

WORLD TRADE ORGANIZATION

WT/COMTD/IF/19

26 February 1998

(98-0789)

Committee on Trade and Development
Integrated Framework for Trade-Related
Technical Assistance

Original: English

TRADE-RELATED TECHNICAL ASSISTANCE NEEDS-ASSESSMENT
PRESENTED BY ETHIOPIA

INTEGRATED RESPONSES BY IMF, ITC, UNCTAD,
UNDP, WORLD BANK AND WTO¹

ETHIOPIA

¹ Published pursuant to the provisions of paragraph 5 (e) of the Integrated Framework for Trade-Related Technical Assistance (WT/LDC/HL/1/Rev.1).

TABLE OF CONTENTS

PREFACE

1. BACKGROUND

- 1.1 The Structure of the Economy
- 1.2 Current Trends of the Foreign Trade Sector

2. ECONOMIC POLICY REFORM

- 2.1 General
- 2.2 Trade Policy
- 2.3 Instruments of Trade Policy
- 2.4 Trade Policy Formulating, Implementing and Monitoring Organs
- 2.5 Follow-up Mechanisms
- 2.6 Familiarity with WTO Arrangement

3. CONSTRAINTS TO TRADE EXPANSION

- 3.1 Supply Side Constraints
 - 3.1.1 Production Constraints
 - 3.1.2 Institutional Constraints
- 3.2 Constraints Related to Trade Promotion and Trade Support Services
 - 3.2.1 Technical Constraints
 - 3.2.2 Financial Constraints
- 3.3 Market Access Problems
 - 3.3.1 Meeting International Standard Requirements
 - 3.3.2 Regional Trading Arrangements (RTAs)
 - 3.3.3 Trade Preferences

4. TECHNICAL ASSISTANCE

- 4.1 Technical Assistance Received and its Assessment
- 4.2 Need for Technical Assistance
 - 4.2.1 Capacity Building
 - (a) Strengthening the Capacity of the Existing Firms
 - (b) Strengthening Human Resource Development
 - (c) Strengthening Support Services Institutions and Facilities
 - (d) Training in ISO 9000 Standards
 - (e) Meeting International Sanitary Regulations
 - (f) Familiarity with International Trading System
 - 4.2.2 Regional Integration

PREFACE

This paper tries to give detailed answers to the questions in the "Check-list for Conducting Trade-Related Technical Cooperation Needs Assessment" for LDCs (see Annex), prepared by UNCTAD/WTO. The paper is divided into four chapters as follows:

In chapter 1 the background of the paper is presented in which questions A (a and b) of the Check-list are answered in detail.

Questions A (c through to m) are discussed in chapter 2 of the paper entitled "Economic Policy Reform". This section embodies a comprehensive account of the trade policy; instruments of trade policy; formulation, implementation, enforcement and monitoring of trade policy; and familiarity with WTO agreements.

Chapter 3 provides a detailed discussion of section B of the Check-list. In this chapter constraints related to supply, trade promotion and trade support services and market access are examined thoroughly.

In chapter 4 the core of the paper is presented where section C of the Check-list has been discussed. It deals with trade-related technical assistance received over the past five years and needs for technical assistance in the coming years. For the sake of simplicity, this topic has been treated separately in the last chapter of the paper.

1. BACKGROUND

1.1 The Structure of the Economy

The Ethiopian economy is dominated by agriculture which accounts for about 50 per cent of the total Gross Domestic Product (GDP) and 85 per cent of export and total employment. The country's export is highly dependent on a single crop, coffee, generating nearly 60 per cent of the foreign exchange earnings. Agriculture is supplemented by manufacturing, mining, trade, tourism, construction, services, etc. which have a combined share of about 50 per cent of GDP.

The industrial sector, which contributes about 12 per cent of GDP, supplies important consumer goods both to the domestic and international markets. The main manufacturing products are textiles, foodstuffs, tobacco, beverages, cement, leather and leather products, wood, metallic and non-metallic products, etc. The main manufacturing export products include leather and leather products and frozen meat.

Even though the mining sector currently contributes less than one per cent to GDP, there are proven reserves of industrial minerals and precious metals such as gold, platinum, tantalum, nickel, iron ore, marble, potash, copper and natural gas which can economically be exploited.

On the other hand, the service sector makes up about 38 per cent of GDP and its significant contribution stems from the relatively large investment expended on the sector.

1.2 Current Trends of the Foreign Trade Sector

The foreign trade sector plays an important role in generating employment and income as well as being a source of foreign exchange earning. During the 1960's and the first half of the 1970's some efforts had been exerted to expand exports and imports. However, from the second half of the 1970's up to the early 1990's these efforts had been thwarted by the protracted civil war and erroneous economic policies of the past regime. These threats have been averted by the new political change that took place in May 1991, and since then the foreign trade sector has shown significant improvements.

(a) Structure of export

A great part of the total export earning is accounted for by the agricultural sector in the form of raw or semi-processed commodities. The export sector is based mainly on agricultural products such as coffee, hides and skins, oilseeds and pulses. The following table summarizes the structure of the export commodities.

TABLE 1
Export Structure

Category	Major Commodities
Foods and live animals	Coffee, live animals, sugar, fruits and vegetables, meat and meat products
Hides and skins	Cattle hides, sheep and goat skins, leather and leather products
Oilseeds and pulses	Sesame seed, niger seed, linseed, rapeseed, groundnuts, haricot beans, pea-beans, horse-beans, chick peas and lentils
Miscellaneous	Natural gum (gum incense), beeswax, cotton raw and cut flowers. Textile fabrics and garments, different types of minerals

While the present effort of the country concentrates on diversifying its exports, due consideration has also been given to increase the volume and quality of exportable coffee, the major source of the foreign exchange earning. The government also takes note that improvements in the volume and value of coffee exports can only be achieved by undertaking various activities including measures to increase the share of washed coffee, exporting roasted and grounded coffee, and by producing water soluble coffee extracts.

The leather and leather products sub-sector also occupies a special position in the economy and yet with considerable potential for expansion. The production potential for these products is directly related to the production potential of cattle, sheep and goats rearing. However, the export potential is constrained by the relatively low level of investment in this sub-sector. At present, efforts are exerted to move from semi-processed leather to finished leather and leather garments.

Exporting meat and meat products naturally encourages the expansion of the leather and leather products sub-sector, apart from generating more value-added and employment opportunities. However, lack of modern technology and high investment requirements as well as stringent quality control and sanitary standards of improving countries have constrained the development of this sub-sector. In the export development efforts of this sector, foreign capital inflows either in the form of direct investment and/or joint venture arrangements are needed.

Although most oil seeds and pulses are produced mainly for domestic consumption some of them, particularly sesame seeds and haricot beans, are produced primarily for the export market. While the productivity of oil seeds and pulses is currently at a relatively low level, there is nevertheless a significant potential for increasing production and exports through the use of improved farm practices, modern technology and inputs and improved infrastructure.

The original export potential for fruits and vegetables, first identified in the country, still exists, but remains largely dormant and untested. Though Ethiopia is endowed with immense natural resources the horticulture export hardly plays a significant role in the country's effort to generate foreign currency, and hence adequate investment is welcome in the production and infrastructural services.

The domestic potential of cotton production, as a basic raw material to the textile fabrics and garments, is already established and the availability of abundant and hard working labour force is the major parameter for considering this sector as one of the strategic industries. Textile export is a very recent phenomenon for the country. The factories were set up primarily for import substitution purpose and as such were neither technically nor managerially equipped to enter the export market. But they could easily be rehabilitated with an extension of marketing networks, and enhancing human resource capability and financial strengthening.

Although there are diversified mineral deposits available in many parts of the country, to date there has been very little exploitation of these resources owing mainly to lack of investment and appropriate technology. In addition to the efforts underway to increase the export supply of these products and to improve their quality, investments in the exploration and export of other currently unexploited mineral products is highly encouraged. Recognizing that huge investment is needed to exploit the country's mineral resources, so that the sector provides meaningful contribution to the foreign exchange earnings, various incentives are currently being provided to encourage foreign investment.

(b) Direction of export

More than half of Ethiopia's external trade is with European countries. A significant portion of the remaining share is distributed between the continents of Asia and America. A condensed picture of the percentage distribution of Ethiopia's export to different continents is presented below.

TABLE 2

Percentage of total value of exports by destination

No	Continent	1984-1990	1992-1996
1	Africa	8.32	9.22
2	Europe	57.27	51.87
3	North America	12.83	7.52
4	Asia (includes Middle East)	21.33	31.23
5	Australia and New Zealand	0.04	0.13
6	Unspecified	0.21	0.03
	Total	100.00	100.00

Major markets for Ethiopian exports in Europe are: Germany, Italy, United Kingdom, France, Belgium and The Netherlands. While in Asia, Japan, Saudi Arabia and Yemen are principal importers. In Africa, the major ones are the neighbouring countries: Djibouti, Kenya and lately, Eritrea.

