ADDIS CHAMBER JOURNAL OF TRADE AND BUSINESS

Volume V Number I September 2020

Published by Addis Ababa Chamber of Commerce and Sectoral Associations

ISSN 2410-7530

P. O. Box 2458, Mexico Square, Addis Ababa, Ethiopia
Tel: +251 11 551 8055 Fax: +251 11 551 1479
Email: info@addischamber.com
www.addischamber.com

AACCSA is an autonomous, non-governmental, non-political and non-profit organization established in 1947 by proclamation with the objectives to provide different business development services, safeguard the rights and benefits of its members, and to accelerate trade and investment in the country.

Addis Chamber Journal of Trade and Business (ACJTB) is published annually by Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA), with the financial support from Confederation of Danish Industry (DI). The objectives of the journal are to help:

- Understand issues and problems of the private sector;
- Fill knowledge gaps and share information on trade and investment trends and state of affairs;
- Analyze and assess the business, investment, and macroeconomic environment of the country;
- Identify issues of competitiveness and investment opportunities as well as the comparative advantages and level of business competence of Ethiopian companies against other economies; and
- Analyze public policy and the regulatory environment to come up with concrete evidence and policy recommendations for the consumption of Public-Private Dialogue forum.

Disclaimer: The views expressed in the journal do not necessarily reflect the views of AACCSA or DI. The authors are responsible for them.

አዲስ ቻምበር
ADDIS CHAMBER

Confederation of Danish Industry

ADDIS CHAMBER JOURNAL OF TRADE AND BUSINESS
Volume V Number I September 2020

Published by Addis Ababa Chamber of Commerce and Sectoral Associations

The Impact of Import Tariffs on Dairy Products and Processing Companies*

ABSTRACT

In Ethiopia, children are exposed to malnutrition and stunting due to the lack of nutritious foods, including dairy products. Production of fortified dairy products is deemed useful in tackling malnutrition. Small size pack of dairy products, especially yogurt, produced by using imported whey ingredients that contain the required vitamins and minerals can for instance help to reach the majority of children at affordable prices. However, packages, spare parts, and inputs as well as ingredients are subject to huge customs duty and taxes which apparently affect viability of dairy products. This study examines the impact of tariffs on dairy products and processing companies and overall growth of the dairy sector thereby forwarding concrete remedial measures for action.

Both primary data in the form of key informant interview and secondary information from various sources are used. The major findings of the study show that the compounded total import duty and tax on imported items for processing the different dairy products range from 18 to 67.5 percent of the CIF value of the imported item. Specifically, the import duty and tax to produce pasteurized milk, UHT milk, cheese, cream and butter is 54.8 percent. The total compounded import duty and tax for powder milk to repack in different sizes is 35 percent. Imported packages incur a sum of duty and tax ranging from 42-55 percent. Whey ingredients used for yogurt production alone incur 67.5 percent import total duty and tax. Production of fortified milk in all forms of dairy products requires mineral and vitamin ingredients in addition to the other inputs to produce nutritionally better dairy products. The compounded total import duty and tax for vitamin and mineral premixes ranges from 23.75 to 29.5 percent.

From this we can conclude that import duty and tax levied on imported packages, inputs, and ingredients are high compared to CIF value. Based on the qualitative and quantitative information, the calculated share of the import duty and tax from the total cost reaches up to 13.5 and 18.5 percent, respectively. The study also found VAT's impact on price of dairy products as high and its corresponding impact on affordability to consumers. It also discovered that packaging materials are the main imports that constitute the biggest import share, and chemicals like starter cultures the second.

Thus, the study recommends the need for revising customs duty and tax levied on imported dairy items to be either exempted or significantly reduced in all import duty and tax, with special priority to duty and VAT; improvement in customs clearance procedures and subjectivity of duty/tax setting; ; improvement in foreign currency availability to processors; creating awareness on milk fortification to avoid shortage of nutrients; introducing a more holistic approach to improve the dairy sector in both quality and quantity, supplied with special focus on improved animal feed breeds, animal health services, technologies, and facilities.

* Abebaye Ayele holds MA in Rural Development from Indira Gandhi National University.
Fekadu Shimekite is a PhD holder in Applied Microbiology from Addis Ababa University and Institute of Innsbruck in Austria.
Kassaye Ayele holds MA in Public Finance from Ethiopian Civil Service University.

I. INTRODUCTION

The dairy sector has a good prospect in Ethiopia despite the numerous challenges. The demand for dairy and dairy products is growing with the increasing population, per capita income urbanization, and diet changes. On top of that, lifestyle changes call for ready-to-eat dairy products with appropriate packaging and labeling. Statistical data show that local production and import volume of dairy and dairy products are consistently climbing. Yet, the import volume of the country is low compared to other countries.

Although there are a number of reasons for low import and consumption of dairy and dairy products, the import tariffs and duties have been described as significant barriers by the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA). Production of dairy products such as pasteurized milk, yogurt, butter, cheese, cream, etc.; require ingredients like sugar, flavors, whey constituents, and yogurt cultures. Packaging materials, technology and machinery are also needed to finalize the production line. Importation of these ingredients on the other hand is subject to customs duty and other taxes ranging from 18 to 67.5 percent which apparently affects viability of dairy products, including fortification. Investigating the tariff and duty structures on dairy and fortified dairy products is, therefore, vital to know the effective growth of the sector, consumption, and its role in fighting malnutrition in particular.

