration Study	300	01 / 01 / 2003 - 31 / 12 / 2004
SPS and TBT	United States	Policy Approaches to SPS Internat'l Standards & Trade Policy Implications	18	30 / 09 / 2002 -
SPS and TBT	World Trade Organization (WTO)	National seminar	3	06 / 03 / 2001 - 07 / 03 / 2001
SPS and TBT	World Trade Organization (WTO)	Regional seminar	1	18 / 03 / 2002 - 19 / 03 / 2002
SPS and TBT	World Trade Organization (WTO)	Regional workshop	10	03 / 07 / 2002 - 05 / 07 / 2002
SPS and TBT	United Nations Industrial Development Organization (UNIDO)	Integrated Programme for Ethiopia: Component 3 - Quality and conformity assessment	78	08 / 05 / 2001 - 31 / 12 / 2002
Trade Facilitation	Japan	CUSTOMS TECHNICAL COOPERATION	8	01 / 01 / 2001 -
Trade Facilitation	World Trade Organization (WTO)	Regional seminar	3	11 / 06 / 2003 - 13 / 06 / 2003
Trade Facilitation	World Trade Organization (WTO)	Regional workshop	7	12 / 11 / 2002 - 22 / 11 / 2002
Trade Facilitation	France	Formation ports		01 / 01 / 2002 - 31 / 12 / 2002
Trade Facilitation	World Trade Organization (WTO)	Regional workshop	6	06 / 05 / 2003 - 08 / 05 / 2003
Trade Facilitation	World Trade Organization (WTO)	Regional seminar	5	06 / 11 / 2002 - 06 / 11 / 2002
Customs Valuation	World Trade Organization (WTO)	Regional workshop	15	17 / 03 / 2003 - 21 / 03 / 2003
Accession	World Trade Organization (WTO)	Workshop	3	15 / 07 / 2002 - 16 / 07 / 2002
Dispute Settlement	World Trade Organization (WTO)	Regional seminar	5	24 / 06 / 2002 - 27 / 06 / 2002
Dispute Settlement	World Trade Organization (WTO)	Regional workshop	6	28 / 04 / 2003 - 01 / 05 / 2003
Dispute Settlement	World Trade Organization (WTO)	2nd Dispute Settlement Course		08 / 04 / 2002 - 12 / 04 / 2002
Dispute Settlement	World Trade Organization (WTO)	4th Dispute Settlement Course		07 / 11 / 2002 - 11 / 10 / 2002
Trade-Related Intellectual Property Rights	World Trade Organization (WTO)	National seminar		11 / 11 / 2002 - 12 / 11 / 2002
Trade-Related Intellectual	World Trade Organization (WTO)	Regional seminar	9	22 / 04 / 2002 - 25 / 04 / 2002

Property Rights				
Agriculture	World Trade Organization (WTO)	Colloquium / Meeting	5	07/04/2003 - 09/04/2003
Agriculture	World Trade Organization (WTO)	Regional seminar	3	15/01/2001 - 19/01/2001
Agriculture	World Trade Organization (WTO)	Regional seminar	5	03/02/2003 - 07/02/2003
Tariff Negotiations - Non-Agricultural Market Access	World Trade Organization (WTO)	Regional workshop	6	28/07/2003 - 30/07/2003
Rules	World Trade Organization (WTO)	Seminar	4	29/10/2002 - 30/10/2002
Negotiation Training	World Trade Organization (WTO)	Regional training course	9	19/08/2003 - 21/08/2003
Trade and Environment	World Trade Organization (WTO)	Regional seminar	5	08/07/2002 - 10/07/2002
Trade and Environment	World Trade Organization (WTO)	Regional workshop	4	19/05/2003 - 21/05/2003
Trade and Competition	World Trade Organization (WTO)	Regional workshop		22/02/2001 - 24/02/2001
Trade and Competition	World Trade Organization (WTO)	Regional workshop	10	12/11/2002 - 14/11/2002
Trade and Investment	World Trade Organization (WTO)	Regional workshop	4	01/12/2002 - 02/12/2002
Trade and Investment	World Trade Organization (WTO)	Regional seminar	3	04/02/2003 - 05/02/2003
Trade and Investment	World Trade Organization (WTO)	Regional training course	0	17/03/2002 - 25/03/2002
Trade and Investment	United Nations Industrial Development Organization (UNIDO)	Investment and Technology Promotion in Ethiopia	21	10/06/2002 - 31/12/2003
Transparency and Government Procurement	World Trade Organization (WTO)	Regional workshop	11	14/01/2003 - 17/01/2003
Trade-Related Training Education	United States	Human Capacity Development/ Higher Education & Training Systems	26	30/09/2002 -
Trade-Related Training Education	Japan	TRADE PROMOT'N SEM.(1)(ASIAN & PACIFIC COUNTRIES)		30/06/2001 -
Trade-Related Training Education	World Trade Organization (WTO)	Colloquium / Meeting	4	03/03/2003 - 04/03/2003
Trade-Related Training	World Trade Organization (WTO)	Technical mission	5	15/04/2002 - 17/04/2002

