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**Ethiopia: Country Economic Memorandum**

*BACKGROUND REPORT:*

*A review of Manufacturing Activities with  
High-Value Exports Growth Potential in Ethiopia*

*Market Structure, Costs, Constraints,  
Competition and Opportunities*

**Draft**

*April 2004*

POVERTY REDUCTION AND ECONOMIC MANAGEMENT 2  
COUNTRY DEPARTMENT FOR ETHIOPIA  
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## **INTRODUCTION**

Ethiopia has a great potential for the production of high-value export products, which can be competitive in the international market and earn foreign exchange earnings that could contribute for the development of the national economy. Even though the potential of the country is immense, the contribution of the high-value exports sub-sectors to the Ethiopian economy is not very significant. The major reason for low contribution can be attributed to lack of developing competitiveness in high-value products. In competitiveness can be resulted from various constraints that hamper the development of the sub-sector. Without alleviating those constraints, the global competitive advantage and the export growth potential cannot be maintained. It is, therefore, in consideration of these facts that the World Bank Mission in February 2004 carried out an export growth potential study that includes production, market structure, value-chain, costs, constraints, competition and opportunities.

The background report covers 5 selected high-value products which are considered to be priorities and that could play dominant roles in expediting competitiveness in high-value exports. Therefore, the report comprises of 5 major product specific chapters and different sections. It finally includes conclusion and recommendations; and annexes.

## **1. Horticulture**

### 1.1 Ethiopian Horticulture Producers and Exporters Association (EHPEA)

The Association was established 2 years ago. When it was established, it consisted of only 5 members from the fruits and vegetables producers. At present, its members have increased to eleven. On the contrary, however, lists from the Ethiopian Chamber of Commerce have shown more than 40 members. This number from the Association's point of view is not real due to the fact that they are mainly speculators who do not have their own farms and markets. To be a member, exporters are put for 2 years on trial and thereafter they will get membership acceptance.

#### *1.1.1. Objective*

The objectives of the associations are:

- Promoting horticulture production and export market.
- Identify the major problems of the sub-sector and submitted for the government for possible solutions.
- Representing the members in local and foreign meetings (forums).
- Conduct training and study tour.
- Create relationship with members.

#### *1.1.2. Members*

The total number of members of the association is about twenty. Of which 9 of them are new entrants that includes the floriculture producers. These members are:

- Ethio-Dream
- Summit
- Menagesha Flower
- Blue Nile Flora
- Ethio-flora Golden Rose
- ENYI Rose
- ETCO
- Teppo
- Valley
- Awassa Greenwood
- Garad PLC
- Ethio-Rose
- Holleta Rose
- Dire Industries
- Arsi Mechanisation
- Gigi Quatare
- Omega
- Upper Awash
- Horticulture Development Enterprise

The Association is mainly supported and financed by DFID of Britain. The financed items are salaries for 1 executive director, 1 executive secretary and 1 office boy. Also, study tours, and office rent and facilities are funded by DFID. The total amount of

budget for these items is about 70,000 pounds for one and half years. Of this total, a certain position is allocated for the preparation of the project proposal.

### *1.1.3. Trainings*

The association offers trainings on:

- Pack house management
- Green House Management
- Inputs Management

### *1.1.4. Stakeholders*

The Sub-sector has no government stakeholders. Unlike the Horticulture Development Authority existing in Kenya, it is non-existent in Ethiopia.

Even from the viewpoint of having graduates from the agricultural college, the last batch was from the Jimma agricultural college in 1970.

In the Ministry of Agriculture although there is a horticulture department, it has done nothing for the development of the sub-sector. However, if you look at the experiences of Kenya and Uganda, the horticulture activities have become their backbones.

Ethiopian Agricultural Research Organization (EARO) is also found to be a weak organization because of its inclination to grain products only. No applied research for horticulture/floriculture has been so far made. Even if they do, their concentration was on citrus and banana products.

The Association has already established Seed Growers Association to assist producers in getting access for seeds.

### *1.1.5. Production*

The potential in the sub-sector is very immense. For the year 2004, the target is about 4,000 ton provided that there is no adverse weather condition.

In terms of land holdings in ha:

- Ethio-flora/Blue Nile – 74 has flora  
(Of the 74 ha, 25 ha are out growers scheme).
- Horticulture Development Enterprise (HDE)  
And upper Awash 500 ha (of this 200 ha for HDE and 300 for Upper Awash).
- ETCO - 50 ha.

Yield per ha is 5 ton (for state farms) and 8 tons (for private farms) of bobby beans. With drip irrigation the production will increase by 20% to 25% than without it.

### *1.1.6 Marketing*

Major markets for horticulture products are:

- Netherlands                      90% market Share
- Italy                                      10% market Share

In Italy and Netherlands, there is one buyer for each country. From Italy, it is re-exported to Switzerland, Sweden, etc. by re-packing it. In Germany, 2 clients have been changed 2 times due to their low performances. Whereas, their relationships with the Dutch people have been very positive. The buyers in Netherlands have a very big plant with washing machine, grading, electronics and packing (150 and 250 kg).

United Kingdom is also a potential market for extra fine beans.

The major competitors are (exporting countries):

- Morocco - 35000 tons
- Egypt - 22000 tons
- Senegal - 14000 tons
- Burkina Faso - 10000 tons
- Jordan - 4000 tons
- Kenya - 14000 tons (fine and extra beans)
- Sudan - is below Ethiopia

The prices for bobby beans and runner beans are Euro 2 1kg and Euro 2½ 1 kg respectively. The products have a price premium of 10% to 15% than Egypt and Morocco.

Regarding rejects, it is in between 2% and 10% at farm level and very insignificant (less than 1%) at the export destinations.

Mediterranean countries will be out of the market between mid-December to mid-May (off-seasons)

#### *1.1.7. Investment*

The investment items are:

- Farm machinery house
- Pack house
- Cooling System
- Diesel/ Electric Pump
- Stand-by Agro-Chemical Supply
- Grading Equipment
- Farm tools
- Radio Communication

The total investment cost per ha will be Birr 50 to 60 thousand. The highest cost is for electric installation, which will cost around Birr 400,000. - per km). Drip Irrigation cost for horticulture farm will be USD 5000 to USD 6000. This system has to be demonstrated for farmers because they are mainly using furrow irrigation systems.

#### *1.1.8. Operating Cost*

The operating cost is amounting to Birr 35,000. - to 40,000. - per ha (by using local seed). If the seed is imported, the operating cost will increase seasonally.

### *1.1.9. Labor*

The number of laborers required in 1 ha per day is in between 32 to 34 for land preparation and then for grading. Out of this number, 70% of them are women.

### *1.1.10. Logistics*

There are no many logistic facilities at the farm level. However, during export, they use airfreights. The freight cost is very high due to the absence of southbound load.

### *1.1.11. Value Chain – Cost Breakdown*

The cost breakdowns are:

- Commission cost
- Airport Fees
- Customs
- Loading/Unloading
- Handling

These all account for 7% of the gross sales.

- Air transport - 65% to 85 %
- Inland Cost - US\$0.05 /kg
- Security cost (Per diem) - Birr 45 to Birr 50/day. If the security personnel are 2 in number, the payment will be Birr 80/day.

Production cost is between US\$0.36 to US\$0.38 per kg (including packaging)

### *1.1.12. Constraints/Issues*

The major constraints are:

- Freight risk (unavailable space and high transportation cost).
- Weather risk (unexpected rainfall)
- Price subsidy for countries like Egypt US\$ 0.20 /kg)
- Poor quality of packing
- Competitors proximity to Europe (US\$0.65 / kg-the freight cost) or US\$ 0.25 /kg for refrigerated boat. Senegal and Ghana has already started shipping their produces to France by refrigerated boats.

### *1.1.13 Proposed Solutions*

Since the sub-sector has a high potential for development, it has to be supported by the government and relevant stakeholders.

## **1.2. Ethiopian Fruit and Vegetable Marketing Enterprise (Etfruit)**

The Ethiopian Fruit and Vegetable Marketing Enterprise (Etfruit) was established in 1980 under the former Ministry of States Farms Development, the Horticulture Development Corporation with the aim of serving as a marketing organ for all state owned horticulture farms.

With the decentralization and liberalization of the country's economic policy, however, Etfruit was reorganized in 1993 by the council of Ministers Regulation No. 131/1993 in accordance with the provisions of the public Enterprise proclamation No. 25/1992.

The scope of its services have since then been extended to include private horticultural producers striving to enter the export market. Etfruit is the major domestic distributor and leading exporter of fresh fruits, vegetables, cut flowers and processed horticultural products in Ethiopia.

### *1.2.1. An Overview of Etfruit*

Etfruit is the major domestic distributor and leading exporter of fresh fruits, vegetables, cut flowers and processed horticultural products in Ethiopia. The types of fruits delivered to domestic markets are oranges, mandarin, grapefruit, lemon, lime, mango, and avocado. guava, banana, processed horticulture products such as tomato juice orange marmalade, orange squash, and grapefruit squash and guava nectar.

The marketing services of Etfruit have reached a remarkable stage of development during the two decades due to its well-established market network and other related facilities.

Currently, Etfruit has 284 workers including top management staffs. In addition, the Enterprise hires from 200 up to 400 casual laborers annually depending on the flow of produce delivered to the Enterprise.

The sales operation of Etfruit is broadly classified into two parts i.e. domestic and foreign sales operations.

Etfruit has developed its distribution centers and branches and is today present in 10 major towns of the country.

In the city of Addis Ababa Etfruit has three main branches, twenty-one retail shops and thirty mobile shops strategically placed to render efficient service.

The major supplies of fresh fruits and processed products are the Upper Awash Agro-Industry Enterprise, the Horticulture Development Enterprise and Metehara Sugar Factory followed by small private horticulture growers and North Omo Agricultural Development Enterprise.

Establishing trading links takes considerable time and effort. The decades of marketing experience concomitant with the growth and development of the horticulture sector have kept Etfruit at the fore front of Fresh horticulture export in Ethiopia.

The export of horticulture produce including cost flowers has been developed in the last 15 years. During this period, sound market penetration has been achieved in the Netherlands, Germany, Italy, France, Belgium, Switzerland and East block countries.

There are four major categories of horticulture product export. These are fruits, vegetables, cut flowers and processed horticulture products.

In almost all the exporting farms advanced post harvest techniques are applied. Modern cooling facilities have been installed to ensure the freshness and quality of the products.

All overseas deliveries are packed as per the standard requirements for fresh fruits and vegetables and precautions are taken to make them free of chemical residue.

Products exported through Etfruit come mainly from large-scale state owned commercial farms even though small-scale private farms are being encouraged. Major suppliers are.

1. Upper Awash Agro Industry Enterprise
2. Horticulture Development Enterprise
3. The Ethio Flora Private Limited Farm (Private Company)
4. North Omo Agricultural Development Enterprise
5. Methara Sugar Enterprise

Etfruit also renders other services namely,

- Market information
- Refrigerated Semi trailer truck transport rent
- Supply of quality imported seeds and various export packing materials.

