

ETHIOPIA private sector – Mr. Ryaz Shamji

I have been asked to speak on our experience of investing in pioneering sectors in land locked Ethiopia

Any foreign direct investment decision has to consider where to locate and why? The potential investor will consider:

Comparative Advantage (Robert Torrens/David Ricardo)

Where one country can produce a good at a lower opportunity cost than that of a competitor, without compromising on quality.

Competitive advantage. When a company's profitability is greater than the average profitability of its competitors for the same set of customers. Competitive advantage cannot be sustained for any length of time because competitors duplicate the competitive advantage held by any one firm.

Sustainable Competitive Advantage (SCA) - long term value-creating processes and positions that cannot easily be duplicated or imitated by other firms.

SCA or [core competency](#) –can be a brand or patent. It can also be an industry's cost structure -- eg monopolies in utility industries. To be sustainable, the advantage must be distinctive, and proprietary. **(Michael Porter)**

Introduction

During our preliminary visits to Ethiopia, in 1998 we asked consultants to study the potential for floriculture (rose) farming in Ethiopia. There were no highland rose farms in the country at the time and only one 2 ha wooden frame project in the lowlands. Their findings suggested a potential greater than that of Kenya, which is still today the leading African floriculture producer by volume (over 2000ha).

So why wasn't everybody growing flowers in Ethiopia already?! We then evaluated all the considerations*.

Advantages

Pioneer

Climate, altitude –ideal weather conditions for quality production and variety choice options

Land cost

Geographic proximity to market - Delivery speed-nearer to end consumer than other African producers

Labour supply - Operating cost - lower labour, utility, fuel and general cost of living, lower freight cost to market

Political and economic stability

Corruption (lack of)

Disadvantages

Lack of technical know-how

Airfreight limitations

Bureaucracy

Land tenure

Lack of input availability

Efficiency of labour

Country risk

Legal system

Language/culture
Pioneer
Administrative system
Landlocked

*Fundamental to any investment decision is individual prioritization attributed to each consideration.

Investment overview of Golden Rose

1998 – Land Allocation 20ha green field site. 2071masl. 42km from Addis Ababa
2/2000 – first export from 7 ha our company's mission statement in 1999 was ***“Ethiopia is famous for many things. Roses are not yet one amongst these, but Golden Rose Agrofarms is changing that.”***
2001 – Establishment of Ethiopian Horticulture Producers and Exporters Association
2002 – First expansion to 11ha/second land allocation of 13 ha.
2002 – Government establishes incentives to promote Ethiopian floriculture (FOLLOWING EVALUATION OF COMPARATIVE ADVANTAGES)
2003 – licenced inputs trader to incentivised floriculture sector(SCA)
2003 – Established 100% manufacturing export unit for packaging for floriculture industry (SCA)
2004 – Second expansion to 15ha
2005 – Established 1st Propagation unit in Ethiopia (SCA)
2007 – Third expansion to 20ha
2008 – Today we are the only Fairtrade rose farm in Ethiopia and one of only 19 in Africa. We are also FFP, and MPS (A) certified and FLP eligible which makes the most certified farm in Ethiopia. We have earned more than 63,000USD in the last 6 months for community based projects based on sales turnover being allocated to our Fairtrade Joint body account.

Other Projects

In 1998 one could only buy imported brands of water at exorbitant prices! This made no sense to us and we immediately evaluated starting a water bottling operation. *As long as the finished product could sustain the inland freight surely the raw material could viably do the same.* In 1999, having evaluated the market, import costs, tariffs etc we obtained pioneer status for a still bottled water company. At the time there were approximately 12 imported brands of water available in shops in Ethiopia. By 2003, between us and one other company that entered the sector we had achieved 100% import substitution, through no tariff barriers or special Government support beyond their standard investment incentives. This indicates that there may be whole areas of imports where comparative and or competitive advantage can lead to local production. Ethiopia now has nearly a dozen local brands of water in an expanding sector. Competitive advantage may no longer apply but we compete through brand loyal (SCA/Core Competence) and brand conscious customers as well as effective distribution etc. We can also look at potentially exporting our product to other land locked neighbouring countries!

2006 – pioneer status in ball point pen manufacturing in Ethiopia- The results here have been less favourable because we have to compete with Chinese product that is imported cheaper than our production cost. Our raw material cost is higher as our quality is superior and establishing branding in a market that is only price driven is proving difficult. We have 3 options-use cheaper raw materials, ask for tariff support or close the pilot project. Here taxes are the biggest issue not inland transport and this means that Government also has to decide on its position regarding supporting local traders or local manufacturers and to what degree to impact the free flow of trade as comparative advantage may not exist in this product being produced locally.

2006 – Pioneer status in flavoured powder manufacturing in Ethiopia. Here the market exists and manufacturing has begun after the piloting phase. Samples have gone to neighbouring land locked countries and we believe this product produced in Ethiopia can have competitive advantage-despite being produced from a land locked country.

What does this say about the constraints of being a land locked country in terms of promoting FDI. Being land locked is only one factor in the investment decision and clearly not a determining one at all.

During the Government's 2002 evaluated comparative advantage, opportunity cost - the theory that countries should specialize in the goods they can produce most efficiently rather than trying for self-sufficiency and immobility of factors of production between countries (Eli Heckscher and Bertil Ohlin) which attributes these production efficiency differences to differences in nations' factor endowments. A nation will have comparative advantage in producing the good that uses intensively the factor it produces abundantly.

They determined that there was a 4 billion dollar floriculture industry and that they had the altitude, land, labour proximity to market and climate to be a significant player in promoting the supply chain from Ethiopia. They then went about providing the incentives to promote themselves as an investment destination with upto 70% government bank finance and appropriate land zoning suitable for floriculture. In addition the sector was made tax free for imports and exports and a 5 year tax holiday on corporate income was granted. The sector is also open to all investors. They had to do very little marketing as the private investor soon found them, not the other way around. Ethiopia now has over 800ha productive area (in less than 6 years since incentivisation) and produces several non-traditional floriculture and horticulture products, making it #2 in floriculture production in Africa in under 6 years. If we consider an investment cost of usd300,000/ha this makes the total FDI in floriculture in 6 years in land locked Ethiopia a total of between usd 108mn - 360mn (depending on how much of the 70% finance on offer was taken up by investors). Employment in the sector is estimated at 50,000 and forex earnings at usd120mn per annum for 2008.

To their credit they have been able to create some 50 FDI partners in this sector alone and are now developing the sector by promoting a 3000ha horticulture corridor.

One of the biggest constraints faced by the Government in Ethiopia, prior to incentivisation, was approval from the Ministry of Agriculture, **ironically**, for the import of roses (*Rosa Abysinnicus*) to Ethiopia. I would maintain that it is in fact the duty of

ministries and government institutions to indeed collect data from organisations like customs authorities in LDCs for possible import substitution and to actually provide research into non-traditional production. I firmly believe that LDCs need to look at non traditional product diversification or secondary sector added value industrial development (import substitution), with incentives and promotion. Without wishing to offend my hosts unduly LDCs need to incentivise and promote investors to compete with products from DCs.

I believe every country will have comparative advantages in one or several products. I believe it is unacceptable to hide behind the argument that a country, because it is land locked cannot create meaningful FDI in either or all primary, secondary and tertiary sectors of development. I believe it is the responsibility of every Government to find out what its country's comparative advantages are and aggressively promote those advantages to the private sector. If you want a head start on what one such product might be – check out pongomia pinnatta.