Education				
Trade-Related Training Education	World Trade Organization (WTO)	Regional training course	9	09/07/2001 - 27/07/2001
Trade-Related Training Education	World Trade Organization (WTO)	Regional training course	6	17/06/2002 - 28/06/2002
Trade-Related Training Education	World Trade Organization (WTO)	Regional training course	7	13/10/2003 - 24/10/2003
Trade-Related Training Education	World Trade Organization (WTO)	Regional training course	8	16/06/2003 - 27/06/2003
Trade-Related Training Education	World Trade Organization (WTO)	Introduction Course		05/05/2003 - 23/05/2003
Trade-Related Training Education	World Trade Organization (WTO)	Regional workshop		17/06/2003 - 18/06/2003
Trade-Related Training Education	World Trade Organization (WTO)	16th Trade Policy Course		15/01/2001 - 06/04/2001
Trade-Related Training Education	World Trade Organization (WTO)	22nd Trade Policy Course		16/09/2002 - 06/12/2002
Trade-Related Training Education	World Trade Organization (WTO)	1st Introduction to WTO		11/03/2002 - 28/03/2002
Trade-Related Training Education	Japan	Technical Cooperation in Trade	0	30/06/2002 -

Trade Development

Trade Category	Reporter Country / Agency	Project / Activity	Amount ('000 USD)	Start Date / End Date
Business Support Services and Institutions	European Commission	Micro and Small Enterprise Development Programme (MSEDP)	6,269	01/01/2001 - 31/12/2004
Business Support Services and Institutions	Norway	Private Sector Development	3	30/06/2001 -
Business Support Services and Institutions	United Nations Conference for Trade and Development (UNCTAD)	Promoting and Facilitating Foreign Direct Investment in Least Developed Count	71	30/05/2003 -
Business Support Services and Institutions	International Development Agency (IDA)	Economic Rehabilitation Support Project	25,500	05/06/2001 - 30/06/2002
Business Support	International	Structural Adjustment Credit	24,348	18/06/2002 -

Services and Institutions	Development Agency (IDA)	Project		30/06/2004
Business Support Services and Institutions	International Development Agency (IDA)	Firm Analysis and Competitiveness	20	01/01/2003 - 31/12/2003
Business Support Services and Institutions	International Development Agency (IDA)	Investment Climate Survey	300	30/04/2003 - 30/06/2003
Business Support Services and Institutions	Japan	Japan Overseas Cooperation Volunteers in Business Management	74	30/06/2001 -
Business Support Services and Institutions	Japan	Japan Overseas Cooperation Volunteers in Business Management	2	30/06/2001 -
Public-Private Sector Nnetworking	Netherlands	agri-export promo fund	22	15/09/2001 - 22/09/2001
Public-Private Sector Nnetworking	United Nations Development Programme (UNDP)	Public-Private Partnership	120	01/03/2002 - 01/12/2003
Trade Promotion Strategy Design and Implementation	United States	Equity and Growth through Economic Research (EAGER) -- Agribusiness	18	30/09/2002 -
Trade Promotion Strategy Design and Implementation	United States	Policy Analysis, Research, & Tech Supp (PARTS) for Democracy & Governance	24	30/09/2002 -
Trade Promotion Strategy Design and Implementation	United States	Commercialization Program	40	30/09/2002 -
Trade Promotion Strategy Design and Implementation	United States	Agricultural Statistics Improvement Activity (ASIA) PASA	250	30/09/2002 -
Trade Promotion Strategy Design and Implementation	European Commission	COFFE IMPROVEMENT PROGRAMME (CIP IV)	13,434	13/12/2001 - 30/06/2008
Trade Promotion Strategy Design and Implementation	Norway	INST COOP AWASSA/MEKE	167	30/06/2001 -
Trade Promotion Strategy Design and Implementation	International Trade Centre (ITC)	Ethiopia. Organic Coffee in Ethiopia, Phase I		01/01/2001 - 30/04/2001
Trade Promotion Strategy Design and Implementation	International Trade Centre (ITC)	Organic Coffee in Ethiopia, Phase II	67	01/01/2001 - 31/12/2002
Trade Promotion Strategy Design and Implementation	United Nations Industrial Development Organization (UNIDO)	Assistance to the Development of the Ethiopian Leather Products Industry	702	10/12/2001 - 31/12/2003
Market Analysis and Development	United States	Policy Analysis, Research, and Technical Support (PARTS) for Agribusiness	9	30/09/2002 -
Market Analysis and Development	France	Assistance technique	11	01/01/2002 - 31/12/2002

Market Analysis and Development	France	Etude	9	01/01/2002 - 31/12/2002
Market Analysis and Development	International Trade Centre (ITC)	Ethiopian Coffee Quality Project	208	31/12/2002 - 29/12/2006
Market Analysis and Development	Food and Agriculture Organization (FAO)	Strengthening Seed Supply System at the Local Level	1,500	01/03/2002 - 01/01/2005
Trade Finance	Belgium	DEVELOPPEMENT DE LA MICRO-ENTREPRISE A ADDIS ABEBA - SOSF/SOSH	44	01/01/2001 -
Trade Finance	Belgium	DEVELOPPEMENT DE LA MICRO-ENTREPRISE A ADDIS ABEBA - SOSF/SOSH	47	01/01/2002 -
Trade Finance	European Commission	EIB Line of Credit SMEs	17,912	01/01/2001 -

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