### *1.2.2. Transportation Facilities*

The enterprise owns its own stores, refrigerated trucks, and non-refrigerated and ordinary trucks.

All export produces are transported to the ports of shipment by refrigerated trucks while non-refrigerated and ordinary trucks are used for domestic ones.

The volume of goods handle locally 19374 metric tons to 49526 metric tons and 106.6 million by the enterprise ranges from in value from Birr 12.8 million to the export sales volumes have likewise shown an increase from 454 metric tons to 32904 metric tons and in value from Br. 0.9 million to 22.2 million. The following are key points specific to the enterprise

### *1.2.3 Branches and their locations*

The company has many branches in most of the regions.

**Table**

Location	Distance from Addis Ababa
Bahir Dar	563 Km.
2 <sup>nd</sup> Distributor, Addis Ababa	-
Afincho Ber, Addis Ababa	-
Debrezeit	541km
Nazareth	100km
Metehara	198km
Harrer	526km
Dire Dawa	510km
Asela	130km
Shashemene	250km
Mekelle	782km

#### *1.2.4. Authorized Capital*

The enterprise was established by regulation No. 131/1993, with an authorized capital of Br. 828,000, of which 317,000 was paid up in cash and in kind. Under the public Enterprises Proclamation, the Government has five years to pay the authorized capital.

According to Article 20 of the public Enterprises Proclamation No. 25/1992, the authorized capital of an enterprise should be fully paid up within five years from the date of establishment. The enterprise was established on 19<sup>th</sup> November 1993. A period of more than seven years has now elapsed. Hence, the authorized capital ought to have been fully paid up or the capital of the enterprise ought to have been adjusted to the level of the paid up capital.

However, after asset revaluation and financial restructuring of the enterprise, its capital was revised to Birr 30,639,433.

The EPA Board has approved the opening share capital valuation of Birr 30,639,000.00.

#### *1.2.5. Production*

The sources of products from the domestic channels are from:

- Methara Sugar factory
- North Omo Agricultural Development Enterprise
- Upper Awash (90% are citrus)

Vegetables are mainly from farmers. Bananas are from Upper Awash and Omo agricultural development enterprise (70% from North Omo and 30% from Upper Awash).

#### *1.2.6 Marketing*

The share company has many years of experiences in exporting fruits and vegetables for 16 years. The sources of the products are from HDE, Ethio-flora and Upper Awash.

The major export markets are:

- Holland
- Germany
- Italy
- France
- Belgium
- Sudan
- Middle East (Arab countries)

Pineapple, spices and banana were exported to the Sudan and Middle East countries, volume of exports for citrus, banana and vegetables were 450, 000 qt, 150,000 qt and 1100 qt per year respectively. Very recently, however, they have moved out of the export market because the suppliers have started exporting by themselves. Despite all this, they are still trying to work with Rockpak Company of South Africa to export 8000 tons of Red speckle beans per year. The price of this product will be Methara Sugar Factory, which has already requested for seed of 200 ha.

With regard to the local markets prices differ from region to region. The market places (branches) are:

- Debrezeit
- Nazareth
- Assela
- DireDawa
- Harrar
- Awassa
- Shashemene
- Bahirdar
- Gondar
- Dessie
- Combolcha
- Mekelle
- Axum
- Shire
- Adwa
- Methara

Shire, Adwa and Methara are newly opened branches.

*1.2.7. Cost Breakdowns (citrus) – per Quintal (in Birr)*

- Labor	0.70
- Packing (Labor)	0.30
- Loading to Sales Premise	0.12
- Unloading	0.11
- Loading and unloading rates	0.07
- Packing Material	1.00
- Transportation from farm to Addis Ababa	16.04
- Transportation to sales Premise	1.25
- Distribution	10.53
- Disposal labor	7.00
- Weight Loss	3:00
- Overhead costs	5.90 Birr
- Profit Margin	4.00 Birr

In order to sell in these areas, the following costs items are included:

- Loading and unloading
- Transportation
- Handling
- Weight loss
- Profit Margin (2.5% to 3%).

They also import vegetable seeds and chemicals. They are major importers and suppliers to farmers. Every year the volume of import is 150 qt at the price of Birr 200 per kg. Regarding apple, they import 800 to 1000 qt from Iran and South Africa.

#### *1.2.8. Logistics*

The company has 28 refrigerated trucks and a capacity of 1000 ton refrigerated cold store.

The transportation cost from Addis Ababa to Djibouti is Birr 19,000 for 200qt, i.e. \$2100 per container. From Djibouti to Jeddah, the sea freight cost is \$600 per container.

The Ethiopian shipping Lines, which monopolizes the shipping business in Ethiopia, has no any refrigerated cargo.

#### *1.2.9. Constraints/Issues*

Many constraints can be mentioned. However, the major ones are:

- Demand is greater than supply, i.e. there exists supply constraints.
- Poor quality of the products, for instance, citrus fruit is poor in quality due to cultural practices. Therefore, it is unlikely to be competitive in Dubai market.
- The existence of 40 years old age citrus trees.
- Prevalence of citrus fruits disease (EARO) is currently researching on the type of disease.
- Lack of refrigerated cargo by the Ethiopian Shipping Lines (ESL).

#### *1.2.10 Future Prospects (Proposed Solutions)*

To get access in the world market the above-mentioned constraints should be clearly addressed by the concerned institutions.

On top of these, the recent problems that arose between the company and other suppliers of the products are getting solutions. Therefore, it will be back in activating the previous lost markets as a result of disagreements among the suppliers.

### **1.3. Adamitulu Jido Kombolcha Peasant Cooperative**

#### *1.3.1. Location*

The peasant cooperatives are located in the Oromia region of Adamitulu Jido Kombolcha Woreda about 165 km away from Addis Ababa with an altitude of 1600 meter. It was established in 2003.

#### *1.3.2. The Rift Valley NGO*

The Rift Valley Children and Women Development Association is an indigenous, non-governmental, non-profitable and non-secular development organization, which renders various services to the communities.

The communities have access to the following types of services: -

- Irrigation infrastructure
- Technical assistance such as crop management system.
- Financial assistances (on credit basis).

### *1.3.3. Land Area*

At present, 147 ha of land have become operational in 3 sites. The 4<sup>th</sup> site in Chafe Jelala with 75 ha is under preparation. By the end of year 2005, the total irrigable area will reach to 420 ha.

### *1.3.4. Members*

The farmers were previously pastoralists. It was through various interventions that the pastoralists have been transformed to farmers. The total number of members is 295 household heads. Twenty percent of the members are women. In Dodocha cooperative, the total household members are 1005, of which 485 are female and 520 are male. The average members per ha are 16 female and 34 male. Membership is on voluntary basis. This was first materialized when the Water Users Association was established. Each block of the farm will send 1 person for the General Assembly and they will elect democratically their leaders. This is how the association is being transferred to the cooperatives. The cooperatives are basically thought to be sustainable.

The cooperatives can directly borrow from the bank. They also contract with Ethio-flora to sell their production, i.e., for market access.

The cooperatives are organized and they have a direct contact with the Wereda administration for any assistance. They all are independent in a sense that they:

- can open their bank accounts
- can give decisions through the general assembly meetings.
- can sue and be sued in the court.

To sustain all these, therefore, it requires a capacity building mechanism.

The targets for capacity buildings are:

- Intensive training for farmers (crop husbandry, use of organic fertilizer, etc.). For this purpose, therefore, manuals are already being developed.
- Provision of extension services through the rural development department of the region.

Rift Valley NGO and VOCA-Ethiopia are the major actors in providing trainings for the farmers. Unlike the Rift Valley, VOCA-Ethiopia mainly focuses on training, not on credit services. It forms partnership with the government to give credit (through the government channel). As such, they are apparently risk transferors.

### *1.3.5 Finance*

There are 9 partners, which are involved in financing 3 farm schemes such as irrigation, micro-finance and education. Inter-Oxfam (Oxfam Spain) has allocated \$4.2 million for

the 2 years project operations. Out of this total, \$2.8 million has already been allocated for 2004 operation. The \$4.2 million is divided into irrigation, which accounts for \$3.7 million and the remaining \$500 thousand is for micro-credit finance.

The rural micro-credit scheme is also functional in order to protect the farmers from local moneylenders who charged a high interest rate.

Ethio-flora also provides credit supports to purchase certain farm inputs such as seeds and chemicals.

### ***1.3.6. Production***

The 3 sites visited, namely, Haleco, Golba and Dodocha cooperatives consist of various land coverage. Accordingly, the production also varies. The average land holding is, however, 0.25 ha.

In these cooperatives, Bobby beans, Soya beans, Onions and Maize are mainly grown. These are grown in 7ha, 13.3ha (Golba 1, 8ha and Golba 2, 5.3ha) and 25.7ha in Haleco, Golba and Dodocha respectively. Dodocha grows 6.7ha of green beans, 14ha of dry beans and 5ha of onions.

The yield per hectare for Bobby beans is 75 quintals (75/qt).

The farmers are using cultural practices in order to produce a quality product. There are various parameters considered in the planting processes. Through the creation of awareness among the farmers, these parameters can be trained. These are: -

- Land Preparation
- Land Leveling
- Seeding (environmental friendly)
- Location
- Irrigation
- Fertilizing (broadcasting not fustigation)
- Crop Protection
- Weeding

With regard to the results of the above activities, the farmers together with their cooperative's agents will evaluate their performances every year.

### ***1.3.7. Marketing***

The products are sold to Ethio-flora, which has its own farm proximity to the cooperative farms. In collaboration with Rift Valley NGO and VOCA-Ethiopia, Ethio-flora is handling the marketing business. The out growers schemes are used in order to get the supply from the cooperatives based upon the contractual agreement signed between 3 representative people from the cooperatives and the marketing enterprise which is Ethio-flora.

The out growers scheme was developed from Kenya's (Navasha) experiences. This scheme has solved the local market problems through the creation of linkage with the private sector, i.e. Ethio-flora.

Prices for the products are determined before production is being harvested through negotiations between the enterprise and the beneficiaries. It is based upon the production cost estimates. The one time set price is subject to change through negotiation at every production period. For instance, Bobby beans are sold for Birr 1.85 per kg or Birr 185 per quintal.

#### *1.3.8. Production Cost*

The average cost of production of the cooperatives is Birr 4000 per ha as compared to Ethio-flora, which is Birr 6000. These costs include various items such as:

- Seeds
- Fertilizer
- Canal Maintenance (by farmers)
- Drop Structures Maintenance
- Erosion Protection (because the soil is sandy)

All in all, the irrigation maintenance cost is amounting to Birr 52000.

In Golba cooperative, the cost of tractor service is Birr 240 per ha. Likewise, winnowing and ridging are costing Birr 130 respectively.

