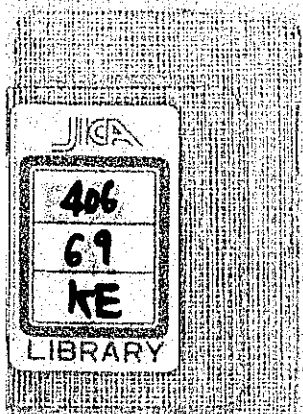


**A SURVEY REPORT ON ECONOMIC
COOPERATION TO THE MEDIUM AND
SMALL SCALE INDUSTRIES IN
ETHIOPIA**

MARCH 1970

GOVERNMENT OF JAPAN



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P R E F A C E


The Government of Japan, with the view to establishing a concrete measure on its future cooperation in the economic development of African countries, particularly in their most desired development of medium and small scale industries, decided to carry out a survey in Ethiopia and entrusted the Overseas Technical Cooperation Agency with its execution.

The Agency organized a survey team consisting of eight experts headed by Mr. Juzaburo Hasegawa, advisor to the Daiichi Bank, Ltd. and dispatched it to Ethiopia in November 1969.

The team carried out the survey on the existing factories, exchanged opinions with the officials of the Imperial Government of Ethiopia and competent authorities concerned, and, after the return to Japan, compiled results of the survey into a report as presented herewith.

On this occasion, I would like to express my sincere gratitude to the kind hospitality extended to the team by the Imperial Government of Ethiopia and the competent authorities and hope that this report would contribute to the development of medium and small scale industries and the promotion of economic cooperation between our two countries.

March 1970



Keiichi Tatsuke
Director General
Overseas Technical Cooperation Agency

C O N T E N T S

PREFACE

I.	SUMMARY	1
II.	THE OUTLINE OF ETHIOPIAN ECONOMY	3
III.	FOREIGN TRADE OF ETHIOPIA	7
IV.	ENVIRONMENT OF INVESTMENT	9

I SUMMARY

Japanese survey team wishes to express its hearty thanks to the kind hospitality extended to the team by the governmental organizations and private companies during its stay in Ethiopia.

Through the explanations given by the officials concerned and the observations made by the team, most informative data were obtained on the actual situation of industries and the nations efforts for industrialization.

In this respect, it is earnestly hoped that findings obtained during the survey will be widely publicized to all quarters concerned in Japan so that the survey may contribute to the future economic and industrial development of Ethiopia.

As regards the request, which were made to the team during its survey, including the dispatch of a mission to Japan to carry out a detailed survey on specific items, the team will direct its efforts to comply with such requests for the future prosperity of Ethiopia.

In respect to the explanations given to the team and the findings obtained during the stay in Ethiopia, views of the team are summarized as follows:

1. Infrastructure

For the industrial development, needless to mention, it is essential to provide efficient transportation means of raw materials and products, and to secure energy for the operation of factories.

It is therefore very important that accelerated efforts be made for further promotion and development of roads, railways, harbors, airports, power stations, etc. The team will spare no efforts in assisting your country.

2. Technique

Japan has many years of experience of providing technical service, technical service, technical assistance and worker's education or training to many developing countries.

For the latter, Japan has a government organization under the name of Overseas Technical Cooperation Agency through which many technical experts from various developing countries visit Japan to receive training.

It is believed and hoped that Japan will, with its high level of techniques in various industrial fields, be able to provide further technical assistance abroad.

3. Marketability

The effective development of enterprises naturally depends upon the broad and stable market. It is therefore recommended that Ethiopia, already entered into the preferential treaties with the neighbouring countries, exert its efforts to realize a mass production system through the substantiation and expansion of such treaties.

4. Establishment of Official Service Organ for Inducement of Japanese Capitals

Since the business intercourse between Ethiopia and Japan has been rather limited in the past, it is expected that Japanese enterprises wishing to invest in Ethiopia will be confronted with substantial difficulties arising from their lack of information.

The Japanese Government therefore finds it necessary and is planning to establish a suitable service organization which would assist enterprises in their capital investment in Ethiopia.

It is desired that consideration will be given by the Ethiopian Government to the establishment of an official service organ having ample discretionary power and authority concerning the introduction of Japanese capitals.

II The Outline of Ethiopian Economy

The modernization of Ethiopia was delayed because it was long isolated from the world culture. Accordingly, it still now depends much on the self-supporting economy. The basic industries of this country are agriculture and cattle-breeding, which produce 55 per cent of GDP and which are carried on by 90 per cent of the whole population. The general domestic production is \$1,400,000,000.