A very few African countries are strong partners for the Ethiopian export market. For instance in 1992, virtually all the African markets had been covered solely by Djibouti and Kenya, with a combined value share of 98.4 per cent. However, in 1996 there was some diversification of the market. Thus, the share of the above-mentioned two countries declined to 8 per cent of the total value earned and new markets have apparently emerged on the scene. These are Lesotho (19 per cent) and Algeria (4 per cent).

On the other hand, it can be said that a relatively consistent market prevails in Europe and as such as many as 15 countries show a significant share of the Ethiopian export products. Up to 1996 the leading countries were Federal Republic of German (58 per cent) followed by Italy with a share of 14.6 per cent.

The Asian market is also an important area for Ethiopia's products. There is a noticeable diversification, recently, in this vast Asian market as some additional 11 countries have opened their markets for Ethiopia's products specially starting in 1992. Some of these countries are the newly industrializing countries and those in the Middle East. There are also well established markets over the span of two decades of which Japan, Saudi Arabia, Israel and Yemen are the major ones. In 1996, out of the total value of Ethiopia's exports to the Asian market about 40 per cent was absorbed by Japan and 36 per cent by Saudi Arabia and the balance was shared among 18 countries.

(c) Structure of import

The structure of the import sector has remained unchanged for a long period of time, virtually with no significant shift among the categories. The following table shows the main categories and major commodities of Ethiopia's imports.

TABLE 3

Import structure

No.	Categories	Major Commodities
1	Food items	Cereals ¹ , pulses and flour; milk, cheese and butter; tobacco and tobacco products; edible oil and margarine; tea.
2	Textile	Cotton clothing and manufactures; silk and art silk manufacture.
3	Machinery and transport equipment	Industrial and agricultural machinery and appliance, electrical machinery and appliance; motor vehicles; spare parts.
4	Manufactured articles	Metals and metal products; chemical products; drugs and medicine; soap; rubber tyres and tubes; plastic and plastic goods.
5	Petroleum products	Crude oil; benzene; lubricating oils and grease.

The following table compares the percentage share of the import structure before and after the reform period.

TABLE 4

Value of imports, by end use

(value in million US\$)

Ser.no.	Commodity Group	1995/86-1990/91		1991/92-1996/97	
		Value	%	Value	%
1	Raw materials	172	2.8	131	1.9
2	Semi-finished goods	755	12.5	1007	15.0
3	Fuel	658	10.8	1156	17.2
4	Capital goods	2518	41.5	2156	32.1
5	Consumer goods	1935	31.9	1974	29.4
	Cereals	662	10.9	691	10.3
	Other food items	344	5.7	244	3.6
	Other durable and non-durable consumer goods	292	15.3	1039	15.4
6	Miscellaneous	26	0.5	297	4.4
	Total	6064	100.00	6721	100.00

Source: National Bank of Ethiopia, 1995/96 and 1996/97 fiscal years data are preliminary estimates by NBE

¹ Although wheat is one of the cereals grown in Ethiopia, cereals import substantially consisted of wheat and wheat flour in the past. Since the famine of 1984, the country has a structural food deficit and significant amounts of food continued to be imported. However, at present import of wheat has decreased significantly.

The above table shows values of imported goods by end use during the last twelve Ethiopian fiscal years, i.e. six years before and after the reform period. Prior to the reform period, capital goods followed by consumer goods had the highest shares.

During the post reform period, the share of semi-finished goods and fuel have shown significant increase; where as the shares of raw materials, capital goods and consumer goods have shown declining trends. In case of consumer goods the category of other food items decreased from 5.7 per cent to 3.6 per cent while cereal import experienced marginal declining trends.

In general, during the last 12 years, the structure of Ethiopian imports has shown minor changes. This structural shift seems to have taken place in favour of fuel and semi-processed goods deemed to be necessary for recent reactivation of the Ethiopian economy.

(d) Origin of import

Ethiopia imports various commodities predominantly from Europe and Asia, the former accounts for more than half of the import transaction. The following table summarizes the percentage value of imports for the years 1984 through 1994.

TABLE 5

Percentage share of value of imports by origin

No.	Continent	1984-90	1991-94	Total
1	Africa (excludes Eritrea)	2.5	9.00	4.4
2	Europe	66.2	42.1	59.1
3	North America	14.1	12.1	13.5
4	Asia (includes Middle East)	14.3	33.0	19.8
5	Australia and New Zealand	0.9	0.4	0.7
6	Unspecified	2.0	3.4	2.5
	Total	100.00	100.00	100.00

The major source of Ethiopian imports in Africa are: Kenya, Egypt, Djibouti and Sudan; where as Italy, Germany, United Kingdom, the Netherlands, France and Belgium are important sources in Europe. The USA, Japan, South Korea, India and China are also principal sources of Ethiopian imports.

2. ECONOMIC POLICY REFORM

2.1 General

The economic reform programme was initiated with the launching of the new economic policy in November 1991. The agenda of the reform consisted of transition from a command to a market economy, economic stabilization and structural adjustment. During the reform period policy measures undertaken were mainly concerned with the correction of price distortions, lifting restrictions on the private sector, instituting markets for factors of production, macro-economic and trade liberalization. In addition to macro-economic adjustment policies, it was necessary to alter

drastically the role of the state so as to enable the private sector to play a pivotal role in the economic development. Some of the major economic policy measures undertaken are highlighted below:

(a) The overvalued exchange rate of the local currency (birr) per US dollar was substantially corrected by devaluation followed by the introduction of a foreign exchange auction system in May 1993. The weekly foreign exchange auction initially started with a large negative list of goods which was progressively narrowed and fully eliminated in February 1995.

(b) The system of price control has been dismantled. Retail price control of all goods and services has been removed, except retail prices of petroleum products.

(c) Public enterprises have been made to operate on commercial basis with full financial and management autonomy and with no right for subsidy. Some state farms have been reverted to peasant ownership, and some are being privatized. All government retail outlets, several hotels and factories have been offered for sale and some of them have already been privatized.

(d) The private sector has been freed from the fetters of the past command economy. There is now no ceiling on the size of domestic private investment and no limitation on the number of business activities that may be undertaken. Implicit entry barriers into the business sector have been removed, and procedures for trade registration and licensing have been improved by a new legislation.

(e) One-stop investment offices, both at federal and regional levels, have been established. The investment code has been revised to allow for greater domestic as well as foreign investors participation. In order to encourage private investment and to promote the inflow of foreign capital and technology into Ethiopia, incentives are granted to investors (both domestic and foreign), engaged in new enterprises and expansions in areas qualified for investment incentives.

(f) The tariff regime has been overhauled with massive cuts of tariff brackets, and tightening the scope of tax exemption. The maximum rate was slashed from 230 per cent to 50 per cent in order to mitigate the effects of the devaluation on import bills.

(g) Measures have also been taken to liberalize the financial sector. These include:

- (i) the restructuring and commercialization of the state-owned banks and insurance corporation; and
- (ii) a Proclamation for the Licensing and Supervision of Banking and Insurance Business.

Consequently, a number of private insurance companies and banks are established thus creating a competitive environment in the business.

(h) In order to introduce a free labour market a new labour code has been promulgated. The new labour code, which has been prepared in conformity with recognized international labour norms and standards, provides adequate provisions for the starting and terminating of employment without infringing the rights of investors.

(i) The country is now a Federal Republic and regional states have autonomy in most issues that are of regional concern. Notable restructuring steps have been taken to decentralize the civil service and to create an enabling environment for the private sector. Matters of mainly defence,

foreign affairs, overall national economic and social policies, currency and citizenship are handled at the federal level and regional state have power on all other issues including imposition and collecting of taxes, issuance of regional legislation and development programme, etc.

2.2 Trade policy

To pave the way for the country's overall accelerated economic development programme through the new economic policy reform, one of the government initiatives for policy reform is the trade sector.

The recent trade policy is believed to accelerate the process of economic development of the country by augmenting its competitive capacity and efficiency at the international level. The current trade policy, unlike those of the past, is also considered as the main catalyst for revamping the economic activities of the country. Consequently, the policy helps to foster the participation of the private sector by diminishing the role of the government in the trade sector. The major trade policies under the new framework are highlighted below.

2.2.1 Domestic trade

The government has taken corrective measures to pave the way for domestic private capital to play a dominant role in the wholesale trade. Laws and policies have also been issued and enforced to regulate private wholesale trade practices.

In order to stabilize price the stage engages itself in the wholesale trade of basic goods of mass consumption (such as petroleum and fertilizer) based on the principal of profitability. Since the state could not run retail trade efficiently, appropriate measures have also been taken to phase out the role of the state from retail trade and necessary conditions are created for private capital to freely engage in such activities.

Problems of inflation, scarcity of goods and related problems cannot be solved by merely controlling price, but rather by increasing the production of goods and ensuring their even distribution. To this effect, the government's role in retail trade is limited to such activities as issuing and enforcing appropriate regulations and directives.

2.2.2 Foreign Trade

To ensure adequate private capital participation in the foreign trade sector, the previous monopoly of the state has been abolished. Instead, the government's role is limited to creating the enabling environment. In addition, the government has issued foreign exchange and import-export regulations.