In Dodocha cooperative, the cost of production for 1ha is Birr 4000 and for 1.75 ha, it was found to be Birr 7000.

As per the beneficiaries of the aforementioned cooperative, with the total investment of Birr 23000 and operating cost of about Birr 7000 for 1.75 ha, they generate a profit of Birr 16000.

#### *1.3.9 Issues/Challenges*

The cooperatives have a very big potential for developing. However, their sustainability is very challenging due to various reasons: -

- Acute shortage of water supply. The farmers have a strong fear due to the fact that many investors are using the Zeway lake water (by power pumping) at a large scale in the upper stream of the Bulbula River. If this rate of utilization continues at this pace, within 5 years time the lake water will be depleted.
- Obsolete pump machine
- Budget constraints

#### *1.3.10 Proposed Solutions*

The future prospect of the farming activities are mainly dependent on the strength of the farmers, the supports given by different stakeholders and above all the continuity of water supply for irrigation. Therefore, all the concerned organizations should be involved in solving the existing problems of the cooperatives.

Moreover, the following issues have to be addressed:

- Furrows irrigation systems should be replaced by Drip irrigation systems in order to increase the yield per ha and also to economize the water consumption by various water users. This situation of water shortage was observed at a time of field visits in the area
- Catchments should be done in order to protect the environment.
- All cooperative farms have to be studied.

#### *1.4 Ethio-flora*

It was established 8 years ago. The location of the farm is 165 km away from Addis Ababa in Adamitulu Wereda of the Oromia region. The altitude of the area is between 1200m and 1700m, which is quite suitable for fruits and vegetables plantation.

The total number of manpower is ranging between 280 and 300. Of, which, 70 of them are stationed in the pack house.

This is the only farm that has out-growers. There are 70 farmers that are operating under the out-growers scheme. Since these farmers have no any commercial thinking, the farm has tried to create awareness among the farmers. From this it follows that agreements have been made with farmers on Input-Output contract bases. Accordingly, the farm has contracted for 36 ha to be used for local markets.

The Rift Valley NGO started lending money for the farmers (18ha) and VOCA-Ethiopia has also become part of the process (7 ha).

As per the farm's experiences, it was found that the commercial farm's yield/ha is greater than the peasant farm due to the timely watering, weeding, fustigation, spraying, etc.

##### *1.4.1. Production*

The total production area is 75 ha. However, there is an expansion plan for 25 ha at the present site and an additional 150 ha in Koka, which is about 70 km north of the present farm place. The koka farm will be jointly run in the form of partnership with the German company called Fischer.

The production program is made in 3 phases:

- First production phase----- 25%
- Second production phase----- 50%
- Third production phase----- 25%

Within 80 days, all production phases will be completed.

In the second and third production phases the volume of rejects will increase.

The yield per ha is between 9 kg and 11 kg, which is less than that of Kenya. In terms of value the difference is between \$0.32 and \$0.38. To increase the yield, therefore, the following actions should be taken:

- Change of the water management system
- Maintain the soil structure i.e. soil conservation by carrying out soil analysis

- Use original seed rather than the multiplication seed
- Undertake attitudinal change of the workers through the capacity building mechanisms due to the fact that Euro gap's requirement by itself is demanding capacity building.

Euro gap has the following criteria:

- Since 60% of the requirements are documentations, records have to be kept properly. This is very vital for traceability.
- Latrine
- Shower
- Hand bath
- Pesticide control
- Separate fertilizer and agro- chemical storages
- Packing table should be without polythene

In order to fulfill these requirements, the farm has already spent Birr 100,000.

The Euro gap will be implemented in Ethiopia in year 2004. There are other African countries experiences such as Kenya and Zambia. Kenya has established an institution called KPCDA that gives support to horticulture farmers. In Zambia, ZEGA is also performing the same function. There is a horticulture college in Zambia that gives post-harvest training to farmers with the assistance of British and Dutch people. MLR and PIP (in France) can be mentioned as other forms of export requirements in the importing countries.

Regarding the research, the farm does not have any commercial trials. However, it has its own trial plots for various fruits and vegetables. On the other hand, the Ethiopian Agricultural Research Organization (EARO) has researched on a commercial basis for onions and tomatoes.

#### *1.4.2 Marketing*

The major market outlets are Netherlands (Ethio-flora), Italy (Upper Awash and Horticulture Development Enterprise). In these countries, the mode of sales is through seasonal consignment agreement. The consignees reprocess, grading, repack (in the form of 250gm and 500gm) and distribute to different consumers/ supermarkets (Van Hose company in Netherlands is one of the companies doing this type of business).

The local market covers 2 aspects, namely:

- Cooperative's market where out growers collect the product and sale it to Ethio-flora as per their contractual agreement
- Local consumer's market where the product is domestically sold

The export-selling price in Netherlands is ranging between \$1.75 to \$2.00. These prices are higher than the major competitors such as Senegal, Morocco, Egypt and Kenya by \$0.10 to \$0.20. Among these countries, Egypt gets high technical supports and \$ 0.20 to \$0.30 subsidy from the government and has become competitive in the world market

#### *1.4.3. Investment*

The investment activities incorporated different components of the followings: -

- Land preparation
- Office buildings
- Residential building
- Power house
- Irrigation structures
- Canals
- Water pump
- Farm equipment and machinery (tractors, trucks, etc.)
- Accessories

For all these investments, up to now, a total of Birr 4.6 million has been incurred (for 75 ha). These are partly financed by the local bank, which is amounting to Birr 1 million to be repaid in 7 years time at 7.5% interest rate.

#### *1.4.4. Production Costs*

The production cost per kg is \$0.38. Of which, packaging materials and transport cost from Zewaye to Addis Ababa account for \$0.10 and \$0.04 respectively. The remaining \$0.24 is accounted for chemicals, fertilizer and labor. Due to various reasons, however, these prices have been increasing.

The freight cost from Addis Ababa Bole International Airport to export markets is between \$ 1.28 to \$1.35. Whereas in Kenya, the freight costs for flowers and vegetables are \$1.4 and \$1.5 per kg.

The foreign cost, which is the commission cost, is in between 40% and 60% of the gross sales.

The annual operating cost is Birr 2.4 million at farm level, which excludes the freight cost amounting to Birr 1.7 million.

#### *1.4.5 Supply Chain*

There are various steps incorporated to channel the final produces to the export markets. From the farm to Addis Ababa, it will take 2 days to transport the products. Before they are transported to Addis Ababa, the products are stored for 2 days in the cold store at the farm.

There are 7-chartered planes every week for transporting the products. Per chartered plane can carry 36 tons. Of which, 8 to 10 tons are belonged to Ethio-flora and the rest are for Upper Awash and HDE.

#### *1.4.6. Issues/ Challenges*

During the Public Private Partnership (PPP) discussions, many issues were raised by the private sector:

- Access to long term loan including grace period

- Rescheduling of loan due to adverse weather conditions
- Research on horticulture and floriculture
- High freight cost due to the monopoly nature of the Ethiopian Airlines, which is consuming about 80% to 85% of the gross sales.
- Lifting up of the regulations on imported seed
- Privatizing state owned horticultural enterprises i.e. requests were made for Tsedy, Helen and Koka farms.
- Access to power, telecommunications, road, etc.

Some of the above issues such as access to finance have been materialized and some are still on the pipeline.

#### *1.4.7 Proposed Solutions*

Since Ethiopia has an immense potential in the horticulture and floriculture production, the government should provide all sided supports as other countries like Kenya are experiencing it. To bring about a sustainable development to the sub-sector, due attention should be given to the above and other issues and then we will make a difference.

### **1.5 VOCA – ETHIOPIA**

It is a non-governmental organization with the objectives of assisting farmers (small growers of vegetable) in order to market their products.

The small growers with the land hectare age of 0.5 ha to 1.0 ha use irrigation system by using the Meki-Zeway River.

The Meki-Zeway irrigation project was established by Koreans in the 1970s with an altitude of 1,700 m. Its location is 160 km. away from Addis Ababa.

#### *1.5.1 Production*

The major vegetables grown in this area are:

- Green beans (they will take 6 months to grow)
- Tomato
- Onions
- Brown beans

Small growers in this area are helped by VOCA- Ethiopia in terms of linking them up with buyers/exporters to sell their produces. It is also undertaking agreements with farmers on contractual basis to produce and sale their products. Ethio-flora and Green Star are also the major clients for the products. The Green Star Company, which is located in Debrezeit, is a vegetable-canning factory, which will be fully operational in March/April, 2004.

The company is owned by a Canadian-Ethiopian. It is dealing with 600 farmers organized in 4 primary cooperative (associations), which owned 600 ha of land. They will use potential irrigable area of 2,000 ha.

The 4 associations have formed a cooperative. Each member is a shareholder. They have access to input and output marketing services. The services, which the cooperative unions rendered to the members, are the selling of inputs such as fertilizers, selected seeds, herbicides, etc. They also get dividends at the end of the year.

Moreover, they have access to credits from the cooperatives. The loans are mainly short-term and are used for storage facilities (2 years loan repayment) and irrigation equipment (3 year loan repayment).

Technical assistances are also given to farmers. These are in the form of trainings:

- TOT Training
- Household Training
- Seed-bed, post harvesting, vegetable
- Protection and quality control training
- Production Training
- Storage Training

### *1.5.2. Marketing*

Since the cooperatives do not have cold store at their farms, the buyers come and collect the product on a given time period. The products are assembled by the cooperatives before the buyers come to collect them.

There are various organizations involved in marketing (buying) the products.

- The Alemaya cooperatives are supplying to the exporters in Dire Dawa.
- Ethio-flora comes and collects the same day picked products. It uses trucks to collect the haricot beans. It selects, packs and transports them to Addis Ababa by cold-truck and then export them by using Ethiopian Airlines. All the processing activities are done at the Ethio-flora farm in Zewaye.

### *1.5.3. Cooperatives*

Before planting, the price contractual (forward contracts) agreements are made, i.e. a fixed price contractual agreement. Through this process, the cooperatives are responsible for negotiating with either Ethio-flora or VOCA-Ethiopia.

VOCA-Ethiopia is handling 2,000 cooperatives with 500 people in each cooperatives. For instance, in Alemaya and Meki-Zeway areas, there are 300 and 600 members respectively. These numbers will increase by 10% every year around Meki-Batu area. Membership is free and it is run at a democratic election. There are no any government interventions in this business. All in all, there is a democratic election at the grassroots levels. It is also a model for cereals and livestock producers. This model is, therefore, very sustainable and scalable. The capital of Meki-Zeway cooperative is Birr the cooperative access to loan is amounting Birr .The cooperative's members average holding is 0.25 hectare of land.