Aiming at the developments of economic society including the arrangement of economic infrastructure, modernization of agriculture and encouragement of manufacturing industries, the country is now executing the third five-year plan. Yet there are many fields to be developed further. However, since the government adopts comparatively steady policies, it is expected that fairly effective results will be brought about when the fifth five-year plan is over in 1981.

As to capital, the government is eagerly fostering and mobilizing the national capital from 1963 by the modernization of banks and the issue of premium bonds. At present, however, it has to ask for the assistance of foreign countries concerning capital together with technique. For this purpose, the Investment Encouraging Act was promulgated in 1963 to make the introduction of foreign capital easy.

The economy of Ethiopia depends on the sale of coffee or its main export goods (about 60 per cent of the whole export amount) and the present five-year plan aims at the encouragement of exports of agricultural and cattle breeding goods, and the home production of importing consumers' goods as immediate needs.

Table 1. Changes in General Domestic Production

(Unit: E. \$1,000,000)

Year	Actual Price	1961 Price
1961	2,323	2,823
1962	2,407	2,427
1963	2,511	2,509
1964	2,802	2,631
1965	3,193	2,763
1966	3,388	2,909
1967	3,488	3,072

Table 2. General Domestic Production by Industry (1967)
(1961 price)

Industry	GDP	Composition Rate (%)
Agriculture	1706.2	55.6
Agriculture	1620.7	52.8
Forestry	79.7	2.6
Hunting	1.5	0.1
Fishery	4.3	0.1
Manufacturing Industry	518.8	16.9
Mining, quarrying	8.9	0.3
Manuf. Industry	116.1	3.8
Handicraft, small manuf. industry	149.2	4.8
Construction, engineering works	217.6	7.1
Elec. power, water works	27.0	0.9
Wholesale, retail trade	227.7	7.4
Transportation, communication	130.1	4.2
Other services	488.9	15.9
Finance, insurance, real estate	29.9	1.0
Government, military affairs	155.3	5.1
Acquisition of houses	131.5	4.3
Educational services	44.6	1.4
Medical services	23.3	0.8
Housekeeping services	56.6	1.8
Others	47.5	1.5
Total	3071.7	100.0

(Source): Central Statistics Office

(Remark): 2.5 Ethiopian Dollars - One U.S. Dollar

Following the long-term economic development program (for 25 years from 1958 to 1982), the first plan (1958 - 1962) and the second one (1963 - 1967) were already terminated and the third five-year plan (1968 - 1972) is now being enforced steadily.

In the first plan, emphasis was placed on the transportation and communication facilities and also on the strengthening of infrastructure as the base of economic growth. The achievement rate was high and the expected results were achieved almost successfully.

In the second plan, the plan was begun with the total investment amount of E. \$1,461,000,000, which was double that in the first plan, and emphasis was placed on the developments of agriculture (21 per cent of the total investment amount), manufacturing industry (19 per cent), transportation (17 per cent), housing (14.7 per cent), mining (4.4 per cent) and electric power (3.4 per cent). In the case of manufacturing industry, the investments were increased as to the leather, building materials, chemicals, printing, metals and machinery as well as the foods and textiles which had been stressed in the first plan; and 121 projects (103 new ones) were included in the second plan.

The actual investments reached E. \$1,383,000,000 showing the achievement rate of 95.3 per cent. And the actual economic growth rate during the term of plan was 4.6 per cent (the expected goal: 4.3 per cent.)

In the third plan, the yearly economic growth is expected to be 6 per cent and it is planned that the present living standard should be elevated by about 20 per cent. Succeeding the policies in the last plan, it is aimed at that while emphasis is placed upon the developments of agriculture and infrastructure, the import substituting industries and the agricultural products processing industries should be encouraged.

Besides, the total investment amount is to be E. \$2,865,000,000 or more than twice that in the previous plan, and the domestic savings, credits from foreign countries and the investments by foreign private enterprises are regarded as the financial sources for the investment in the plan. It is expected that E. \$1,050,000 or one third of the total investment will be gained through the assistance of foreign countries and the credits given by these other countries. Thus the government is asking the international financial organs such as the World Bank to give assistances and credits for this plan.