To promote foreign trade and use foreign exchange prudently, incentives such as duty drawback scheme, foreign exchange retention scheme, etc., to exporters are being provided, quantitative restrictions are replaced with tariffs, and investment in export-oriented activities is highly encouraged. Moreover, there is provision for fiscal incentives, bureaucratic procedures are minimized and use of trade information is being promoted.

2.3 Instruments of Trade Policy

2.3.1 Business licensing

All businessmen who are involved in foreign trade are required by law to obtain licences from the Ministry of Trade and Industry. The issuance of import/export trade licences is drastically

simplified by a new legal provision (Commercial Registration and Business Licensing Proclamation No. 67/1997) which requires only marginal administrative procedures and formalities. The new Commercial Registration and Business Licensing Law is part of the government's trade liberalization measures which notably attempts to ensure the active involvement of the private sector in the national economy.

2.3.2 Import regulations

All import businesses in Ethiopia require permits from the Exchange Controller of the National Bank of Ethiopia. These permits are required to enable the National Bank of Ethiopia mainly to check cases of over invoicing and under invoicing. Permits are obtainable upon presentation of valid import licenses and provisions of satisfactory information on costs and payment terms with foreign companies. Foreign exchange is indiscriminately allocated by the National Bank of Ethiopia to importers on the basis of a weekly auction.

2.3.3 Import restrictions

Except those items which are socially and morally harmful (e.g. drugs, arms and pornographic materials), there is no import ban nor quantitative import restriction. Nevertheless, some imports have to fulfil the standards of the Ethiopian Authority for Standardization.

2.3.4 Sales tax

The rate of sales tax is 5 per cent for a selected list of agricultural goods such as live animals and products, vegetables and fruits and unprocessed cereals, food, pharmaceuticals, books and printed materials, hides and skins, and cotton when either produced locally or imported. The rate is 12 per cent for all other products. Sales tax is collected from the producer, importer or the person rendering services as the case may be, and paid to the Inland Revenue Authority.

2.3.5 Excise tax

Excise tax is levied on selected items when produced locally or imported from abroad. The tax rate ranges from 10 per cent in the case of textile and television broadcasting receivers to 200 per cent in the case of alcohol. Excise tax is payable on goods imported from abroad by the importer at the time of clearing the goods from the customs area.

2.3.6 Export regulation

All export businesses also require permits from the Exchange Controller, which are obtainable upon presentation of valid export licences. When applying for an export permit an exporter must specify the goods to be exported, its destination and selling price. This exercise is required to avoid under invoicing. The granting of a permit by the Exchange Controller enables the goods to pass through customs.

In order to enhance the export performance, various policy measures have been taken, among which the major ones are:

- all taxes on exports (except coffee) and subsidies to parastatals exporting enterprises are eliminated;

- a duty drawback scheme, to refund duties paid on imported inputs used for the processing or manufacturing of export products, is also introduced in order to encourage exporters by promoting their competitive capacity in international markets; and
- a foreign exchange retention scheme has also been introduced in order to encourage exporters.

2.4 Trade Policy Formulating, Implementing and Monitoring Organs

Overall trade policy formulation, implementation, enforcement and monitoring is the duty and responsibility of the Ministry of Trade and Industry. On the implementation phase of the trade policy other ministries and agencies such as the Ministry of Health (on pharmaceuticals), the Ministry of Agriculture (on veterinary drugs), the Federal Government Revenue Board (on tariffs), Ethiopian Authority for Standardization (on quality control) and the National Bank of Ethiopia (on price verification) are also involved as regulatory bodies.

Coordination, when found necessary, to implement the trade policy among the aforementioned organs and the private sector is carried out by the Export Promotion Committee. The private sector has been participating in the formulation and conduct of trade policy through its representing body, viz the Ethiopian Chamber of Commerce. At the local level, implementation of a trade-related project is carried out by trade bureaux, city chambers and business and manufacturing associations.

An export strategy is being worked out involving consultants provided by the World Bank.

2.5 Follow-up Mechanisms

The government is aware of the fact that the export activity should be closely guided by stripping away policy and regulatory constraints. To this effect, an Export Promotion Committee (EPC), chaired by the Prime Minister, has been set up in order to bring the export promotion activity under the concerted effort of the key line ministries and those directly involved in the operation. The EPC members are drawn from government organs and private exporters.

The Committee gives special attention to the development and diversification of exports. The objective is to make the exporting process as transparent as possible providing both the exporter and the producer an enabling environment in which to operate. Due attention is given to foster the development of other commodities in addition to coffee. These are hides and skins, livestock and meat, textile and horticulture, so that their share in foreign exchange earning becomes significant, thereby reducing the heavy reliance on one or two export commodities.

The Committee coordinates and encourages export expansion by tackling existing constraints. Generally, the prime move is to attain sound international competitiveness by vigorously exposing the economy to external competing forces through the introduction of appropriate policy measures.

Moreover, to encourage exporters and create a spirit of competition among themselves, various awards are given annually to those with excellent performance by the Ministry of Trade and Industry. The forum gives an opportunity to bring together policy initiators with the business sector and enables them to discuss constraints encountered and to formulate possible solutions.

2.6 Familiarity with WTO Arrangement

A preliminary study document regarding the final Act of the Uruguay Round and the establishment of the WTO was prepared and submitted to the Prime Minister's Office and the relevant ministries as well as institutions. The study has assessed the objectives, the functions and main rules of the GATT; the conditions that led to the initiation of the Uruguay Round MTNs; main objectives and functions of the WTO; the main Agreements and Understandings in the WTO Agreements and the implications of adopting these Agreements in Ethiopia.

The WTO framework is familiar among government and government related agencies such as the Prime Minister's Office, the Ministry of Trade and Industry, the Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Economic Development and Cooperation, the Customs Authority and the National Bank of Ethiopia.

Among the private sector only a few are familiar with the framework of the WTO.

Ethiopia has never been a party to GATT/WTO. However, the present policy directions and tendencies pursued by the country are consistent with the main WTO rules and principles together with their exceptions.

The country's capacity in terms of understanding the WTO legal document and negotiation in respect of the organization rules and regulations is low. Particularly, the country lacks institutional and professional capacity to assess the Multilateral Agreements on Trade in Goods (i.e. WTO Agreements on Agriculture, applications of Sanitary and Phytosanitary measures, Technical Barriers to Trade and Trade-related investment measures) and the General Agreements on Trade in Services (i.e. Agreements on Trade-related Aspects of Intellectual Property Rights and the Settlement of Disputes); as well as the standing issues like competition policy and environment.

3. CONSTRAINTS TO TRADE EXPANSION

3.1 Supply-side Constraints

Of all the impediments to expand trade in Ethiopia, the supply side constraints are the most noted ones. For the sake of clarification, the constraints are classified into two, viz production and institutional aspects.

3.1.1 Production constraints

An examination of the export list of Ethiopia indicates predominance of primary products with one or two commodities assuming high proportion of the total export earnings. The contribution of coffee is so great that in 1996 it accounted for 60 per cent of the total earnings. However, heavy reliance on it has continuously made the foreign trade prospect of the country very precarious. Moreover, this high concentration of exports into a few products dominated by one export item (coffee) subjects export earnings to wide fluctuations on account of instability of world prices and output of this commodity, and susceptibility to the vagaries of nature.

Apart from a marked commodity concentration of exports, a great proportion of Ethiopia's total exports have been destined for a few industrialized nations, its major markets being Germany, Japan, Italy and the USA. Out of the total export in 1996, more than 62 per cent was absorbed by only six countries, viz, Germany, Japan, Italy, the USA, France and the UK. This makes a further concentration in the geographic distribution of exports. By virtue of their bargaining strength,

organized procurement practices and stockpiling capacity, these developed economy markets could put the Ethiopian exporter at a great disadvantage.

Another important production constraint relates to modernization, so essential for effecting improvements in quality and for curtailing cost of productions. A major proportion of production activity is undertaken with obsolete equipment which does not lend accuracy, precision and perfection to the finished product. New methods to improve the quality or the quantity of the export products has not been sufficiently introduced.

Product diversification is yet another impediment for the exporters of Ethiopia. Narrow and inadequate product range in export items poses a limitation in meeting the specific as well as exacting requirements of overseas buyers. In addition to this, because of their limited capacity, most of the Ethiopian exporters cannot provide the required amount of the export items to their overseas buyers.

Acute shortages of key inputs, both indigenous and imported, is another major problem in the production size. The producers engaged in agriculture or small and medium-sized manufacturing activities do not get raw materials of the right type in adequate quantities and at competitive prices in the domestic market. Moreover, they lack the know-how in supply sourcing of these raw materials at competitive prices.

To reduce the level of dependency and to increase the supply of locally required technology, the development of a planned technical infrastructure became a necessity and, in 1993, Ethiopia has issued the Science and Technology Policy. The policy accords priority to agriculture, natural resource development and environmental protection, water resource development, energy and industry.