In addition to the above stated horticulture cooperatives, there are diary cooperatives in Sellale (North Shoa), Debrezeit and Debrebrehan (North Shoa). These areas are quite suitable for exotic animals. As such, there are:

- Dairy cooperatives in Chanco district (Oromia region). In these cooperatives the average daily milk production is about 2,000 liters (i.e. 2,000 liter/day).
- The Debrezeit cooperatives supply 4,000 to 5,000 liters chilled milk per day.
- The Debreberhan cooperative can supply 1,000 liters of milk per day.
- For all these cooperatives the major buyer is Mama (Sebeta) Milk Processing Factory located about 30 km away from Addis Ababa.

## **2. Floriculture**

The floriculture sub sector in Ethiopia has shown a leap forward in terms of area coverage, production, export markets and employment creations. This has been testified by the fact that many local and foreign investors have been attracted to invest in many farms. For these attractions, there are various factors that can be mentioned. Among these, the major ones are suitable climate, altitude, soil, cheap labor force, proximity to European markets, etc. Despite its progress, however, the future competitiveness position of the sub-sector is very challenging. Therefore, a lot of efforts by the government and the investors are required to maintain its sustainability and competitiveness in the international market.

At present, there are 3 major rose flower farms that have already started exporting roses to Europe, Middle East and African countries. These farms are Golden Rose, ENYI Rose and Ethio-Dream.

### **2.1. Golden Rose**

Golden Rose was established in June 1999 and it started exporting at the end of February 2000. The location of the farm is in Tefik Woreda in Oromia region, which is about 38 km from Addis Ababa. The altitude of the area is 2060 meter.

#### **2.1.1. Land Area**

The farm has now reached to 15 hectares size, which was 7 hectares at the beginning. Through 175hectare-expansion program, the 10 ha farm is under progress. This will bring about the total land hectare to 25 ha this year.

#### **2.1.2. Manpower**

The number of people employed at the farm is 500 people. Of which 360 people are permanent and 140 are casual laborers. The composition of the staff is graduates from Jimma and Ambo agricultural colleges. The supervisions and other technicians have been trained by 3 expatriates who came from India. These expatriates are also managing the farms.

#### **2.1.3. Production**

The production of the 15 ha amount, to 35000 to 45000 stems per day. This will increase to 80000 stems per day in the coming years. This will be an equivalent of 180 stems per ha.

There are 10 types of varieties of flower production, namely;

- Circus
- Rene
- Red Champ
- Hollywood
- Golden Gate
- Sun bean
- Dale
- Tropical Amazon
- Grandfield

#### *2.1.4. Marketing*

The major markets are Germany, Netherlands, and Dubai etc.

The average selling price per stem is Euro 0.20

#### *2.1.5. Production Cost*

The total operating cost is US\$ 0.08 (including freight) per stem. Specifically, energy, fertilizer, pesticides and salary account for US\$0.05 and transport cost for US\$0.03 per stem. Furthermore, the freight cost for flower exports by the Ethiopian Air Lines (EAL) and Lufthansa is US\$ 0.98 per kg and US\$1.08 per kg respectively.

#### *2.1.6. Logistics*

Since the EAL does not guarantee space for their producers, they are obliged to shift to Lufthansa that is guaranteeing 200 boxes/flight. In addition to the space problems, EAL does not have handling company for transporting any product. Therefore, it is advisable to use handling companies for better and efficient services. These type of companies are already existing in Ethiopia, such as the 3CL handling company.

The production process starts at the farm level and then processed in the warehouse and put in the 4 degree centigrade cold room for 30 minutes packing will follow and then transported to the airport by the cold truck (4 degree centigrade).

In relation to financing, the business is financed both by local banks and own funds, which account for 40% and 60% respectively.

#### *2.1.7. Constraints/Issues*

The sector has been facing various problems with respect to many aspects such as:

- Lengthy customs procedures to clear the imported inputs such as fertilizers chemicals, etc. It is too bureaucratic because you have to go to 10 or more steps to obtain the imported materials
- Although we do not have any problem at the moment with regard to the entrance /export of the product into the world market, in the coming years, however, there will be issues arisen with regard to the meeting of certain minimum export requirements.

- When the big farms have become operational (owning hundreds hectares), our competitive position will decline. This is one of the issue to be looked into by the concerned stakeholders.

#### *2.1.8. Investment*

The major investment items are

- Greenhouse
- Reservoir
- Irrigation
- Warehouse
- Cooling System (cold rooms)
- Grading/Packing
- Generator
- Building (offices, etc)

The total initial investment cost of the farm is amounting to Birr 20 million.

#### *2.1.9. Proposed Solutions*

In developing this sector, there should not be a speed limit. Every efforts and supports have to be made in order to see things going on the right directions.

Since one of the major constraints of this sector is cargo space problem, all investors would like to see the problem get solved.

## **2.2. ENYI Rose**

The farm was established in year 2002. It is located about 20 km from Addis Ababa in the Oromia region called Kara Kore. The altitude is in the range of 2100m to 2200m. The company started planting in December 2002 and exporting in the same year.

#### *2.2.1. Land Area*

The farm has started its production with 7ha and it has now increased to 15 ha in 2 phases. The target for this year will reach to 20 ha.

#### *2.2.2. Manpower*

The numbers of people employed in the farm are 500 workers. The majority of this labor mainly consists of women laborers (i.e. 15 to 20 women/ha). The manpower is composed of graduates from Alemaya, Ambo and Jimma Agricultural Colleges and 3 expatriates from Kenya, India and Israel.

#### *2. 2.3. Production*

The yield per square meter is ranging between 120 and 180 stems. This is equivalent to 1.2 to 1.8 million stems per ha.

There are 9 varieties, which are grown in the farm. These are:

- Akito
- Milva
- Shanta
- Gold Strayna
- Aqua
- Alwha
- Pasha
- Circus
- Grit

The stems' length of these varieties is between 40 cm to 70 cm, which are medium, and intermediate types.

#### **2.2.4. Marketing**

The major market outlets for the products are Germany, Holland and Sweden. They account for 60%, 30% and 10% respectively. The forms of sales are direct sales (Germany and Sweden) and auction (Holland-through Elsmere). In each country there is only one buyer.

The total volume of export is about 6 million stems per year. This amount will increase to 10 million stems per year in a very short period of time (which is the 7.1 ha of land). Moreover, when the 7.7 ha of land started flowering, the export volume will increase.

Three basic types of varieties can be grown. These are Sweetheart (currently not grown) Intermediates (80%) and Teahybrity 20%) Their stems length are 40, 50 and 60 cm for intermediates and 60, 70 and 80 cm for Teahybrity.

Stems per sq. m for hybrity and intermediates are in between 120 to 140 cm and 140 to 180 cm respectively.

The average selling prices is USD0.18 ct per stem. However, there is also a price variation of USD 0.60 ct.

Prices are basically determined based upon the peak seasons of Christmas, Easter and Valentine days.

In the direct sales, there is no contracting system because the buyers are not interested in signing contractual agreements. The sellers are not interested too. Despite all these, there is a guaranteed price (e.g. in Germany 0.14 ct /stem). In general our marketing system is on consignment base with a consignment price.

Out of the total sales, 12% to 17% is the commission rate, i.e. USD 0.02 ct/item. Regarding rejection they are mainly existent during the production process. It is 3% on the average. It sometimes goes up to 5% to 7%. However, in the consignment center, the rejections are very insignificant.

In connection with their competitors in the country, there is no competition at the moment due to supply constraints to meet demand of their buyers. On the other hand,

however, the Kenyans are big competitors. Their competitiveness is through the availability of an organized and strong supply chain. Although Ethiopia has competitive advantages in terms of cheap labor (50% to 60% lower than Kenya), favorable weather condition and a saving of 30% freight cost, it will not beat its competitors like Kenya due to lack of a strong supply chain.

#### *2.2.5. Logistics*

The farm owns 1 cold truck vehicle that transports flowers about 18 km to the Bole International Airport.

The transport tariff rate of the Ethiopian Airlines and Lufthansa ranges between USD 0.90 ct USD 0.98 ct, i.e. below 500kg (USD 0.98 ct) and above 500kg (USD 0.90 ct). The minimum accepted luggage is 80kg.

#### *2.2.6. Investment*

The initial total investment cost of the farm is valued at Birr 20 Million. This amount consists of the following investment items.

- Buildings
- Greenhouse
- Irrigation systems (Drip)
- Cooling systems
- Chemical System (fustigation)
- Propagation (seed)
- Grading/Packing
- Generator

The source of finance for all these investments is own fund.

#### *2.2.7. Production Cost*

The operating cost of producing 1 stem amounts to USD 0.13 ct. This includes the freight cost which accounts for 40% of the production cost.

#### *2.2.8. Constraints/Issues*

The main constraints are:

- Insufficient Cargo space by EAL.
- Lengthy process of SGS inspection delays the stems to be imported, fertilizer and chemicals.
- Long time taking for approving chemicals to be used. By the time the study is completed, the usage of the chemical will be changed.
- Lack of research in terms of variety selection.
- The problem of land allocation (concentrating in one place and not considering individuals choice).

### *2. 2.9. Proposed Solutions*

In order to move forward, all constraints have to be solved and policy issues should be well addressed. Currently, some problems that are related to financial access have shown some improvements. It still, however, requires full public support with respect to many aspects that hinder the development of the sub-sector.

## **2.3. Ethio-Dream**

It was established in September 2002 and started exporting in January 2003. The location of the farm is about 48 km away from Addis Ababa in the Oromia region of Holleta Wereda (District). The altitude of the area is 2200 m.

### *2. 3.1. Land Area*

At the beginning, the land coverage was 2 ha and currently an additional 6.3 ha is under development. In the coming years, it will be expanded to 20 ha (in 3 years time).

### *2. 3.2. Manpower*

The number of permanent workers is 26 of which 20 are stationed on the farm and 6 in the Headquarter office. It also employs 70 to 80 temporary laborers. However, when the farm reaches to 4 ha, it will employ 200 people.

In terms of expatriate, there was an Indian farm manager who is now replaced by a Kenyan farm Manager. He has been contracted for 3 years and he will be again replaced by Ethiopian who is graduates from Jimma Agricultural College. Very recently, the agricultural colleges in Ethiopia have started graduating students with BSc in Horticulture/Floriculture.

### *2. 3.3. Production*

The numbers of stems that are produced in 1 ha are 140, i.e. 140 stems/ha. Rejection is very minimal which is about 0.1%. The lengths of stems are 35 and 40 cm. There are no items below 35 cm

Over one weeding season, 60000 items can be harvested from 2 ha of land. Out of the total production 95% to 98% are envisaged for exports.

In the process of selecting varieties, information is availed from the breeder and the market.

### *2. 3.4. Marketing*

The products are mainly exported to Europe (Germany) and Dubai. The regular market destination is Germany, which accounts for 85% of the market share. A Germany company called SPH is a consignment buyer at the consignment price, which is a negotiated minimum price. In addition, 15% of the export is sold to the Middle East countries during the summer time (in advance payments).

On the average each item is sold for Euro 0.24 ct (USD0.30 ct), i.e. Euro 4 ct/ stem USD0.30ct/ stem.