Table 3. Gross Domestic Production
in the Long-Term Program

	Population (1 million)	Its in- crease rate(%)	G. D. P. (E. \$1, 000, 000) (1960 price)	Its index (first one:100)	Growth rate (%)
1st Plan (Final year)	21.4	+ 1.6	2, 130	100	3.4
2nd "	22.9	+ 1.8	2, 632	124	4.3
3rd "	25.1	+ 1.8	3, 310	155	4.7
4th "	27.3	+ 2.0	4, 270	200	5.2
5th "	30.0	+ 2.0	5, 650	265	5.8

(Source: Second Five-Year Development Plan of Ethiopia)

Table 4. Production Goals by Principal Sectors
(Gross National Product)

(Unit: E. \$1, 000, 000)

	1967		1972		1967 - 1972
	Amount	Composition rate(%)	Amount	Composition rate(%)	Economic growth rate (yearly %)
Agriculture	2, 108	59.0	2, 435	51.0	2.9
Manuf. Industry	447	12.5	755	15.8	11.1
Transportation, commerce	469	13.1	787	16.5	10.9
Education, wel- fare, housing	226	6.3	333	7.0	8.1
Others	325	9.1	469	9.7	7.6
Total	3, 575	100.0	4, 779	100.0	6.0

(Source: Third Five-year Development Plan of Ethiopia)

(Remark: Manufacturing industry includes mining, handcraft,
building and electric power.)

The gross product of manufacturing industry including electric power is E. \$357,000,000 in 1966 which accounts only for 9.5 per cent of the gross domestic product. Recently, however, the industrialization has made rapid progress showing the yearly growth rate of more than 13 per cent in the industrial production.

The number of employees increased from 18,700 in 1957 to 59,000 at the end of 1966; it increased three times as much as that ten years before. Besides, the number of enterprises is about 400.

As to the situation of production, the foods account for 31.7 per cent of the total production, the textiles 28.9 per cent and the drinks 12.8 per cent; these three hold two thirds of the total.

III Foreign Trade of Ethiopia

As the economic development plan makes progress, the scale of exports and imports has become greater and the exports have reached E. \$265,000,000 and the imports E. \$431,000,000 as of 1968, as shown in Table 5; they are twice those at the beginning of the first development plan.

In the case of imports, however, the imports of capital goods have gradually increased as the industrialization makes headway; although the steps are taken for restricting the imports of manufactured goods, yet the total quantity of imports is increasing more and more.

On the other hand, the exports of coffee, which is the principal export item of Ethiopia, and other agricultural and live-stock products are encouraged by the government. But the balance of foreign trade is always in the red.

Table 5. Balance of Foreign Trade

(in million Eth. dollars)

Year	Value of Total Exports	Value of Total Imports	Balance
1963	223.4	276.1	52.7
1964	262.5	307.7	45.2
1965	289.8	375.6	85.8
1966	277.5	404.2	126.7
1967	252.7	357.7	105.0
1968	265	431	166

(Source: Ministry of Finance -- Statistical Dept.)

Because of the close of the Suez Canal in 1967, the imports of Ethiopia decreased greatly, but they increased again in 1968 and reached the highest level or the increase of 20.9 per cent against the previous year so that the balance in the red was also the greatest.

Viewed by item, the imports of machinery and transporting devices increased; they accounted for 35 per cent of the total imports in 1967. Generally speaking, the percentage of capital and intermediate goods in the total imports is becoming higher and higher.

It is coffee that is the most important export goods, that is, it accounts for 55 - 65 per cent of the total exports. Other export items are leather (about 10 per cent), seed oil (about 9 per cent), vegetable (about 8 per cent), etc. The agricultural and live-stock products account for more than 95 per cent of the total.

The U.S. is the largest customer for Ethiopian coffee importing two third of the coffee exported by the latter.

The amount of exported coffee is becoming larger steadily, but the fluctuation of income through the export of coffee is great since the price of coffee changes greatly in the international markets and since the production is also changeable, though such fluctuation as this is always seen in case of other monoculture countries too.

In 1968, Japan's exports toward Ethiopia were U.S. \$14,500,000 and the imports U.S. \$6,720,000, that is, Japan's excess of exports was seen. However, while Ethiopia's exports to Japan advance steadily, its imports from Japan is decreasing gradually. As a result, Japan's ratio between exports and imports toward Ethiopia, which was once 8 to 1, is now decreasing or about 2 to 1.