However, in seeking improved technology from developed countries to meet the required standard in the international market, Ethiopia lacks the resources, capacity and competence for absorption and adaptation of appropriate technology.

Inadequate investment is also one of the bottlenecks in the production of goods and services. To attract both domestic and foreign investment in the economy a New Investment Code has been enacted in 1992 following the new market-orientated economic policy. Since then, the code has been refined and eased in the light of practical experiences.

Investments in pioneer and promoted activities including export-related investment opportunities are provided with extra attractive and generous special incentives. These, *inter alia*, include one hundred per cent exemption from import duties on machinery and equipment required for an enterprise, locational incentives in the form of extra tax holidays, duty-free import of raw materials for further processing and re-export.

Foreign investors are also guaranteed to repatriate profits, dividends, principal and interest, proceeds from sale to liquidation of an enterprise, principal and interest payment on external loans, proceeds from the sale or transfer of shares or assets and compensation paid to a foreign investor. Guarantees against measures of expropriation and nationalization are also provided in the investment proclamation.

The Ethiopian Investment Authority is the responsible organ for reviewing, drafting and negotiating contractual agreements with foreign investors.

Ethiopia is a signatory to the Multilateral Investment Guarantee Agency (MIGA), an affiliate of the World Bank, which issues guarantees against non-commercial risks to enterprises which invest

in signatory countries. Ethiopia has further signed the International Convention on Settlement of Investment Disputes (ICSID).

Ethiopia has bilateral investment production agreements and treaties with Kuwait and Italy and is doing all it can to enter into such agreements with as many countries as possible.

Despite these efforts from the national side, foreign investment in the production of goods and services is still inadequate. A number of explanations can be given to this situation. Among other things, the following inadequacies are always at the finger tips of many nationals and foreigners: undeveloped infrastructure facilities (road, railway, telecommunication, etc.), paucity of skilled domestic manpower, undeveloped domestic market or low purchasing power, inadequate promotional activities, etc.

3.1.2 Institutional constraints

(a) Financial services

The need for credit and other financial facilities is very decisive to exporters and producers so as to enable them to penetrate new markets, to handle established markets and to face competition against imports. To support service providers, a new Banking and Insurance Law has been promulgated which allows the establishment of private financial institutions. As a result, a number of private banks and insurance companies have been set-up and become operational. However, export financing in Ethiopia is still insufficient. Some of the major problems in this area are:

- the banking experience is virtually limited to risk free operations;
- term loans are given against physical collateral or guarantee; and
- the absence of export credit agency which would facilitate export credit insurance or guarantee.

(b) Transport and communication facilities

Ethiopia has started an extensive infrastructural development programme. The government has earmarked some US\$4bn for the road sector during the next 10 years under the Road Sector Development Programme (RSDP). The following problems currently affect the expansion of exports:

- limited refrigerated trucks for meat, vegetables and fruits carriage;
- inadequate railway infrastructure. The existing operating record is poor in terms of capacity, frequency and reliability. Especially, the trains are not suitable for the transportation of fruits and vegetables;
- lack of container handling facilities at Assab Port and absence of any inland container port;
- lack of adequate cargo handling facilities in airport operations; and
- although telephone and facsimile connections are adequate with improvements scheduled for the near future in the capital city, telephone connections to areas out or the city are still limited.

(c) Trade information centre

Trade information is indispensable for many of the decision areas associated with selling and buying abroad. In addition, information on such issues as packaging, transport, insurance, storage and the completion of export and import formalities and regulations is highly important.

Realizing the absence of an independent trade information centre, which would provide reliable and up-to-date information to the business community, efforts are underway to establish a trade point with the assistance of UNCTAD.

3.2 Constraints Related to Trade Promotion and Trade Support Services

3.2.1 Technical constraints

(a) Trade information

A reliable and timely trade information is very essential to determine both the export and import priorities and targets, to identify and exploit foreign market opportunities as well as to plan production for export. The country's effort to build-up its trade promotion strategy is highly correlated with the availability of substantial and up-to-date trade information.

Notwithstanding a promising effort to provide exporters with valuable information on the timely world prices of major export items, trade information service in Ethiopia is still in its infancy. The National Bank of Ethiopia, which happens to be the only institute that provides Ethiopian exporters with trade information, is not properly equipped to greatly increase the quantity and even the quality of trade information service's output. To overcome this deficiency, a trade point is now being established.

(b) Export culture (skill in business)

The country had for a long time been subjected to stringent controls, rules, regulations and a bureaucratic style of functioning. A well functioning market economy requires government laws and regulations as well as a market friendly modus operandi of the civil services. The government is currently addressing this issue.

The knowledge of the emerging private sector on the rules and operations of the changing international market is limited. The public sectors, which are in the process of privatization, engaged in actual commercial operations remain inadequately equipped to discharge the responsibilities vested in them.

These sectors, including the private ones, lack a professional approach to indulge in the international business activities.

This emanates from the fact that Ethiopia's export companies are by and large small and medium-sized enterprises. Due to their size, managerial skills and entrepreneurial exposure, they have been incapable of contributing significantly to the development of exports of the country. Moreover:

- most exporting companies lack systematic and aggressive marketing strategy which requires knowledge of selection of target market and the determination of the product, price, promotion and distribution policies;
- most exporters have no export marketing plan. A typical export marketing plan focuses on marketing objectives, market segmentation and positioning, characteristics of the product line, distribution channels, export pricing and promotional strategies;
- almost all Ethiopian private sector organizations lack experience in export business. Especially, they have limited knowledge in international marketing.

The exporting community should be professionally manned and run strictly on commercial lines in order to cope with the existing world competitively, an ever changing economic atmosphere, especially with international purchasing and inventory management.

(c) Research and development

Research and Development (R&D) has an important role to play in achieving competitiveness in world markets through quality upgrading and cost reduction. It has been gainfully employed as tools of production, processing and marketing in many countries.

Unfortunately, R&D has become another weak area in expanding the export sub-sector in Ethiopia. The extent of this problem ranges from near total absence to inadequate facilities. For want of research and development facilities, various important aspects of export production and marketing of the country which include productivity, quality of production, cost competitiveness, packaging and aggressive sales strategies are adversely affected.

Due to this inadequacy of R&D services, the exporting enterprises face the difficulty of offering products of internationally acceptable design, quality and packaging to overseas buyers. Efforts aimed at capturing foreign markets in the absence of R&D services have met with limited access.

(d) Trade support services

The different components of the existing trade support institutions encompass the apex policy formulation body, namely, the Ministry of Trade and Industry; the Ethiopian and city Chambers of Commerce; the National Bank of Ethiopia; the Export Promotion Committee and the commercial representatives abroad.

Through coordination among these different trade support institutions has been promising, they encounter difficulties in providing efficient services to the business community. The most noted problem is the absence of a training institute which would cater for the export sector, among others, train export management personnel; undertake market surveys and research studies on export, as well as advise private and public enterprises, on measures to promote export. Establishing such an institute would help to inject professionalism in the country's international trade by developing competent and professionally trained executives to undertake systematically export/import operations. Moreover, the financial constraint is another bottleneck for these trade support institutes in providing their services to export/import enterprises.

In developing the export of services the following problems could be anticipated: lack of professional manpower, inadequate infrastructure, financial constraints and insufficient support services.

(e) Commercial representatives

Commercial representatives abroad constitute an important component of the country's institutional set-up relating to trade promotion. With growing trade and international competition, export/import business itself having acquired a complex dimension, Ethiopia's trade representatives have been given an onerous task to help the trading community in its promotional and developmental activities.

Their principal functions and duties comprise an advisory role in relation to the respective missions, provision of feedback information to the relevant Ministries, supply of commercial intelligence to trade and industry, private and public sector organizations and other service support institutions.

The commercial representatives suffer from certain serious limitations. These relate to inadequacy of resources in terms of professional staff with proper commercial background and well established libraries containing latest trade-related directories as well as statistical publications. These deficiencies act as bottlenecks in the proper and efficient functioning of these otherwise important institutions of service support infrastructure.

In order to ensure result-oriented action and especially to discharge efficiently the responsibilities devolved on the commercial representatives after the economic liberalization at home, it is of utmost importance that the Trade Missions are to be properly equipped with enough professional staff.

3.2.2 Financial constraints

It is understood that the development of the financial sector is a pre-requisite for export promotion. In Ethiopia the two financial institutions which are concerned with the financing of trade and manufacturing sectors are the Development Bank of Ethiopia and Commercial Banks.

Particularly, the commercial banks extend their financing services to all sectors of the economy including exporters in the form of overdrafts, business loans, merchandise loans and advances against export documents. However, there are a number of impediments in these financial sectors which have been repeatedly raised by Ethiopian exporters, especially non-traditional or small-scale exporters.

These are:

- access to long-term credit is problematic due to limited collateral base;
- virtually all the financial sectors do not have a special scheme for developing and promoting exports;
- loans are based on collateral, and not on the presence of firm orders or contracts of sales and credibility of importers as well as on the exporters capability and integrity;
- absence of export credit guarantee scheme; and
- limited services in areas of non-financial facilities like counselling exporters on shipping documents, foreign exchange regulations, forward exchange cover, contract documents, customs regulations, credit rating of buyers and agents and related matters.