### *2. 3.5. Investment*

The investments are made in the form of pre-harvest and post harvest periods. The pre-harvest consists of:

- Greenhouse
- Irrigation system
- Reservoir (dam)
- Planting materials
- Bushes clearing
- Land development

The post harvest includes:

- Warehouse (1200 sq.m.)
- Cold store (1050 w.m)
- Packing Unit (tables, cutter, etc)
- 1 Refrigerated truck
- 1 Dump truck
- 1 Volkswagen vehicle
- 1 Pick-up vehicle
- 1 Tractor
- 1 loader
- 1 bulldozer

Up to now, a total of Birr 16 million has been invested. The sources of finances are Development Bank of Ethiopia (Birr13.5million) and United and Awash Banks (Birr2.5 million).

In the next 5 years, Birr 23 million will be borrowed from the Development Bank of Ethiopia (DBE) on the basis of 40% (equity) and 60% (Loan). The repayment periods are 5 years with the grace period 1 year at 7.5% interest rate. In addition to these costs, there are unnecessary banking charges (costs) incurred by the farm.

### *2. 3.6. Logistics*

The products are carried to the airport by 1 refrigerated truck and then exported to different market outlets by the Ethiopian Airlines.

### *2. 3.7. Constraints/Issues*

Problems related to the export activities have been immense for the past years. However, now, some of them have got solutions. There are some still unresolved such as,

- Insufficient cargo space
- Unnecessary cost charged by DBE.

## **3. Livestock and Meat Products**

The livestock sub-sector has been considered as source of income for many farmers and pastoralists as source of income for their livelihood and also foreign exchange earner to the country. In cognizant of its importance, there are many actions that play a great role in developing the sub-sectors. These are government organizations, producers, exporters, association, NGO, donors organizations etc.

### **3.2 Animal and Meat Exporters Association**

The association was established 4 years ago. The actual work, however, was done 2 years ago due to the reason that the Middle East countries have banned Ethiopian livestock products for many years.

There are 8 enterprises that are registered as members of the association. These are:

- ELFORA
- Mojo Modern Export Abattoir
- Luna Export Abattoir
- HELIMEX (Hashim Nur Export Abattoir)
- Ali Hussien Meat Exporter
- Sufi Trading (Meat trader)
- Sheffere Assefa (Live Animal Exporters)

#### **Objectives**

The major objectives of the association are:

- Dealing with a government, i.e. acting as a pressure group and a bridge between the Public and Private.
- Assisting traders through trade promotion
- Representing its members in any forum

#### *3.1.2 Supports*

Four executive members run the association. It does not have any financial support from the Government. The member's fees finance it. The operational budget is about Birr 100,000. However, the members' contribution is not more than Birr 45,000.

The Ethiopian Livestock Marketing Authority (ELMA) gives some market information. Domestic and International Market Information are available. Information on domestic market (mainly the supply side) has been found important for the members. As far as foreign market information is concerned, their market survey is delivered to them. In general, the flow of market information from ELMA is not well organized.

Regarding supports from the Ethiopian Export Promotion Agency (EEPA), they all are on ad hoc bases. There is no regular contact with EEPA, as it does exist with ELMA. The Ministry of Agriculture is a licensing authority. Health certificates and veterinary issues are addressed by inspectors from the Ministry. Therefore, the association members have operational relationship with the Ministry.

### 3.1.3. *Market*

The major markets are Saudi Arabia, Arab Emirates, Yemen, Congo and Ivory Coast. The selling is directly made to agents, representatives and butchers.

### 3.1.4. *Product Chain*

The value chain starts from the purchase of the product from the producers and intermediaries. The major purchases are made from the intermediaries. The intermediaries buy from the producers and sell to the members. Some enterprises such as ELFORA and LUNA have networks close to the farmer; i.e. they are buying from Borena area.

The collectors make transportation to the market centers. It is mainly by trek to the primary markets and abattoir gate. There are no as such fixed prices for the animals prior to the purchase.

The process of value chain seems as follows:

Quarantine → Pre transportation (Trucking) → Post transportation (chilling process).

The staying times for quarantine and chiller house are 72 hours and 18 hours respectively. After this, they are ready for export.

From one market center, 500 to 1000 animals can be collected. The capacity of one truck will be 40 animals/truck.

### 3.1.5. *Constraints/Issues*

The main constraints are the following:

- The Association does not have any office.
- No financial supports from the government.
- Irregular supply of animals because the farmers are not producing for market. They do not have any commercial Interest. Their need of marketing arises in order to buy Grains, to pay taxes, etc. Shortage of exportable/marketable product.
- Non-existence of animal disease free zone.
- Minimum requirements such as Sanitary and Phyto Sanitary (SPS) requirements asked by the importer countries.

### 3.1.6. *Proposed Solutions*

The Association requires every support in order to strengthen itself and thereby providing the necessary services for its members. In addition to this, there is a need to:

- Create service cooperatives that would market their animals to various enterprises (buyers).
- Carryout animal disease control mechanism and also establish animal Disease Free Zone.
- Strengthen the market information base.

## 3.2 ELFORA

The organization was acquired from the government through the privatization process. In 1997/98, they were 8 enterprises in package form that were privatized. They were:

- 5 processing plants (vegetables, meat, etc)
- 1 poultry farm
- 1 Livestock Marketing Enterprise
- 1 Cheffa farm (produces fodder for animals).

There are 2500 permanent workers in ELFORA. Its paid-up capital is \$100 million and the acquisition cost is \$54 million (Birr 174 million).

The organization is run by shareholders, namely Sheik Mohammed Alamudin (70%) and MIDROC Ethiopia (30%).

The 3 main operation activities are:

- Poultry farm
- Crops (cereals, vegetables and cotton)
- Food Processing and Livestock Operation (tomato paste, Abattoir services and meat cut for local markets).

### 3.2.1. Production

The production capacity of the slaughtering house is 5000 ton /month which is equivalent to about 60,000 ton /year (It is the theoretical capacity). However, the feasible capacity is 200 ton /month, of which 100 ton for domestic market and 100 to for export.

The quarantine size is about 50,000 ha. In this area, there exists disease free animals disease free zone. In this ranch, animals can stay for 120 days (in Borena) and 90 days in Nazareth feedlots.

There are 5 abattoirs (slaughtering centers). These are:

- Dire Dawa
- Debrezeit
- Kombolcha
- Awassa (Melgo Wondo)
- Gondar

Debrezeit abattoir is an export abattoir. In Debrezeit, animals are treated for 3 days in the form of pre-mortem and post-mortem. They will be then slaughtered in 24 hours and will be transported for export.

### 3.2.2. Marketing

Before export, inspectors (vets) from the Ministry of Agriculture will check the product and then transported to the airport for export in the form of stocking. For cut meats, vacuum packing machine is used.

There are minimum requirements like HACCP to be fulfilled in order to penetrate fully the Middle East Markets. What we are exporting at the moment is not at full scale.

When HACCP is materialized in Ethiopia, we will register for meeting the requirement, of the Middle East countries.

At present, the total volume of meat export to different markets is 1 million ton, which is valued at \$1.7 million. These markets are Saudi Arabia, Yemen and Dubai.

The CIF prices are \$2,400 to 2,750 /ton and \$2,400 to \$2,600 /ton for Jeddah and Dubai. As compared with the Sudan, Ethiopia's CIF price is much lower, i.e. the Sudan's CIF price \$3,300 /ton.

### 3.2.3. *Logistics*

There are 10 special trucks for animals (each 50 animals capacity) and 5 cold trucks for meat (all 70 tons capacity).

The airfreight cost is \$0/60 cents per kg for Middle East, \$1.25 per kg for Congo Kinshasa.

### 3.2.4. *Constraints /Issues*

The limiting factors for export are the following.

- Limited Cargo space (EAL).
- Supply constraints (inconsistent supply of animals. This due to the reason that primary, secondary and territory markets are not well organized as we can see in the Sudan. In the Sudan, there are 26 regions that have their market channel and chain of activities in Khartoum. Each animal has its own tag from which region it comes and then you can buy it from Khartoum. These all chain of activities (provision of quarantine, feeds, etc) is supported by the government.
- Lack of market infrastructure.
- High payments at various check points, which will contribute for less competitiveness in the export market.
- No lifting-up of the banning of live animals in the Saudi Arabia market.
- Lack of credit facilities.
- Lack of market infrastructure (road-trucking and trucking, resting place, ramping and water points).
- Lack of ranches (no breeding and no rearing). If the Borena breed is significantly done, the quality of the meat export will be improved

The export processing is too lengthy and bureaucratic. The involved organizations are:

- Chamber of Commerce (for the origin of certificate).
- Ministry of Foreign Affairs (Authentication).
- Ministry of Agriculture (Health Certificate).
- Islamic Affairs (Hallal)
- Dashen Bank
- Embassies
- Ethiopian Customs Authority.
- Airlines (Ethiopian, others).
- Civil Aviation Authority (security checking)

- Public health at the airport (certificates by inspectors)
- All the above involvements will take almost 3 days.

### *3.2.5. Proposed Solutions*

The future prospect of the export activities mainly relies on the development of the livestock sub-sector. Therefore, due attentions have to be given by different stakeholders to the major constraints and issues that are mentioned above. More specifically, there should be:

- Strengthening the existing offices in Dubai and Jeddah.
- Creating supply chain development.
- Establishing a strong market database.
- Improving the packaging systems.

## **3.3. Poultry**

This farm is run by the Poultry Development Enterprise. It has a paid up capital of about US\$ 20 Million and 400 number of workers.

### *3.3.1. Production*

The types of products are chilled and frozen. They all are broiler products. The broiler capacity is 800,000 kg. /year. Of which the export portion is less than 5%.

The volume of egg production is 38 million pieces. This will reach to 50 million pieces in the coming few years.

The production period will be between 50 to 70 days for Ethiopia as compared to Brazil, which is 35 to 45 days.

### *3.3.2. Marketing*

Poultry products are mainly exported to the Sudan and Djibouti. The prices are \$1.50 /dressed broiler.

Since the poultry meat is non-cholesterol meat, it has a high demand in export markets.

### *3.3.3. Production Cost*

The major inputs of the farm are feeds. Their ingredients are:

- Maize
- Soybeans
- Barns (Furska)
- Vitamins
- Medicine

Of all the above, about 40% of the total feeds is accounted for maize. Thus, about 40,000 quintal of maize is required to produce feeds.

#### *3.3.4. Constraints /Issues*

The constraints mentioned in section 3.2.4. Are also applicable to the poultry product. However, to give more attention, the transportation problem has to be mention again as obstacle to the development of exporting the product.