The export goods from Japan mainly consist of textile goods, galvanized iron plates, tires and inner air-tubes. And most of synthetic short textiles and galvanized iron plates are used as raw materials by the Japanese enterprises there.

It will be necessary hereafter for Japan to change exports from those with textile goods as their center to those of machinery especially farm machines.

IV Environment of Investment

1. Underground Resources

The metals which are supposed to exist are gold, copper, platinum, coal, iron, petroleum, manganese, tin, asbestos, kalium, uranium, mica, barytes, lime stone, marble, rock-salt, etc. It is said that there are rich mineral veins with high grade in the volcanic region, and it is clarified that various metals perhaps exist along the Blue Nile River.

Besides, the prospecting investigations have been made since 1967 in Sidamo and Wollega Areas by the UNDP and Ethiopian Mining Department which cooperate with each other.

The mining department also gave license to four foreign petroleum companies making them conduct the geological surveys in Eastern Ethiopia and the coast of the Red Sea; and these companies are planning to carry on the trial digging in the near future.

It is necessary to conduct the systematic investigations and trial digging steadily since the development of mining resources will give great influence to the future of a country aiming at its industrialization. It should be remembered, however, that the success or failure of the development depends on the abilities of technical experts, and the quantity of investment; and the arrangement and enlargement of transportation facilities and transport capacity should be prepared at the same time.

2. Agriculture

Sixty six per cent of the whole land is used for agriculture, and 80 - 90 per cent of the population are engaged in farming. The land for agriculture per one farmer is about three acres.

Farm products are many in kind since the quantity of rain is much and since the climate is full of variety. Coffee is especially important as export goods. Next to coffee, there are oil-collecting seeds and barley.

Ethiopia is the largest wheat producing country amount the African countries south of the Sahara Desert. Other agricultural products are various kinds of vegetables such as tomato, asparagus, lettuce, onion, and fruits such as banana, lemon, grape, orange, pineapple, papaya; cotton, tea, tobacco and corns.

Since the circumstance concerning agriculture is so good comparatively that the elevation of agricultural productivity will be easily achieved if the improvement of farm-land system is carried out.

As the textile industry makes progress, the imports of cotton is increasing. So it is good and wise that the country is aiming at the complete self-supply of raw cotton by spreading to Tendolho and Matchara areas the cultivation of cotton which is popular in Eritrea area.

3. Forestry

The wooded region is only seven per cent of the whole land since the rainfall is not fixed through year in most areas and since the trees have been cut down at random. However, the planting of eucalyptuses near cities was encouraged and it was fairly successful. It is expected that the afforestation based on the principle of "suitable trees on suitable land" will be conducted utilizing the above-mentioned success.

4. Stock-Farming

Very many homes have cattle and so the resources concerning live-stock farming are rich. According to the estimate of the UN, it is said that 1,500,000 - 2,000,000 cows, and more than 8,000,000 sheep and goats are killed yearly but that the export of 800,000 cows, 3,250,000 sheep and 2,000,000 goats is possible without decreasing the present number of cattle.

Judging from the fact that leather is now the third principal export goods, the stock-farming is a promising industry and it is desirable to take into account the introduction of modern methods such as improvement of breed.

5. Fishery

Fishery is carried on mainly in the Red Sea. By the investigations of the Royal Marine Research Institute, it has been found out that if the enormous latent resources in the sea are developed, it will not only bring about the increase of income but also the important source for getting foreign money will be obtained. So we expect that the development will be made in the future.

6. Electric Power

The electric power is supplied by the Ethiopia Electric Light and Power Authority (EELPA) and the Societa Electrica Dell 'Africa Orientale which supplies it to Eritrea area, and the independent electric power plants.

In 1966, the electricity generating capacity was 137,800 KW, whose 67 per cent is by the water-power generation, and the yearly total quantity of generation was 294,500,000 KWH (71 per cent by hydraulic power.) The number of power plants is 33.

The possibility of developing the water-power generation in Ethiopia is very high. There are more than 100 places along 17 rivers where it is possible to develop the water-power plants; along the Blue Nile alone, there 30 places suitable for constructing the dams. So it is estimated that 46,000,000,000 KWH can be developed immediately.

The development of power resources has been carried out steadily by the assistance of other countries. Thus the rise of generation capacity is remarkable recently.

7. Transportation

(a) Road

The total length of roads is about 23,000 km; the asphalt-covered roads are 1,850 km and the gravel roads 5,150 km. Most of principal roads are the radial roads from Addis Ababa or Asmara to the important agricultural zones. Where these principal roads do not run, mules and donkeys are used for transportation in high land and camels in low land.