3.3 Market access problems

3.3.1 Meeting international standard requirements

In the context of international trade liberalization, Ethiopia has to meet, as a priority, the challenge of raising quality which is demanded by major markets.

(i) Difficulties in understanding and applying ISO 9000 standards

Although the concept of ISO 9000 is a relatively recent phenomenon, the government of Ethiopia has a firm belief that implementation of ISO requirements will enable export enterprises to offer products or services that satisfy consumer expectations, comply with applicable standards and specifications, as well as conform to statutory and other requirements for health, safety and the environment. However, Ethiopia's industrial sector lacks modern technology, adequate maintenance and calibration services and skilled manpower. Due to these deficiencies, it becomes difficult to understand and apply ISO 9000 requirements.

Hence, training assistance in the benefit and implementation of ISO 9000 standard is required to change the existing situation and to come up to the expectations of international requirements.

(ii) Sanitary barriers

(a) Livestock

Exports of live animals (mainly cattle, sheep and goats) have always taken place, albeit confined to only a few countries due to sanitary regulations. Unfortunately, Ethiopia's livestock is not well developed and properly exploited due to livestock diseases which are endemic. Hence, medium to long-term measures should be taken to change the current situation of the country's livestock in order to play more actively in the international market.

(b) Meat and meat products

Most of the meat plants in Ethiopia have produced a range of products for the domestic and export markets. Currently, Ethiopia exports frozen meat to the Middle East market.

It is understood that countrywide implementation of international sanitary standards is a long-term goal. As part of their export strategy, meat plants may consider to raise their own cattle according to strict sanitary standards or to engage in strictly controlled livestock raising and fattening schemes with neighbouring farmers. To this end, foreign direct investment and technical assistance are needed.

(iii) Technical barriers - the case of gum arabic

Acacia is one of the various plant species grown in the arid and semi-arid areas of Ethiopia yielding marketable gum. Gum Arabic (Gum Acacia) derived from acacia species is the major gum product produced mainly for the export market. Ethiopia has benefitted from this product for a long period of time. However, due to adverse interests created recently by some groups who want to distort the market of this product, the world price of Gum Arabic has drastically declined as a result of which the export activity has been affected.

The government of Ethiopia has brought the issue to the attention of the concerned international organizations. The government's attachment is to the universal definition of Gum Arabic as being the gum from all the Acacias and as defined by the Food and Drugs Administration in the United States of America and by the European Union (with a designated number E-414).

The government has also learnt that the Joint Expert Committee of Food Additives (JECFA) of the FAO/WHO has proposed a monograph keeping the terms of the universal definition which, unfortunately, has not been adopted by the Codex Alimentarius due to the adverse comments instigated by the interest groups. In the final analysis, the government of Ethiopia strongly believes that these comments are directly influenced either by competitors who want to see Gum Arabic disappear and replace it with their substitutes, or by an important African producing country which would like to have the monopoly of the production with only one variety, thus

eliminating all other countries not producing this variety. The government, therefore, asserts that this Act contravenes the spirit of international competition.

Hence, AID Gum and other concerned international organizations have to convince the FAO/WHO experts of the JECFA to ratify the last monograph Compendium 52, Addendum 3, so that our participation in the international gum market is fully restored and respected.

3.3.2 Regional Trading Arrangements (RTAs)

Ethiopia is a member of the Inter-Governmental Authority on Development (IGAD) and Common Market for Eastern and Southern Africa (COMESA). The performance of these RTAs is not satisfactory. The problems are more or less the same in both cases. The major problems which could be cited are:

- limited trade flows among the members of the region;
- poor infrastructure: road, railway transportation and telecommunication are very backward to interconnect the members among themselves; and
- lack of trade information about member's potential trade.

3.3.3 Trade preferences

The basic objective of trade preferences such as the Generalized System of Preferences (GSP) is to accelerate the pace of economic development and industrialization in the developing countries. Under GSP, exports from these countries into the industrialized countries were either made duty free or subjected to duty concessions. Other things being equal in terms of quality, delivery schedules, rules of origin criteria and price competitiveness, developing countries which are at a fairly advanced level of industrialization could initially take advantage of the GSP.

Although Ethiopia has not utilized the advantage of GSP to any substantial degree due to its own supply deficiency, the GSP has been greatly diluted/eroded by the protectionist practices and non-tariff barriers which have been applied by GSP-offering countries. In many cases, quotas and cumbersome procedural formalities have become stumbling blocks to take advantage of GSP. Lately, some donor countries introduced certain new conditionalities such as measures on the protection of environment in order to benefit from more favourable GSP treatment. Selling in these markets for LDCs is getting tougher, generating deep pessimism.

On top of these, trade liberalization resulting from the Uruguay Round has significantly diminished the export earnings of ACP countries with respect to the EU. One of those ACP states which is particularly adversely affected by the outcome of the Uruguay Round in Ethiopia. According to one estimate¹ Ethiopia had lost 10.62 per cent of its total earnings from the EU market in 1992 due to the preference erosion.

It can be said that the conclusion of the Uruguay Round, which resulted in the globalization of the world economy and the liberalization of world trade, has made the so far enjoyed preferences more inaccessible and impracticable.

¹ Davenport, M. et al, The Impact of the GATT - Uruguay Round on ACP States, Overseas Development Institute, August 1994.

Because of these reasons many developing countries including Ethiopia hold the view that the realization of the initial objective of the GSP has remained a dream and the scheme has been more beneficial to GSP-offering countries.

The net result of all these constraints, viz supply side, trade promotion and trade support services and market access, manifests in under-utilization of capacities thus increasing the per unit cost of production and affecting competitiveness in the world markets and this is where the technical and financial assistance from the international community are expected to play a pivotal role.

4. TECHNICAL ASSISTANCE

4.1 Technical assistance received and its assessment

Trade-related technical assistance that Ethiopia has received over the past five years are Foreign Trade Development Programme (FTDP), Automated System for Customs Data (ASYCUDA), GTZ/Protrade-Horticultural Programme and UNIDO-National Leather and Footwear Industry Scheme.

Foreign Trade Development Programme (FTDP)

The FTDP was a project of the Ethiopian Ministry of Trade and Industry between 1992-1996. This programme was sponsored by the European Union under the sixth European Development Fund, and subsequently extended under STABEX 91 funding.

The programme was originally designed to support Ethiopian efforts in implementing a comprehensive National Export Strategy, an initiative started in the latter years of the previous regime, viz 1988-90. However, the programme, which was to cover market surveys, promotional activities and to a generic product sector, has operated in the new economic environment of Ethiopia with a different orientation. Therefore, hitherto objectives of FTDP had been revised over the extended period. These were:

- provision of more direct technical assistance to targeted companies;
- introduction of regional marketing approach;
- concentration on sub-sectors with potential; and
- introduction of an export infrastructure programme such as export finance, packaging and transport, which was to have insight into the changes needed to accommodate them.

During the life span of FTDP five major projects were covered. These are in the areas of leather products, regional marketing programme, horticulture, essential oils/natural gums and human resource development. Apart from these projects, studies on export packaging, internal transport, export finance and institutional framework for export activities have also been carried out.

The total capital invested on the project was more than ECU2.6m. The estimated initial cost was ECU1.5m with a targeted incremental value of ECU28m exports.

Despite the generality of its original objectives and the period the programme covered, the overall result of FTDP was positive if not attractive to attain its objectives to any sustainable extent. This means that Ethiopia has drawn lessons from this type of programme in terms of:

- a programme which was designed for one economic system can not work effectively for entirely different economic circumstances; and

- any assistance in trade development for small and medium-sized enterprises should be need based and targeted.

Automated System for Customs Data (ASYCUDA)

ASYCUDA is a computerized customs management system which covers most foreign trade procedures. To install this package in Ethiopia a technical assistance agreement was signed between the government of Ethiopia and UNCTAD in June 1996. The financial assistance has been drawn from UNDP.

The system is expected to give the following advantage to Ethiopia:

- increases government revenue;
- improves clearance procedures for trade; and
- provides more precise external trade statistics.

Currently, the project involves provision of training for both users and controllers of the system, installation of the computerized system at main custom offices and eventually all other branches of the Customs Authority, installation of computers at the customs headquarters to manage the system and the radical simplification of procedures, laws and documentation.

The budget for ASYCUDA execution in Ethiopia is US\$1.5m.

Protrade - horticultural programme

GTZ/Protrade has participated in the promotion of horticulture exports in collaboration with the Ministry of Trade and Industry (MTI).

The sample of three private farms of horticulture and other similar state farms have been visited by consultants from Protrade and a report which assessed the situations of the farms has been prepared by a local consultant.

After a joint agreement between MTI and Protrade an export promotion workshop was conducted to create awareness for the need of developing the sector through technology transfer. The workshop also brought together the major actors in the horticultural development activities to discuss and appreciate the major problems encountered by the sector and to propose recommendations for future action.