### **3.4. Hashim Ethiopian Livestock and Exporter (HELIMEX)**

The company was established in 1984. It has been in the livestock and meat export business for the last 20 years. Although it has been in the live animal business at the initial stage, it has lasted only for 2 years. The major reasons for discontinuity were due to the poor conditions of the Djibouti route and banning of Ethiopian live animals not to be marketed in the Saudi Arabia markets due to animal health problems. However, when the ban is lifted very recently, the company has been back to the live animals market. HELIMEX has been winner of the national export performance award for efficiency, consecutively for 8 years (1994 to 2001).

In the absence of its own export abattoir, HELIMEX used to get access to animal slaughtering houses (meat factories) in the country such as, Melge Wondo Meat Factory, Combolcha Meat Factory, Dire Dawa Meat Factory and Debre Zeit Slaughter House. By using these factories' services, the company was the first to get in the export markets.

After some years of its business in the export market, it has managed to set up its own fully manual operating slaughtering house. Currently, however, it has established fully automated export abattoir.

#### *3.4.1. Manpower*

The total number of manpower is 130. Out of this total, 30 are professionals that consist technicians, accountants, veterinaries, etc.

#### *3.4.2. Production*

The main products are:

- Live Sheep
- Live Goat
- Beef
- Mutton
- Goat Carcass

The production capacity of the previous slaughtering house was 7 to 10 tons per day. The new and the modern export abattoir have a capacity of 25 tons per day.

#### *3.4.3. Marketing*

The major market outlets are Saudi Arabia, Yemen and Dubai. The average export prices for the various products are:

- Live Animals
  - Sheep----- US\$25 to US\$30 per head (FOB Djibouti)
  - Goat----- US\$25 to US\$30 per head (FOB Djibouti)

- Cattle----- US\$0.75 to US\$0.90 per kg (FOB Djibouti)
- Meat
  - Sheep-----\$1600 to \$1800 per ton (FOB at Bole Airport)
  - Goat-----\$\$1600 to \$1800 per ton (FOB at Bole Airport)
  - Cattle-----\$1300 to \$1500 per ton (FOB at Bole Airport)

The domestic market prices that are given to the farmers at the collection centers are: -

- Sheep----- Birr 4.50 to Birr 5.50 per kg
- Goat----- Birr 4.50 to Birr 5.50 per kg
- Cattle----- Birr 3.50 to Birr 4.00 per kg

#### 3.4.4. Logistics

The transportation of animals from the collection centers to the factory is made by livestock road truck with trailers. The export products are made either by airfreight and sea freight. Thus, the transportation costs for meat products are:

- Saudi Arabia (Jeddah)----- \$ 0.55 per kg by air freight
- Yemen (Sana)----- \$0.40 per kg by air freight
- Dubai----- \$0.66 per kg by air freight

The local transport cost from Addis Ababa to Djibouti for live animals are:

- Sheep----- \$10.00 per head
- Goat----- \$10.00 per head
- Cattle----- \$40.00 per head (one truck can contain 20 animals)

#### 3.4.5. Supply Chain

The major collection centers are Borena, Ginir and Methara. The farmers bring their animals to the collection centers and stayed there for 2 days and then transported to Methara and put in the quarantine there for 20 days. From the quarantine, they are transported to Debre Zeit abattoir and are kept in animals' rest place for 3 days, which has a capacity of 5000 animals at one time. The supply chain looks like as follows :-

Farmers→CollectionCenters→Quarantine→AnimalsRest place→abattoir→Airport

#### 3.4.6. Investment

The newly established fully automated plant is costing over Birr 30 million. The cost of the building is estimated Birr 7.5 million. The slaughterhouse is 90% automatic. The investment, therefore, consists of the following components: -

- Slaughter machine
- Cold rooms
- Chilling rooms
- Washing rooms
- Refrigerated truck
- Livestock road truck with trailer
- Station wagons
- Pick ups

### 3.4.7. Constraints/Issues

Like other livestock companies in Ethiopia, HELIMEX is also facing similar problems. To reiterate some of them:

- High freight cost
- Cargo space problems
- In availability of enough cold rooms at the airport

### 3.4.8. Proposed Solutions

To speed up the development of the sub sector, the following issues have to be addressed:

- The continuous supplies of animals have to be ensured. This can be assured through various supports such as vaccination, rest places, feed and water at rest places. Pursuing this type of approach like what the Sudan government is adopting is very vital for exporting healthy and quality meat products.
- The concerned government organizations should facilitate the smooth operations of the industry.

## 4. Dairy

### 4.1 General

This sub-sector is incorporated in the Livestock sector. Although the sector is not well developed, this sub-sector is still the most neglected in all its sphere of activities. For instance, it is impossible to get at least 10 selected cows in the country. On the contrary, in neighboring countries like Kenya, we can find hundreds of selected cows. These cows are very crucial and very basic elements for the growth of the sub-sector. Therefore, government and stakeholders have to play a great role in order to increase the number of dairy cows.

Many dairy farms were nationalized during the Derge regime. Currently, however, none of them has been productive in order to satisfy the local markets. The export market is also unthinkable at this stage of development unless a fast change is coming.

Even the present government does not give due attention for developing the milking cows. In general, all governments have contributed for the slow growth of the sub-sector.

#### 4.1.1. Major Actors

There are few government and private organizations that are dealing with the sub- sector. These are:

- Ministry of Agriculture with its Livestock department
- Artificial Insemination Agency, which identifies animal diseases and gives vaccination. In spite of the occurrences of Foot and Mouth diseases, we are still using the same type of Semen of Israel and Cuba breed, which has been here for the last many decades. Unless this situation is changed in a very short period of time, the productivity of the milking cow will decline.
- Holleta Research Center
- Debrezeit Veterinary Institute. Its vaccinations are not good in quality, As a result of this, no improvement has so far been seen in the health and productivity of the cows.
- Private farms, which owned a small number of unproductive cows.

- Private industries like Sebeta agro-processing industry, which owns its cows and a milk-processing factory.
- Public enterprises like Shola Milk Processing factory, which does not own its cows.
- International Livestock Research Institute (ILRI). This institute has not well operating and contributing for the development of the sub-sector.
- Donors

#### 4.1.2. *Milk product*

The milk processing requires quality raw milk. Due to lack of the quality product, it has become impossible to produce even yogurt. However, since the owners of the cows are all scattered, there are no controls over the producers' milk. Despite this entire problem, the Ministry of Agriculture does not take any inspection actions to improve the quality of the product.

#### 4.1.3. *Private farms*

Most of the private farms are without processing. They consist of:

- Commercial farms
- Individual farms

The commercial farms own above 50 cows and they are 50 to 80 in numbers. There are about 10 commercial farms that own, not more than 100 cows. To mention some of them:

- Kality dairy farm(Eshetu)
- kality dairy farm (Alula)
- Sebeta dairy farm(Nuri)
- Sebeta dairy farm (Tilahun)
- Repi dairy farm (Endale), etc.

Each cow can supply 12 to 15 liters per day.

Debrezeit, Sellale and Debrebrehan dairy cooperatives are also operating on a commercial basis. Sebata agro industry which is commonly called Mama, is providing technical assistances and feeds for the Debrezeit cooperatives and as such, they have become suppliers of raw milk to the factory. Per day, they started supplying 100 liters. This supply is mainly done through the collection of milk from individuals' households around the area. This way of supply is not appreciable due to the reason that it has a negative impact on the quality of the finished products. Therefore, what is preferable is to have the supply from, at least 3 big commercial farms. Otherwise, if the present supply conditions continue, the factory will limit itself only in the processing of pasteurized milk and sell it to the consumers. This then implies that nothing will be envisaged for high value products and export markets.

The individual dairy farms are household producers. They milk to sell it either to individual customers or to collectors like cooperatives and milk processing factories.

## 4.2. **Sebeta Agro Processing Industry**

It was established 5 years ago with the objective of processing fruits and vegetables and milk products. In relation to these activities, the dairy farm is also well developed in

conjunction with the production of organic feeds. This feed has contributed a lot for the production of quality and tasty yogurt.

#### 4.2.1. *Manpower*

The total number of manpower is 97 people. It includes:

- 1 Production Manager
- 1 Assistant Manager
- 2 Technical Equipment technicians
- 1 Dairy Man
- 2 Assistant Dairy Men
- 1 Artificial Insemination person

Among the above personnel, the dairyman was educated in Netherlands and the production manager has studied in England. The rest are from Debrezeit Agricultural College.

#### 4.2.2 *Supply of raw milk*

The cooperatives are the main suppliers. The supplies are from:

- Holleta----- 3000 liters
- Debrezeit----- 4000 liters
- Addis Ababa----- 4000 liters
- Sebeta----- 2000 liters
- Individuals----- 1400 liters

These all are supplied by the contractual agreement made between the owner of the factory and the cooperatives. It was stressed by the owner that the cooperatives have never owned any cow. They are simply traders that collect milk from individuals and sell it to the factory. Moreover, it was also mentioned that that the cooperatives have an intention to get into the processing activities that is not advisable and commendable.

#### 4.2.3. *Production*

The factory has started producing fruits and vegetables juices. At present, however, they are not being produced. Therefore, the main produces are:

- Pasteurized milk
- Fresh milk (99% of the total sales)
- Cheese (Ice-cream)
- Butter

Regarding rejects, 20% to 25% of the total individuals' raw milk supplies are rejects due to much water content problems. This problem is mainly reflected on individual suppliers, not on cooperatives (it is very insignificant).

#### 4.2.4. *Investment*

The major investment items are the followings: -

- Fresh milk processing equipment
- Pasteurized equipment (system)

- Collection/ cooling tankers----- There are 3 cooling tankers with a capacity of 10,000 liters per tanker. Among these, 2 are stationed in Addis Ababa and 1 in Sebeta. The cooled milk from Addis Ababa is again transported to Sebeta by a truck with the capacity of 4000 liter.
- Dairy Cows----- The factory owned 800 dairy cows. The yield per cow varies from 1200 liters to 1500 liters and to 1800 liters per day. However, during Orthodox Christian's fasting and non-fasting periods the average yield will be 1500 and 1700 liters per day respectively.

### 4.3. Dairy Development Enterprise

The dairy Development Enterprise (DDE) has passed through 4 phases of development since it was established in 1947 in order to reach to its present level of capacity.

- **Phase 1----- Establishment and Expansion**

The idea of dairy development came into being in Ethiopia with the establishment of 1 dairy farm with a herd of 300 imported cows and 1 small milk processing plant. This was made possible due to the donations made by the United Nations after the II World War under its rehabilitation program. Both the farm and the plant were located in Addis Ababa at the present site in 1947.

Concomitant with its population growth, the demand for milk grew in the city of Addis Ababa. In response to the increased demand of milk, the Ministry of Agriculture signed a project agreement with UNICEF to further expand the Shola Dairy Plant in 1959. The aim was primarily to supply hospitals and school children with safe milk. The signed agreement was, therefore, implemented in 3 stages.

**Stage 1:** A small milk processing plant with a daily output capacity of 10000 liters was established. Milk purchasing and collection centers were opened around Addis Ababa.

