Connecting local enterprises to global markets: Situation in Ethiopia

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Outline

1. Introduction
2. Review of trade support institutions
3. Structure of Ethiopia’s trade: Macro and sectoral
4. Some results: Micro level surveys
5. Conclusion
1. Introduction

- ADLI as Ethiopia’s long-term development
- Export drive has been top priority for national development
- An export development strategy has been devised
- The Ethiopia’s Export Development Strategy has twin objectives:
  - promote rapid economic growth with a stable macro-economic environment
  - enhance the integration of the Ethiopian economy with the world economy
A few export-oriented sectors were targeted for policy attention, incentives and other supports.

- **Agriculture**: flowers, coffee, meat, oilseeds, pulses, and horticultural products
- **Industry**: Sugar, textiles and garments, and leather and leather products.

Ethiopia has promoted exports with incentives, intensive policy support, Export Steering Committee, etc.

In addition, sector-specific institutes were created
2. Support institutions

- Government has established sector-specific institutions to provide targeted support
- Ethiopian Commodity Exchange (ECX)
- The Textile Industry Development Institute (TIDI) established in 2010 based on Regulation No. 180/2010
- The Leather Industry Development Institute (LIDI) established Regulation No. 181/2010
- Food, Beverages and Pharmaceutical Industry Development Institute
• Chemical Industry Development Institute
• Ethiopian Dairy and Meat Development Institute (Regulation No.143/2008)

- These institutes support the development of the industrial sector through
  - technology and knowledge transfers
  - upgrade production,
  - quality improvement, and
  - marketing
Figure 7: Institutional support to exports

National Export Coordinating Committee (NECC)

Sub-Committees

Customs and Logistics | Finance | Infrastructure | Production and Marketing

Technical Committees
- Ethiopia also uses both fiscal and financial incentives to promote exports

- **Fiscal incentives**
  - Tax concessions
  - Voucher
  - Duty-drawback: exempted from the payment of customs duties and other taxes levied on imported and locally purchased raw materials
- **Financial incentives**
  - Credit access: 70% of their investment capital from development bank of Ethiopia
  - Export credit
  - Export credit facilities for pre-shipment and post shipment transactions
  - Export credit guarantee scheme
- Neither the inputs imported nor the goods produced using such benefits are sold in the local market.
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<th></th>
<th>Kenya</th>
<th>Mauritius</th>
<th>Rwanda</th>
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<td>Incentives for export activities</td>
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<td>EPZs</td>
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<td>Standardization, quality improvement for exports</td>
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<td>Facilitated credit for non-traditional exports</td>
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<td>Selective tariff protection</td>
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<td>Export duties to favour local manufacturing</td>
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SMEs

- SME development strategy adopted in 1998
- A revised SME development strategy introduced in 2013

The supports provided by the government include tax incentives, infrastructure, finance, capacity building etc.

Firm capacity matters for participating in the global value chains
Figure 8: Market linkages between SMEs and other enterprises

Government support (e.g. LIDI, TIDI, etc) and technical assistance

Marketing:
- Regional
- Global

Government support (e.g. SME Agency, TVETs, and Entrepreneurship Development Centre (EDC))

- Outsourcing
- Subcontracting

Large Enterprises

Medium Enterprises

SMEs
Figure 9: Firm level GVC

GVC (and Competitiveness)

Institutions and policies

Elements of capacity

Productive resources
- Human resources
- Financial resources
- Physical capital
- Other resources

Entrepreneurial capabilities
- Core competencies
- Technological capabilities

Productive linkages
- Backward and forward linkages
- Information flow and exchange
- Resource flows
- Territorial productive clusters
- Global value chains
- FDI-local entrepreneur linkages
- Inter and intra-firm linkages
3. Structure of exports: macro and sectoral

- Private final consumption accounted for more than half of GDP
- The share of investment has increased
- Exports remained low as a share of GDP

Figure 1: Share of demand side elements in GDP (%)
- Private final consumption and investment have been key drivers of growth
- The growth contribution of exports remained low
- Primary commodities dominate the export basket
- Horizontal diversification
  - towards high value agricultural products
- Limited progress in export diversification across sectors

Figure 3: Trends in merchandise exports

Agriculture (share in merchandise exports)
Non-agriculture (share in merchandise exports)
Fig. 4: Share of top ten exports in 2000/01 (% of total export)

Fig. 5: Share of top ten exports in 2005/06 and 2011/12
- Export market destinations increased from 67 in 2001 to 136 in 2012
- Import sources increased from 117 in 2001 and 145 in 2012
- Extensive margin

Figure 6: Ethiopia’s trade partners
4. Some results: Micro level surveys

- Agricultural exporters
- The large number of sample exporters are Ethiopian nationals

Fig. 10: Sectoral composition of sample firms

Fig. 11: Sample firms by nationality
- Sample firms include largely private exporters

**Fig. 12: Type of firms**

- **Fig. 13: Exporters by year of establishment**
- A large number of sample exporters don’t produce
- Slightly more than a third of sample respondents both produce and exports

Fig. 14: Features of exporting firms
A large number of sample exporters employ fewer workers.

Employment increased in 2012 compared with at the time of started exporting.

Fig. 15: Share of exporters by number of workers

- 2012/13
- Started exporting

- Less than 100
- 100-199
- 200-299
- 300-399
- 400-499
- 500-999
- 1000 and above
- Internet as main export market information

Fig 16: Sources of export major market information

- Other government agencies
- Chamber of Commerce and...
- Internet
- ECX
- Ministry of Trade
- Majority didn’t introduce improved method of delivering goods
- Limited focus on R&D

Table 17: Improved methods of supplying goods and R&D budget

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<th>Introduced improved methods of delivering goods</th>
<th>Budget for R&amp;D</th>
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<td>Yes</td>
<td>37</td>
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<tr>
<td>No</td>
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Institute/actors helped to improve methods

- Other domestic firms: 12.5
- Foreign firms: 24.1
- Customers/suppliers: 43.8
- Universities/Research institutes: 6.3
- Multilateral Agencies: 1.8
- Shareholders: 4.5
- Government agencies: 4.5
- Others: 2.7
Market research and planning have not given much attention

About 53% rarely or never conducted market research and planning

Fig 18: Conduct market research and planning?
Problems include
- shortage of domestic suppliers,
- price uncompetitiveness
- unable to meet deadlines
- quality problems

Fig 19: Problems impeding exports (% yes)

- Lack of reliable supplier of inputs or intermediary…
- Cannot match prices of foreign competitors
- Inability to produce to potential clients’ schedule
- Inability to produce to potential clients’ standards,…
Default or credit risks:

- 24% reported sales cancellation in 2012/13 (default on the part of buyers)
  - Price volatility and
  - Inadequate quality has been reasons for sales cancellation
- About 15% reported that up to 20% of their sales value cancelled due to quality problems in 2012/13
  - Sample at the time of contract versus actual good delivered differ in terms of quality
  - Adulteration problems (mixing low and high quality products)
Lack of proper institutional support

Inadequate services in the area of market and product information, and licensing and registration
- Poor quality of telecommunications services
- Both access and quality of electricity a problem

Fig 21: Electricity and telecommunication services

- **Access to and quality of electricity**
- **Quality of telecommunications services**

![Bar chart showing the levels of access and quality for electricity and telecommunications services.](chart.png)
Conclusion

- There is a need to establish an institution responsible for handling export-related activities in the country
- Establish an export development and promotion agency (EDPA)
- Provide regular counseling supports to exporters on international businesses (e.g. after delivery payments, before shipment payments, etc.)
THANK YOU!