Protrade has also assisted jewellery designing and Ethiopian jewellers to participate in a trade fair held in Germany.

UNIDO - National Leather and Footwear Industry Scheme

The national leather and footwear industry project is part of an overall programme developed in Ethiopia and put forward by the government. The government programme is strongly supported by the UNIDO regional leather programme and closely linked to its implementation.

Phase I has focused on the early states of the leather industry operations like improvements of raw hides/skins and semi-processed products. The continuation of the scheme under Phase II will emphasize on the next stages, namely, finished leather and leather products.

The following results have been achieved:

- (a) a standard and formal agreement for 'Revolving Fund' operations has been prepared. Negotiations on the contents of the agreement have been finalized between the parties involved, i.e. the Ethiopian Tanneries Association (ETA) and the recipients of equipment/machinery. Although equipment and machinery are supplied by the project to the beneficiaries, agreement has not yet been signed between ETA and the beneficiaries to start the instalment payments towards the "Fund";
- (b) equipment for the effluent treatment plants (ETPs) and chrome recovery plant have been imported for two tanneries. Training for the operators and technicians of the ETPs has already been given.
- (c) promotion of environment awareness among tanning industries and environmental protection authorities through organization of a seminar on tannery pollution control and cleaner technologies is still being undertaken, and more will be done after commissioning of the plants and become operational.
- (d) an international footwear marketing expert has been assigned at two shoe factories and the following activities have already been carried out:-
 - introduction of modern working practices;
 - reduction of technical problems in shoe manufacturing;
 - introduction of management control on the production process;
 - quality enhancement on shoe production; and
 - upgrading the capability to compete internationally for export business.

In addition to the above projects and programmes, Ethiopia has received training assistance Germany, India and the WTO focusing on international trade and marketing.

4.2 Need for Technical Assistance

Technical assistance to Ethiopia must be geared to strengthen and intensify support of the country's effort to meet the new challenges posed by globalization and competitive forces, and thereby enhance its capacity to capture potential benefits arising from new trade opportunities. The technical assistance should lay special emphasis on targeting the private sector with priority being given to the creation of international partnership networks, joint investment promotions, improvement of supply capacities of existing export-orientated firms, and development of support service institutions. Therefore, technical assistance to Ethiopia in the following areas, in terms of their priority, is of paramount importance.

4.2.1 Capacity Building

In the face of accelerated globalization and liberalization, one of the country's key weaknesses is institutional capacity building. Institutional capacity is an essential and indispensable ingredient to induce remarkable change in the export sector.

(a) Strengthening the capacity of the existing firms

One of the symptoms of the low level of trade development in Ethiopia is the technological and managerial limitation of the existing industrial sector. In order to boost

export, the promotion of industrial development, mainly at the level of SMEs, is very essential. The technical assistance should target the economic operators directly, particularly at the level of production process to assist them in the improvement of entrepreneurial skills through:

- productivity improvement;
- quality enhancement;
- creativity and product design;
- information acquisition and dissemination; and
- packaging technique.

(b) Strengthening human resource development

The development of human resources is highly important to the process of sustainable development in general and to the expansion of trade in particular. The technical assistance in human resource development should involve upgrading the knowledge of policy-makers, entrepreneurs and exporters on the rules and operations of international markets, on systematic and aggressive marketing strategies and on the use of new information/communication technology tools such as CD-Rom, the Internet, etc.

(c) Strengthening support service institutions and facilities

An effective trade promotion strategy requires support from various service-giving institutions such as trade points, research and development centres, training institutes specializing in foreign trade, export inspection councils, export/imports bank and well-equipped trade representatives abroad. Moreover, access to export credit guarantee, effective duty drawback schemes and bonded warehousing management are also key pre-requisites for promoting export.

Establishing these important service support institutions and offering those facilities are costly for Ethiopia, at least in the short run, and therefore technical assistance in this area is badly needed.

(d) Training in ISO 9000 standards

Meeting the challenge of raising product quality is a priority area for virtually all Small and Medium Enterprises (SMEs) engaged in export markets. International markets in the European Union are increasingly insisting on compliance by their suppliers with ISO 9000 series of standards. Similar trends are developing in North America. Export enterprises in Ethiopia should therefore develop quality assurance systems, based on the ISO standards to maintain and improve their positions in these and other markets.

Understanding and applying ISO 9000 standards is one area in which extensive technical assistance should be extended to these exporting enterprises. They, as a result, will achieve sustained sales in the international markets on the basis of good quality and at a competitive price.

Hence training on ISO standards is essential to exporting enterprises on the following topics:

- concept of the ISO 9000 quality systems so that improved quality awareness is instilled throughout the enterprises;

- training of employees in marketing, research and development, purchasing, engineering and production, quality control and testing, so that their involvement is increased in quality goals; and
- certification of conformity to ISO 9000 and quality improvement planning to sustain the standard requirements.

(e) Meeting international sanitary regulations

(i) Improving livestock raising

Improvement in the health of livestock is a necessary condition not only to change the lifestyle of the rural population, but also for the enhancement of the quality as well as the quantity of by-products for export markets. The large livestock resource of the country is under-utilized and undeveloped due to the traditional methods of animal husbandry, and the livestock diseases which are endemic.

Disease Free Zones are non-existent which rendered the country unable to fulfil the stringent sanitary regulations of importing countries. However, investment opportunities are potentially attractive in the areas of modern commercial livestock breeding.

The country has a great concern to meet the stringent sanitary requirements of the international markets and to promote legal exports of live animals. Realizing this, a Livestock Development Strategy is designed. Therefore, technical assistance in the following areas will be required:

- support to implement the strategy;
- training in the field of animal husbandry, especially in strengthening the ongoing national endeavours in animal health and feed improvement;
- establishing a Disease Free Zone (DFZ) which would help improve the health of the national herd to facilitate acceptance by foreign markets; and
- in the highland areas of the country cattle are primarily kept for their draught power. There is, therefore, a need to carry out profound research to investigate alternative suitable technologies for the farming system so as to free cattle for their improved hides and meat.

(ii) Upgrading the meat industry

During the last two decades, the viability of the meat factories has declined due to insufficient throughput, machinery and plant difficulties, inadequate training of personnel and availability of suitable livestock.

These factors limited the output and quality of export products which, in turn, seriously affected the viability of the factories in world markets.

Moreover, the meat factories have little knowledge of market opportunities and no effective market intelligence. Effective participation of the meat plant in the world market would not be possible due to impending changes in legislation within the developed countries. Without adequate knowledge of either the market or these impending changes, it will be impossible for management to determine medium of long-term strategy.

To alleviate these deficiencies technical assistance is needed in the following areas:

- capital investment requirements for refurbishment of equipment of meat factories;
- capital investments in refrigerated vehicles to shuttle products from factories to ports and cargo handling facilities in airport operations;
- training of personnel in market research and intelligence, legal and hygiene standards of importing countries;
- training requirement for expertise to uplift their knowledge to meet current market requirements;
- uplifting of hygiene standards to comply with current and future legislation of importing countries;
- investigation on the aspect of commercial diversification within the framework of overall export promotion and potential viability of meat canning operations; and;
- execution of a thorough investigation into the market opportunities and requirements, particularly appertaining to potential importing countries' legislative standards of hygiene and price sensitivity.

(f) Familiarity with international trading system

In order to remain integrated within the international trading system, Ethiopia has to be familiar with the rules and regulations of the multilateral trading arrangement, i.e. the WTO which represents 90 per cent of the world trade.

Ethiopia, therefore, needs technical assistance to be familiar with international trading systems, including its ever-changing purchasing and inventory management. More specifically, the technical assistance in this area, *inter alia*, include:

- continuous training of personnel;
- organizing workshops and seminars;
- reinforce the negotiating capacity of the country for the WTO membership; and
- consultancy services.

Building such institutional capability is, however, expensive and complex, and requires both financial and technical assistance. Therefore, Ethiopia needs assistance to foster its institutional capabilities necessary for integration into the world economy.

4.2.2 Regional integration

Nowadays there is widespread belief that regional economic integration is a basic element for socio-economic development, and is essential in order to strengthen LDCs' roles in the international context and help to fuse and promote economies of scale. This view has gained increased credibility with the conclusion of the Uruguay Round, which has acknowledged the compatibility between regional integration and multilateralism.

In fact, the economic success of a growing number of developing countries has demonstrated that integration into the world economy is possible and beneficial.

However, RTAs such as COMESA in which Ethiopia is a member are not a success story due to, *inter alia*, the lack of technical and financial backing from the international community. There is,

therefore, a need to pool resources and enhance cooperation in order to make RTAs in the sub-region more effective.

The financial and technical assistance required in this area are:

- infrastructural development in the sub-region;
- adequate transport equipment;
- adequate cold storage facilities;
- Upgrading Trade Information Network (TINET) modules and services; and
- training for effective regional trade promotion techniques.