In the fourth road plan which has been begun from 1968, emphasis is placed on the construction of the second class branch roads, asphaltting of the existing roads and the investigation of master plan for the nationwide demand of roads.

The transportation industry is developing as the plan of roads goes. At present, however, only about 5,000 trucks and trailers are used. Therefore, they can not meet the demand of transportation in the export season and the transportation fees are apt to change according to the time.

(b) Railway

The railway net consists of two independent systems. Compagnie du Chemin de Fer Franco-Ethiopien which is jointly possessed and managed by France and Ethiopian government, connects Djibout harbor with Jibuti of French Somaliland and Addis Ababa (784 km). Moreover, in the prolongation plan which is to be completed in 1970, Nazareth and Dilla will be also connected.

According to the statistics in 1963, the total transportation quantity

of this company is 218,000,000 tons yearly and the total transported passengers are 66,900,000.

It is said that the transportation fees of this railway is the highest in the world, and these high fees are, together with the passage charges in French Somaliland, giving great influence to the rise of commodity price.

The Northern Ethiopian Railway Share Co. in Eritrea state has the railway connecting Massawa with Asmara and going to Agordat in west (306 km).

Both the systems are narrow gauge single line railway (1 m and 0.9 m respectively). The improvement of the existing railways should be considered first rather than the construction of new railways.

(c) Harbors

The sea ports having the modern facilities are only two -- Massawa and Assab. Port of Jibuti in French Somaliland is also utilized.

(d) Air Line

Government-managed Ethiopian Air Line is cooperating with TWA, and the international air line connects Jibuti, Khartoum, Nairobi, Lagos, Acla, Aden, Odida and further Athenae, Frankfurt, Madrid and Rome with each other. The domestic air line is developed fairly and carrying freight and passengers more effectively than railways by connecting the local cities with each other.

The existence of Ethiopian Air Line in African continent is noteworthy.

8. Water for Industry

It is difficult to get enough water for industry in almost all the areas. The principal factories use water from their own wells. Even in Addis Ababa where water is supplied from Gafarsa dam, clear water is stored even now in some districts.

However, water resources themselves are rich and it is expected that the city waterworks now in construction will work effectively.

9. Labor and Employment Conditions

(a) Labor

It is estimated that number of workers is about a half of the whole population, that is, 11,500,000 (in 1965). Out of these workers, the Overwhelming majority are engaged in agriculture (96 per cent); each remaining two per cent is employed by the commerce and manufacturing industry.

Although the workers employed by modern manufacturing industry are so few, yet they are increasing rapidly. The number of wage-earning workers is about 150,000 including soldiers.

Technical courses are now established in high schools or universities or many (43) technical training schools, but they are not always enough or adequate. It will be possible, however, that the skilled workers are fostered from among unskilled workers by the selective employment, training in the workshops and proper guidance.

The shortage of manager-class Ethiopians is especially serious. In Haile Selassie I University, efforts have been made for the development of enterprising ability of Ethiopians.

The low labor productivity due to the working attitude, illiteracy and shortage of basic technical skill is problematic for the development of Ethiopian economic society. However, it is estimated that the productivity was raised by about 10 per cent during 1956 - 1961 in the second five-year plan though there are no correct statistics. It is expected that the establishment of modern facilities and machinery, the organization of effective organ for settling the labor disputes, and the propagation of modern technique to ordinary people are carried out for the improvement of productivity.

The above-mentioned circumstances make it inevitable for Ethiopia to depend on the foreign residents and technical experts in various economic functions.

In commerce and industry, half of technicians and two thirds of managers are foreigners. According to the investigation report (covering on one third of employees in manufacturing industries) of the Central Statistics Bureau, non-Ethiopians are overwhelming in the management-level jobs and that they occupy about 40 per cent of the positions of technical experts, and business clerks.

(b) Wage Level

Workers' rights, welfare and labor conditions are stipulated in the laws and regulations, but the minute standards of them are not known clearly.

The wage level of foreign enterprises is higher than that of local enterprises. The additional pay other than the regular salary is usually given as a habitual practice, though it is not provided for in the laws.

According to the estimate of the International Finance Corp., 45 per cent of salary is given to Ethiopian workers and clerks and 50 per cent to foreign technicians and managers as bonus or other allowances.