**Stage 2:** Raw milk collections were further strengthened and expanded to 70 km radius from the city of Addis Ababa.

**Stage 3:** With further increased demand for pasteurized milk; the daily processed milk out put capacity grew to 30000 liters in 1969.

- **Phase II ----- Establishment of the Dairy Development Agency (DDA)**

The DDA came into being in 1971 under the proclamation No. 283/71. Its mandates were:

- Provide guidance and assistance to farmers in improving the quality and increasing the quantity of milk and milk by-products.

Develop the production and sale of milk and milk by-products in areas serving the cities and townships of Ethiopia

Following its establishment, the first Addis Ababa Dairy Development Project was implemented with a total investment cost of US\$4.4 million, which was borrowed from the World Bank (IDA). The objectives of the project were:

- On farm development of approximately 240 small dairy farms (average of 10 milking cows each) and 110 medium size dairy farms (average of 40 milking cows each)
- Establishment of ranches to produce cross-breed dairy heifers
- Provide facilities and organizations for collection, processing and marketing of milk products
- Render consultancy and technical services

**Phase III----- Establishment of the Dairy Development Enterprise (DDE); -**

In 1979 the former DDA and numerous nationalized dairy farms were merged and exist under the Ministry of State Farms Development. The enterprise was then named as Dairy development Enterprise (DDE).

The daily processed milk out put capacity grew to 60000 liters. The raw milk collection radius was also extended to about 150k km. This mode of operations has continued up to 1993.

**Phase IV----- establishment of the new Dairy Development Enterprise**

In order to rehabilitate, make financially self- supporting, more efficient and profitable, public enterprises were given management autonomy. Accordingly, based upon Public Enterprise Proclamation No. 25/199, the DDE was established. The objectives of the enterprises are:

- On farm development of approximately 240 dairy farms (average of 10 milking cows each) and 110 medium size dairy farms (average of 40 milking cows each)
- Establishment of ranches to produce cross-breeds dairy heifers

*4.3.1. Production*

The main types of products are:

- Pasteurized milk
- Pasteurized butter
- Pasteurized cheese
- Pasteurized yogurt
- Pasteurized Ayeb (local cheese)

The total designed, attainable and attained production capacity of the plant is 60000 liters, 30000 liters and 35000liters per day respectively. However, the current attained capacity is not more than 15000 liters. The major inputs are raw milk and packaging materials.

*4.3.2. Collection Centers*

The daily collection of raw milk is about 13000 to 15000 liters per day within a radius of 130 km. This amount is being collected from different collection centers such as:

- Sellale
- Chancho
- Fiche

- Muketeri
- Debrebrehan
- Ada Liben(Debre Zeit)
- Nazareth
- Ada Berga (Holleta)----- This is the only dairy farm that is owned by the enterprise with 300 dairy cows and supply about 6% of the total raw milk.
- Kuriftu
- Modjo

Most of the suppliers are individual farmers/producers. In recent times, however, cooperatives have started supplying to the enterprise. Cooperatives from Ada Liben , Modjo and Nazareth are directly supplying to the factory gate by their own trucks. Whereas, cooperatives from Addis Ababa, Sellale and Muketeri are still negotiating for a higher price (for Birr 2.00)

The mode of supply is through contractual agreement. The cooperatives are usually signed a one year contractual agreement with the negotiated prices. These prices are normally varied during an Orthodox Christian fasting season. On the average, however, the price is Birr 1.80 per liter.

During fasting season, the pricing system of the enterprise was based upon 2 aspects, namely; price reduction and suppressing the supply of milk. However, at present, the latter approach is left out and they concentrate on price reduction rather than on suppression of the supply.

#### **4.3.3. Supply Chain**

The collection is made during morning and evening times. Every milk coming to the centers are checked by lactometers for its freshness, acidity and bacteria. From the collection centers, the small pick-ups carry the product to the chilling centers. After 2 days of staying in the cold storage, they are transported to the factory for processing. Before being processed, there is a second test after the arm in order to ensure the quality of the product.

With 2 milk tanker trucks with the capacity of 10000 to 11000 liters each and with the third milk truck of 5500-liter capacity, the collected milk is transported to Addis Ababa. However, cooperatives like Ada Liben are bringing the milk (1000 to 2000 liters per day) to the factory between 8.00 and 9.00 o'clock in the morning.

#### **4.3.4. Production Process**

The processes are made as follows:

- The raw milk, before being processed, composite sample will be taken for the purpose of quality control.
- Laboratory tests are made for the fat content, protein and bacteriology
- Checking for the standardized 2.7% fat content of the pasteurized milk
- Melting the collected cream at 80 degree centigrade
- Changing the cream into Cheese( Formage)
- Forming yogurt

#### 4.3.5. Marketing

All produced products are completely sold everyday except fasting periods. There are basic facilities to operate the marketing activities;

- 4 Sales depots in Kazanchise, Shola, Piassa and Kera
- 40 Kiosks
- 4 Vans
- 13 Small pick-ups
- Commission Agents (on the bases of 6% of the gross sales)

#### 4.3.6. Investment

The total established capital of the enterprise is Birr 26 million. The investment items include the following :-

- Crate washer parts
- Chilled water cooler
- Pasteurizer
- Cream separator
- Tetra pack
- Pre pack pair
- Vacuum pump
- Yogurt sealing and packing machine
- Compressor
- Cream vat double jacket
- Cod store installation
- Over hauling of steam boiler and its pipe lines
- Cheese room radiators
- Spare parts for rehabilitation
- Milk sterilizer
- Drier (for making milk powder)
- Boiler
- Breaker

In addition to the established capital, the above items still require new investments amounting to Birr 1,000,000. Of which, Birr 800 million and Birr 200 million are in terms of foreign and local components respectively.

#### 4.3.7. Cost of Production

The unit costs of production after the enterprise's overhead costs for Formajo (cheese), Yoghurt and Cream are Birr 31.42 per kg, Birr 2.40 per liter and Birr 7.83 per liter respectively.

#### 4.3.8. Major Actors

There are various organizations, which are stakeholders and collaborators of the enterprise. They are;

- Public Enterprise Supervising Authority (PESA)
- Ethiopian Agricultural Research Organization (EARO)

- Ethiopian Livestock Marketing Authority (ELMA)--- It lacks to facilitate markets for the milk products
- Ministry of Agriculture (MOA)---- So far, no single assistance has come from MOA
- Ministry of Health
- UNIDO (on quality control training)

#### *4.3.9. Constraints/Issues*

Many constraints are hampering the development of the enterprise in particular and the sub sector, in general:

- Less attractive price for the farmers. Due to this reason, there will be no continuous supply of raw milk.
- Non-existence of highly productive dairy cows
- Low capacity of the industry, not modern and existence of obsolete machinery
- No subsidy for the sub sector as Kenya does it
- Many farms such as Kuriftu, Menagesha, Repi and Holleta have already been changed

#### *4.3.10. Proposed Solutions*

In order to accelerate the development of the industry as a whole the following measures should be taken:

- Private investors should be given all round support in order to invest in the industry. Joint venture types of partnership should be encouraged
- Milk collection, processing and marketing regulation should be formulated and enacted. This act is very relevant to ensure a continuous supply of raw milk to industries
- Full support should be given at the early stage of the development of the industry
- Aggressive market promotion in the communities should be undertaken in order to increase their milk consumption habit and culture should be adopted at a very large scale. Therefore, publicity work is of paramount importance
- School's milk feeding culture should be adopted

## **5. Leather and Leather Products**

### **5.1. Ethiopian Tannery, Footwear and Leather Garment Association**

The base for the establishment of this Association was the Tanneries Association, which was established in 1994. It was a focal point for the establishment of the recent Association which was established 7 months ago and that consists of tannery, footwear and leather garment manufacturers.

The Association has had many exposures internationally. To mention some of them: -

- President of Eastern and Southern Leather Associations which has 10 member countries, namely;
  - Botswana
  - Kenya
  - Malawi
  - Namibia

- Eritrea
  - Ethiopia
  - Sudan
  - Sudan
  - Tanzania
  - Zimbabwe
- The Association is also the Vice President of the Federation of Africa Leather and Allied industries. Tunisia and South Africa is also the President and Vice President of this Federation respectively.
  - Member of the International Council of Hides and Skins; and Leather Association, which is based in England.
  - Many contacts with international organizations such as Center for the Development of Enterprise (CDE), SIC of France, CBI of the Netherlands, Common Fund for Commodity (CFC) and International Trade Center (ITC). With CFC a three year and with UNIDO a one year projects have been worked out together. The UNIDO one is helpful in promoting trade fair participations, which will be held in Italy, and Spain in May 2004. These participations will create enabling environments for Italian and Spanish investors to invest on the sector either on individual bases or in the form of joint venture partnerships.

#### *5.1.1. Objectives*

The major objectives are:

- To promote and foster interests of the tanning, footwear and leather garment industries.
- To promote business and related cooperation among its members
- To represent its members and to cooperate with the government in developing the industries.
- To facilitate in matters related to quality and standards
- To undertake on behalf members negotiations with any institutions or individuals with a view to promote and encourage the interests of the industries.
- Promote activities in seminars, workshops, export promotions and trade fairs.

#### *5.1.2. Members*

The Association is run by the Board of Directors who is democratically elected by its members in the General Assembly meeting. At present, there are 19 members in the Association. They are:

- Abay Tannery
- Addis Ababa Tannery
- Bale Tannery
- Bahr Dar Tannery
- Batu Tannery
- Blue Nile Tannery
- Combolcha Tannery
- Colba Tannery
- Debre Brehan Tannery
- Dessie Tannery
- Dire Industries

- Ethio- Leather industry PLC (ELICO)
- Ethiopia Tannery S.C.
- Hafde Tannery
- Hora Tannery
- Modjo Tannery
- Sheba Tannery
- Shoa Tannery
- Walia Tannery

### 5.1.3. *Production*

The development of the sector has an immense potential resource base as follows: -

- According to FAO's 2001 estimations, there are 35 million cattle, 21 million sheep and 16.8 million goats
- Production of raw hides and skins annually estimated as 2.7 million hides, 8.5 million sheep skin and 7.5 million goats skin
- Ethiopian hides have natural grain and fiber structure quality. The sheep skins are known globally for their fine grain and compact fiber structure which allow shaving to thin substance without with out losing their tear or tensile strength very suitable for dress and sport gloves. The goatskins are also suitable for suede garments.

There are 3 types of product grades in the skin production processes:

- Grade 1
- Grade 2
- Grade 3

Thickens and size are important factors in the grading processes. It is the combinations of these grades (in percentage) that can be marketed in the export markets.

In connection with rejects, the level of quality acceptance, 15 to 20 years back was 65%. Nowadays, however, this has become down to 20%. The implication of this declining trend is that the quality of tannery and leather products is deteriorating, i.e. 80% are almost rejects. This can also be substantiated by the fact there are few claims and complaints coming from the customers abroad.