INTEGRATED RESPONSES BY IMF, ITC, UNCTAD,
UNDP, WORLD BANK AND WTO

ETHIOPIA

Technical assistance needs identified in the questionnaire	Organization	Response
In reply to question A(k) : <u>Technical assistance requirements as regards compliance with WTO Agreements</u>		
Country lacks institutional and professional capacity to assess the WTO Agreements.	UNCTAD	Will provide assistance, through studies and seminars, to assess the overall impact of globalization and liberalization on Ethiopia in order to facilitate adaptation to the various WTO Agreements and to enable it to maximize its benefits from the new trading opportunities.*
	UNCTAD/ UNDP (WIPO)	Regional workshop in the COMESA region to train government officials and private sector representatives and NGOs in policy and rule-making under WTO.
	World Bank/ WTO	Arusha regional seminar on trade policy in the WTO environment and negotiation skills held in November 1997 has addressed these issues.

* Funds are requested

Technical assistance needs identified in the questionnaire	Organization	Response
In reply to question A(l) : <u>Technical assistance needs as regards specific WTO Agreements</u>		
The country's capacity in terms of understanding the WTO legal document and negotiation in respect of the organization rules and regulations is low. Particularly, the government lacks institutional and professional capacity to assess the following Agreements: (these specific Agreements should be addressed separately and their application to the Ethiopian economic context be given special emphasis).	WTO	- A three-week trade policy course for African English speaking least-developed countries will be held in 1998 and 1999. - Specialized regional seminars and/or workshops on WTO provisions will be organized in 1998 or 1999 for English-speaking LDCs. Further details can be worked out in preparation for these activities.
	World Bank/ WTO	See A(k).
Agriculture	WTO	See immediately above.
Application of Sanitary and Phytosanitary Measures	WTO	See immediately above.
Technical Barriers to Trade	WTO	See immediately above.
Trade-Related Investment Measures (TRIMS)	WTO	See immediately above.
General Agreements on Trade in Services	UNCTAD	Assistance will be provided to develop indigenous national policy-making capacity in areas of domestic service sector policy and multilateral negotiations on services.*
	WTO	See WTO entry immediately above.
Agreements on Trade-Related Aspects of Intellectual Property Rights (TRIPS)	WTO	See WTO entry immediately above.
Dispute Settlement	WTO	See WTO entry immediately above.

* Funds are requested

Technical assistance needs identified in the questionnaire	Organization	Response
<p>Question A(1) (cont.):</p> <p>Standing issues, such as competition policy and the environment</p>	World Bank	<p>These issues have been addressed in the Export Development Strategy Study (FY97-98); FIAS report "Ethiopia: Improving the Investment Approval Process" Jan. 1997; Financial Sector Study (FY97-98); IDF grant on privatization (ongoing); PSD mission (FY98). These activities address both the long-term aspects of competition policy and the proper economic environment for development. They do not address specific WTO issues which may be forthcoming in the short term. If the term "environment" is meant to indicate natural resources, no on-going projects on environment exist, but there is a planned study in the year 2000 that may meet that need.</p>

Technical assistance needs identified in the questionnaire	Organization	Response
<p>In reply to question A(m):</p> <p><u>Assessment of the existing trade analysis and negotiating capacities</u></p> <p>Since Ethiopia is not a member of the WTO, the existing trade analysis and negotiation capacities are believed to be low.</p>	World Bank	Trade analysis is one component of the Export development strategy study (FY97-98).
	WTO	The three week trade policy course will reinforce the capacity building. During such Trade policy course negotiating capacities will be addressed and a training for a better participation in multilateral trade negotiations will be undertaken.
	ITC/ UNCTAD/ UNDP (<i>African Economic Research Consortium, AERC</i>)	In the period 1997-2000 Ethiopia will benefit from the regional Capacity Building Programme for Trade and Development (RAF/96/001) aimed at strengthening the capacity of Institutions in charge of formulating trade policies, including national and sub-regional sectoral studies, to enhance government capacity for analysis and negotiation.

Technical assistance needs identified in the questionnaire	Organization	Response
In reply to question B(g) : <u>Technical assistance needs as regards supply constraints</u>		
Production constraints Ethiopia seeks assistance to diversify its export markets and export base.	ITC	Ethiopia will benefit from a number of on-going projects aimed at diversifying the export base by developing products and markets (these are listed under B(q)2). In addition, a new technical cooperation project which is being formulated will address these issues.*
	World Bank	The World Bank is assisting the Government in this domain with its Export Development Strategy (FY97-98).
Institutional constraints 1. Financial services: The need for credit and other financial facilities is very decisive to exporters and producers so as to enable them to penetrate new markets, to handle established markets and to face competition against imports. Export financing in Ethiopia is still insufficient. Some of the major problems in this area are: - The banking experience is virtually limited to risk free operations - Term loans are given against physical collateral or guarantee, though a new law is underway to address this problem - Absence of export credit agency which would facilitate export credit insurance or guarantee.	ITC	Under the on-going project, ITC is planning to carry out an Export Financing Survey and a Trade Financing seminar in cooperation with PTA Bank. Advice on the Harmonization of Bank Guarantees will also be provided (additional funds are requested).
	World Bank	The World Bank addresses these issues through its Financial Sector Study (FY97-98), an Export Development Strategy (FY97-98) and a possible export development project (FY99-20).

* Funds are requested

Technical assistance needs identified in the questionnaire	Organization	Response
<p>Question B(g) (cont.):</p> <p>2. Transport and communication facilities</p> <p>Ethiopia has started an extensive infrastructural development program. The Government has earmarked some USD 4 billion for the road sector during the next ten years under the Road Sector Development Program (RSDP). The following problems currently affect the expansion of exports:</p> <ul style="list-style-type: none"> - Limited refrigerated trucks for meat, vegetables and fruit carriage. - Inadequate railway infrastructure. The existing operating record is poor in terms of capacity, frequency and reliability. Especially, the trains are not suitable for the transportation of fruits and vegetables. - Lack of container handling facilities at Assab port and absence of any inland container port. - Lack of adequate cargo handling facilities in airport operations. - Although telephone & facsimile connection are adequate with improvement scheduled for the near future in the capital city, telephone connections to areas out of the city are still limited. 	<p>World Bank</p>	<p>The World Bank has addressed, and continues to address, these issues in its Transport Sector Memorandum (Dec. 1996); Road Sector Investment Programs (ongoing); Telecommunication Policy Note (August 1997)</p>
<p>3. Managerial capacity</p> <p>Most of the exporting enterprises are small in size, and have inadequate managerial capabilities and insufficient entrepreneurial exposure.</p>	<p>ITC</p>	<p>See A(m). Training in business development is foreseen under the on-going projects mentioned under B(q).</p>

Technical assistance needs identified in the questionnaire	Organization	Response
In reply to question B(q) : <u>Technical assistance needs in the area of trade promotion and support services</u>		
1. Trade Information Although efforts are underway to establish a Trade Point with the assistance of UNCTAD, the absence of an efficient information center is still perceived as a major constraint. The National Bank of Ethiopia, which happens to be the only institute that provides Ethiopian exporters with trade information, is not properly equipped to greatly increase the quantity and even the quality of trade information service's output.	ITC/ UNCTAD/ UNDP	Continued support will be provided by UNCTAD for the establishment of a Trade Point. ITC will provide specific components in trade information management. In addition, ITC/UNDP will provide trade information support under the COMESA programme. Information on current world market prices and trends of horticultural produces will continue to be provided under the ITC Market News Service. UNCTAD will continue assistance through the TRAINS CD-Rom. Assistance in the use of the TRAINS CD-Rom will be provided.*
	World Bank/ WTO	World Bank/WTO joint web-site is available on the Internet.
2. Strengthening the capacity of existing firms: Technical assistance should target the economic operators directly, particularly at the level of production process to assist them in the improvement of entrepreneurial skills through: - Productivity improvement - Quality enhancement - Creativity and product design - Information acquisition and dissemination - Packaging technique	ITC	To strengthen the capacity of export-oriented enterprises, the following activities will be carried out (1998-1999) under the on-going ITC projects.

* Funds are requested

Technical assistance needs identified in the questionnaire	Organization	Response
Question B(q) (cont.):	ITC/ UNDP	- Participation in pan-African buyers-sellers meeting on leather products, and on food and beverages of selected enterprises, under the Intra-African trade promotion programme.
	ITC	- To improve the export performance of Agro-based products, market research on organic products will be carried out with a view to identifying product groups that offer market potential for commercial production. Findings and recommendations will be presented and discussed in selected dissemination seminars/workshops.
	ITC	- The Gourmet Coffee project will demonstrate the profitability to market and export gourmet coffee and Developing techniques for gourmet quality development as well as marketing strategies, for local enterprises. In addition, ITC will explore the market potential for organic coffee from Ethiopia and assess the relevance of an organic coffee project in Ethiopia.
	ITC	- In cooperation with the Ethiopian Tanners Association, ITC will provide accordingly technical assistance to improve quality and design of leather products in the whole process from raw material to the finished products.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>Question B(q) (cont.):</p> <p>3. Strengthening support service institutions and facilities</p> <p>An effective trade promotion strategy requires support from various service-giving institutions such as trade point, research and development centers, training institutes specializing in foreign trade, export inspection council, export-import bank and well-equipped trade representatives abroad. Moreover, access to export credit guarantee, effective duty drawback schemes and bonded warehousing management are also key prerequisites for promoting export.</p> <p>Establishing these important service support institutions and offering those facilities are costly for Ethiopia, at least in the short run, and therefore technical assistance in this area is badly needed.</p>	ITC	The new ITC project will include components aimed at institutional capacity and trade support service strengthening.*
	World Bank	The World Bank provides support in the context of the Export Development Strategy report (FY97-98) and a possible export development project (FY99-2000).