Most of the leather industries are producing semi-processed type of products, not in the form of finished products. In recent times, however, very few of them like ELICO has moved to the finished product level, i.e. production of leather garments, bags, gloves, sport leather belts, etc. This has, therefore, created value added for the industry.

### 5.1.4. *Marketing*

The major markets for tannery and leather products are Europe, Asia and United States of America that account for 60%, 25% and 15% respectively. In Europe, the major dominant markets are Italy, Spain, Germany, and United Kingdom and East European countries such as Bulgaria. The Asian countries are mainly India, China, Indonesia and Malaysia. There are also niche markets in Africa like in South Africa.

The prices situation for tannery and leather products in the international markets are very frustrating. Due to these price fluctuations, the industries have become weaker and weaker. One of the major reasons for not fetching higher prices for the produces is the

quality problem. Particularly in recent years, the quality of Ethiopia's products has been deteriorating.

Despite their quality, problems the products are still getting fair prices in the export markets what the world markets can offer. These prices on the average are:

- Sheep Skin----- US\$50 to US\$60 per dozen FOB Djibouti
- Goat Skin (mainly Wet Blue)----- US\$30 per dozen FOB Djibouti
- Cattle Skins (Hides)-----US\$0.55 to US\$0.60 per kg FOB Djibouti

The domestic markets are dependent the conditions of the export markets. Like other cash crops, their prices are also determined by the average producers prices. There is no any price control from the exporter's country. Due to the prices set in the world markets, the producer's gate prices are also oscillating. Currently, the domestic prices are:

- Sheep Skin----- Birr 35 per pieces in Addis Ababa
- Goat Skin----- Birr 9 per pieces in Addis Ababa. The price was Birr 18 six months ago. The price fall is due to low and downward demand of the product in the international markets. This trend will continue and reach to Birr 1 or Birr 2.
- Cattle Skin (Hides)----- Birr 60 to Birr 70 per Feresula (17 kg)

Moreover, in other markets outside Addis Ababa the prices are more or less the same.

For instance, in the following markets, the prices are: -

- Debre Markos----- Birr 35 per piece for sheep
- Sellale----- same
- Gondar----- same
- Jmma----- same
- Wollega----- same
- Dilla----- Birr 60 per piece of Hides
- Bati----- Birr 7 to Birr 9 per piece of goat skin
- Tigray----- same

These regional markets are known for their supply of quality skins. It is due to this reason that they are obtaining the same prices as of Addis Ababa markets.

#### 5.1.5. *Supply Chain*

The supply chain is a very complex process due to the existence of a wide number of slaughtering all over the country. The slaughtering made in the house and every yard account for more than 90% of the total slaughters. The remaining 10% is done in the modern abattoirs. The skins from these abattoirs can go directly to the tanneries as compared to the home made ones.

Due the complexity nature of the supply chain, the products are facing a problem of traceably and at the same time, it hampers the producers getting higher prices.

#### 5.1.6. *Supporting Organizations*

There are various organizations that are involved in supporting the industries. Most of the supports are talked and that they do not bring any differences in developing the sub-sector. Some of these organizations are: -

- Ministry of Agriculture

- Ministry of Trade and Industry
- Ethiopian Livestock Marketing Authority (ELMA)
- Institute of Leather and Leather products

For instance, no satisfactory extension work has so far been made by the Ministry of Agriculture. The same is also true for ELMA, not to improve the quality of the products.

#### *5.1.7. Competitors*

The major international competitors of Ethiopian leather products are Nigeria and Iran. Both countries are processing high-value products, which have increased their competitiveness position in the international markets.

#### *5.1.8. Production Cost Breakdowns*

The major cost items in the production processes are raw materials (raw skin and semi processed skin), labor and chemicals. They account for 60% and 40% respectively.

The local transport for carrying hides and skins re made by Shelton trucks. One Shelton truck can carry 10000 pieces of wet-salted skin and 5000 to 6000 pieces of dry skin. With respect to hides in the form of dry, 1 Shelton truck can transport 1200 pieces.

The cost of transport from the collection center, say Debre Markos to Addis Ababa is Birr 3000 per Shelton truck. From Addis Ababa to Djibouti and from Djibouti to an Italian port (any port of buyer) are Birr 200 per quintal and US\$72 per dozen respectively.

#### *5.1.9. Constraints/ Issues*

From the discussions we had, it is clear that the sub-sector has been facing several problems:

- Lack of quality of raw hides and skins due to the prevalence of skin diseases like Ecto-parasites in sheep and goats. The situation has also been aggravated by poor slaughtering system.
- Lack of quality of semi-finished and finished products that has emanated from poor quality of raw materials.
- Lengthy marketing channels for the supply of raw hides and skins
- Concentration of all tanneries including the big ones like Ethiopia Tannery on the collection of raw materials and production of semi-processed types of products.
- Insufficient market promotion by the concerned government organizations
- Neglecting the very serious issue of skin diseases called Ecto-parasite

#### *5.1.10. Proposed Solutions*

Despite all these constraints and issues, there are certain opportunities such as the unique characteristics and fiber strength of sheep and goats skin (Bati genuine type) that have high demand by the manufactures of shoes, garment, gloves, etc. Therefore, the above constraints and issues have to get due attention before the situation has become uncontrollable.

## 5.2. Ethio-Leather Industry PLC (ELICO)

The company was established in 1990. It came into existence due to the privatization process of 3 meat companies by the Ethiopian Privatization Agency. The 3 privatized enterprises were: -

- Ethiopian pickling and tanning factory
- Universal leather articles factor
- Awash leather factory

One of the major objectives of the industry is manufacture finished leather and leather products for the domestic as well as export markets

### 5.2.1. Manpower

The total number of manpower is 1249. Of this total, 34 people are in the Head Office, 249 in EPTF, 714 in Awash Tannery and 250 in Universal Leather Articles Factory.

### 5.2.2. Production

During privatization, there was a commitment made by the company to move from the semi-processed form of production to the finished product. Accordingly, there are some progresses so far made to make effective the program. The main products are:

- Pickled sheep skins
- Wet blue goat skins
- Goat crust
- Cow crust
- Finished gloving leather
- Finished upper/lining leather
- Full grain leather
- Leather garments
- Leather articles such as ladies' bags, briefcases, school bags, wallets belts, etc,

The designed production capacity of the factories in total is:

- Finished product for gloving 6 million square feet per year
- Goat wet blue 1.8 million pieces per year
- Hides 250000 pieces per year

The average capacity utilization of the factories:

- Hides 90%
- Sheep 50%
- Goat 50%

### 5.2.3. Marketing

Since the company is the largest and most diversified leather industry in the country, its local and mainly the export markets are also highly diversified. The local buyers are shoes manufacturers and the company's garment industries. The export t markets are:

- Europe (Italy, UK, Germany)
- North America (the buyers are China and Indonesia based American companies)

- Japan (Indonesia and Sirlanka based companies)
- South Korea

In all these countries, the products have got high acceptance. And appreciations. The leather garments are not for export but they are for local consumers because they are found uncompetitive in the international markets. However, their potentials for export are very high if an effort is made towards market promotions and quality improvements. The export market is demanding design changes, competitive price and partnership formation with a foreign partner.

The major international competitors are:

- Italy
- England
- India
- Indonesia

#### 5.2.4. *Supply Chain*

The raw hides are collected from individual's houses and put together by a private person. These are again sold to merchants who are drying them with salt in the dryer stores. Their shelf time is about 1to2 months. From the merchants, the products are purchased and transported to the tannery industries for processing in the form of wet blue and finished products.

#### 5.2.5. *Logistics*

The company owns many vehicles to transport to and from each factory. The number of fleets is

#### 5.2.6. *Investment*

The privatized prices of the 3 factories were:

- |  |                 |
|--|-----------------|
| - Ethiopian pickling and tannery factory | Birr 35 million |
| - Universal leather articles factory     | Birr 35 million |
| - Awash leather industry                 | Birr 19million  |

In addition to these expenses, an additional Birr 30 million is incurred for the rehabilitation and strength of the factories.

#### 5.2.7. *Production Costs*

The operating cost in terms of raw materials cost about Birr 9.00 per tanned pieces. The shipment transport cost for 1 container, which contains 350,000 square feet, is US\$ 1200. The airfreight cost is US\$4.80 per kg.

#### 5.2.8. *Constraints/Issues*

The two main internal issues that were raised during the discussions were technology transfer and market penetration. To adopt the leather technology, the skill of the workers

should be raised to the level of international standard through trainings. Therefore, the skilled manpower can produce quality products for export.

The shift of production is a complete shift from the traditional to new products and new market entries. To penetrate into new market places is very costly. In spite of all this and products' images problems, the factories are producing high value products that have higher demand in the world market.

For the last 3 years, for instance, the Awash tannery has started producing finished sheepskin for the making of hand gloves, which has made Ethiopia known in the international market. The factory is producing hides for the local shoes manufactures. Moreover, Ethiopian pickling and tanning factory used to produce both goat and sheepskin; and Awash tannery also producing sheepskin. This duplication of work, therefore, has been found necessary to be restructured and make each factory to be specialized on specific products such as gloves in Awash. In general, the restructuring work is very challenging and it requires a huge resources.

#### *5.2.9. Proposed Solutions*

Considering the abundant livestock resources of Ethiopia, the company is apparently dedicated itself to expand and diversify the leather industry. In cognizant of this objective, therefore, all sided incentives should be provided to the company. This includes:

- Since 70% of the raw materials are accounting for hides and skins, the merchants should determine fair prices. This situation can be justified by the existence of price irregularities in the market. This is mainly contributed by greedy merchants who are asking for a higher prices for the collected raw hide and skins
- Improvement in the quality of raw material is expected from the producers and suppliers. This, however, cannot be made without the help of the government organizations like the Ministry of Agriculture.
- The skin disease called ecto parasite should be eradicated in order to supply quality raw materials.
- Export incentive schemes such as Duty Drawback and Export Guarantee Schemes should be seen on action instead of only on papers.

## **CONCLUSION**

The findings of the study have indicated that many efforts are undergoing to promote and maintain the growth of the high-value exports sub-sector. These have been particularly manifested from the interests and efforts that have shown by the owners of the visited enterprises and government and non-government organizations. Despite these indications, the business is bounded by several constraints, which have not been solved for the last many years. Some of them are tried to get solutions but they are still facing implementation problems, which are the major issues that were raised by the managers of the business entities.

The contributions of the sub-sectors for the growth of the national economy cannot be achieved with all these inhibited constraints. Therefore, it is of paramount importance to assess competitive strengths and weaknesses, formulate and implement competitive strategies based on incentive and structural policies. It is also relevant to monitor the achievements, correct policy gaps and solve pressing constraints facing businesses and develop future strategies based on international best practices for all strategic industries; namely horticulture, floriculture, livestock and meat products, dairy products and leather and leather products.