*Funds are requested.

Technical assistance needs identified in the questionnaire	Organization	Response
<p>Question B(q) (cont.):</p> <p>4. Commercial Representatives</p> <p>The commercial representatives suffer from certain serious limitations. These relate to inadequacy of resources in terms of professional staff with proper commercial background and well-established libraries containing the latest trade-related directories as well as statistical publications. These deficiencies act as bottlenecks in the proper and efficient functioning of these otherwise important institutions of service support infrastructure.</p> <p>In order to ensure result-oriented action and especially to discharge efficiently the responsibilities devolved on the commercial representatives after the economic liberalization at home, it is of utmost importance that the Trade Missions are to be properly equipped with enough professional staff.</p>	ITC	See B(q). In addition, the planned new project will include qualidata management and dissemination for utilization at enterprise level.
<p>5. Provision of information on standard, quality, price and other requirements of the export items of the country.</p> <p>Meeting the challenge of raising product quality is a priority area for virtually all small and medium enterprises (SMEs) engaged in export markets. International markets in the European Union are increasingly insisting on compliance by their suppliers with ISO 9000 series of standards. Similar trends are developing in North America. Export enterprises in Ethiopia should therefore develop quality assurance systems, based on the ISO standards to maintain and improve their positions in these markets.</p>		
6. Finding new markets		
7. Creating joint ventures		

Technical assistance needs identified in the questionnaire	Organization	Response
In reply to question B(v) : <u>Technical assistance as regards market access</u>		
1. Difficulties in understanding and applying ISO 9000 standards: Ethiopia's industrial sector lacks modern technology, adequate maintenance and calibration services and skilled manpower. Hence, training assistance in the benefit and implementation of ISO standards is essential to exporting enterprises on the following topics: - Concept of the ISO 9000 quality systems so that improved quality awareness is instilled throughout the enterprises - Training of employees in marketing, research and development, purchasing, engineering and production, quality control and testing, so that their involvement is increased in quality goals. - Certification of conformity to ISO 9000 and quality improvement planning to sustain the standard requirement.	ITC	See B(q). The new project* will provide assistance for: - installation of database on ISO 9000 and other quality issues; - dissemination of quality information; - training in total quality management; - accreditation and certification.
	World Bank	Export Development Strategy report (FY97-98) and FIAS report (Jan. 1997) address foreign equity investment (FDI and joint ventures) as well as foreign non equity collaboration with Ethiopian firms (such as international subcontracting and technical/marketing agreements), which would help exporters' access to world market.

*Funds are requested

Technical assistance needs identified in the questionnaire	Organization	Response
<p>Question B(v) (cont.):</p> <p>2. Meeting international sanitary regulations</p> <p>a. Improving livestock raising</p> <ul style="list-style-type: none"> - Support to implement the Livestock Development Strategy - Training in the field of animal husbandry, especially in strengthening the ongoing national endeavours in animal health and feed improvement. - Establishing a disease free zone (DFZ) which would help improve the health of the national herd to facilitate acceptance by foreign markets - In the highland areas of the country, cattle are primarily kept for their draught power. There is, therefore, a need to carry out a profound research to investigate alternative suitable technologies for the farming system so as to free cattle for their improved hides and meat. 	<p>ITC</p>	<p>See above. However, ITC will not be in a position to provide assistance for the establishment of a Disease Free Zone (DFZ), nor to strengthen the on-going Livestock Development Strategy.</p>

Technical assistance needs identified in the questionnaire	Organization	Response
<p>Question B(v) (cont.):</p> <p>b. Upgrading the meat industry</p> <ul style="list-style-type: none"> - Capital investment requirements for refurbishment of equipment in meat factories - Capital investments in refrigerated vehicles to shuttle products from factories to ports and cargo handling facilities in airport operations - Training of personnel in market research and intelligence, legal and hygiene standards of importing countries - Training requirement for expertise to uplift their knowledge to meet current market requirements - Uplifting of hygiene standards to comply with current and future legislation of importing countries - Investigation on the aspect of commercial diversification within the framework of overall export promotion and the potential viability of meat canning operations - Execution of a thorough investigation into the market opportunities and requirements, particularly appertaining to potential importing countries' legislative standards of hygiene and price sensitivity. 	ITC	See above.
3. Technical barriers: Gum arabic market		

Technical assistance needs identified in the questionnaire	Organization	Response
In reply to question C(b) : <u>Technical assistance needs according to priority</u>		
<p>Technical assistance to Ethiopia must be geared to strengthen and intensify the support of the country's effort to meet the new challenges posed by globalization and competitive forces, and thereby enhance its capacity to capture potential benefits arising from new trade opportunities. The technical assistance should lay special emphasis on targeting the private sector with priority being given to the creation of international partnership networks, joint investment promotions, improvement of supply capacities of existing export-oriented firms, and development of support service institutions. Therefore, technical assistance to Ethiopia in the following areas, in terms of their priority, is of paramount importance.</p>	IMF	<p>Ethiopia's current three-year ESAF arrangement with the Fund focuses on tariff reform; liberalization of the exchange system; reform of the financial system; and liberalization of the investment regime. Over the past five years, Ethiopia has received Fund trade-related technical assistance on tax administration; monetary affairs, banking and exchange; and balance of payments and trade statistics. In principle, it is envisaged that technical assistance on the liberalization of the exchange system and the reform of the financial system will continue.</p>
	UNCTAD	Please refer to A(k) and A(m).
	World Bank	See B(v).
<p>1. Strengthening the capacity of existing firms:</p> <p>Technical assistance should target the economic operators directly, particularly at the level of production process to assist them in the improvement of entrepreneurial skills through:</p> <ul style="list-style-type: none"> - Productivity improvement - Quality enhancement - Creativity and product design - Information acquisition and dissemination - Packaging technique 		

Technical assistance needs identified in the questionnaire	Organization	Response
<p>Question C(b) (cont.):</p> <p>2. Strengthening human resource development</p> <p>The technical assistance should involve upgrading the knowledge of policymakers, entrepreneurs and exporters on the rules and operations of international markets, on systematic and aggressive marketing strategies, and on the use of new information/communication technology</p>	ITC/ UNCTAD	Please refer to B(q) 1.
	WTO	See A(l) and A(m).
	UNCTAD/ UNDP (WIPO)	See A(l).
3. Strengthening support service institutions and facilities		
4. Training in ISO 9000 standards		
<p>5. Meeting international sanitary regulations</p> <p>a. Improving livestock raising</p> <p>b. Upgrading the meat industry</p>		
<p>6. Familiarity with international trading system</p> <p>Ethiopia needs technical assistance to be familiar with the international trading system, including its ever changing purchasing and inventory management. More specifically, the technical assistance in this area, inter alia, include:</p> <ul style="list-style-type: none"> - Continuous training of personnel - Organizing workshops and seminars - Reinforce the negotiating capacity of the country for the WTO membership 	WTO	See A(k) and A(m).

Technical assistance needs identified in the questionnaire	Organization	Response
Question C(b) (cont.):	ITC/ UNCTAD/ UNDP (<i>WIPO</i>)	See A(k) and A(m).
	World Bank/ WTO	See A(k).
7. Regional integration: - Infrastructural development in the sub-region - Adequate cold storage facilities - Upgrading Trade Information Network (TINET) modules and services; and - Training for effective regional trade promotion techniques. ¹		Agencies are willing to organize activities to respond to this specific need but would require funding as well as additional clarifications on the exact nature of the request by the Ethiopian authorities.

¹ Issues related to regional integration are being addressed in the COMESA project entitled "COMESA Trade Development and Promotion Programme".

Technical assistance needs identified in the questionnaire	Organization	Response
In reply to question C(d) : <u>Technical assistance needs in the area of information technology including training of human resources</u>		
<p>The development of technological capacity and human resource to make use of these tools are under way. Yet, a lot remains to be done. The technological set up for the use of such tools is established. What remains behind is the affordability and awareness of the business community. Thus, a wide range of technical assistance is required on how to promote the use of these tools. As regards to human resource development, it is quite a critical issue. Ample human resource development programmes should be extended if the use of such tools is to bear fruit.</p>	UNDP	Through project RAF/97/021 will assist the Government to design a strategy to promote the use of Internet.
	WTO	<p>One computer will be provided to the Department of Trade Industry & Employment. This will include a link to the Internet.</p> <p>Training on access and use of Internet resources and CD-Roms will also be provided.</p>