Realizing the barriers dairy production and consumption have been facing, the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA), in collaboration with the Confederation of Danish Industry, is implementing a project named GAIN to provide access for better dairy and dairy products. This report is produced after an in-depth study on the impact of import tariff on dairy products and processing companies.

The report consists of five chapters. Chapter one constitutes the introductory parts, including the introduction, significance of the study, objectives, scope of study, limitations and methodology. Chapter two covers the literature review. Chapter three dwells on the findings of the study and chapter four on the challenges in the diary sector, specifically on import duties and taxes. The final chapter presents conclusions and recommendations.

1.1 Significance of the Study

Ethiopia is among the countries highly affected by malnutrition. As a result, children are exposed to stunted growth. According to the National Nutrition Program (2016-2000), improvements in nutrition will contribute significantly toward reducing poverty and achieving health, education, and employment goals. Nutrition stimulates economic growth, which in turn improves the mental health and physical productivity of the labor force. The World Bank estimates that undernourished children are at risk of losing more than 10% of their lifetime earning potential, thus affecting national productivity. Fighting malnutrition should, therefore, be the top priority for policy makers. Improving the national nutrition status is a priority area that needs urgent policy attention to accelerate socioeconomic progress and development.

As mentioned in the National Nutrition Program (2016-2020), the total annual cost of undernutrition in Ethiopia was estimated at ETB 55.5 billion, equivalent to 16.5% of GDP in 2009 (EPHI-AU). The study stated that the country could reduce losses by ETB 148 billion by 2025 if underweight rates are reduced to 5% and stunting to 10% in children under 5. Reducing child undernutrition rates to half the current level by 2025 could cut losses by ETB 70.9 billion, it suggested.

From the National Nutrition Program document it was possible to understand that the last four national Demographic and Health Surveys (EDHS) show a decreasing trend in the proportion of children stunted and underweight. The prevalence of stunting decreased by 31% (from 58% to 40%) between 2000 and 2014. The decline in the number of stunted Ethiopian children shows an improvement in chronic malnutrition over the past 15 years. The proportion of underweight children declined even more substantially by 39% over the same period. Conversely, the prevalence of wasting remained fairly static over the last 15 years. Anemia prevalence among under-five children remains high at 44%, even though it declined by 19% over the last 6 years (EDHS, 2011). The document also mentioned that the level of chronic undernutrition among women (15–49 years old) in Ethiopia was relatively high, with 27% having a body mass index (BMI) of less than 18.5 kg/m2, and no significant progress over the last decade. Similarly, the prevalence of anemia among women in the reproductive age group (15–49) was found to be 17% (EDHS, 2011).

The same study recommended among others that the improvement of nutrient consumption of Ethiopian children and women, fortification of wheat flour with zinc and fortification of edible oil alone with vitamin A for women of child bearing age and adult men. From this, one can deduce that fortification of dairy products could be an additional means to address the nutrition gap of Ethiopian children and avoid stunting in particular. Though fortification of dairy products is one solution to combat malnutrition in Ethiopia, huge import tariff cost on nutritive ingredients, packages and other inputs are barriers for local processing companies. In this regard, all critical inputs and packaging materials that are used to vehicle basic and fortified milk products to consumers are imported. And on all of these are imposed high duties and taxes. The high tax in turn resulted in increased cost of production that ultimately led poor families suffering from malnutrition not to afford buying any of these products. Understanding the extent of the problem and its direct association with malnutrition will obviously help promoters and policy makers to develop better strategy to reduce the impact of import duty and tax on dairy production and consumption.

Therefore, it is crucial to study the import duty and tax implication of imported items used for the production of fortified milk as most of the ingredients/nutrients used for fortification and other inputs are imported from abroad at high import duty and taxes.

1.2 Objectives of the Study

The contractors were requested to conduct this impact study of import tariffs on dairy products and processing companies as part of their consultancy service. The main purpose of the study is to examine the impact of tariffs on dairy products and processing companies and overall growth of the dairy sector; and thereby forward concrete remedial measures to the concerned government body to take necessary actions.

The study also aims to provide valuable inputs for processing companies, importers, consumers and actors in the sectors to change the challenges in relation to tariffs on dairy products, ingredients and related products.

Specifically the impact study examines:

a. The import duty structures on dairy products to produce basic and fortified products, packaging materials, use of machinery spare parts and new technology;
b. The import duty on overall dairy products and the effect on the cost structure thereby scaling up products diversification and fortification;
c. The relationships among dairy products and their roles to substitute import items; and
d. Availability and affordability of dairy products by the majority of the people to fight malnutrition.

1.3 Scope of the Work

The scope of this study focuses on key questions of tariff duty structures, related tax exemptions or incentives as well as policy spaces for tax exemptions or incentives for dairy production and processing companies. The scope of the research is therefore to:

a. Exhaustively investigate the tariff duty structure of dairy products processing, mainly inputs required for processing and fortification;
b. Thoroughly identify processed dairy product line, including possible fortification;
c. Map key stakeholders working on tax reform;
d. Identify key mechanism for tax exemption or incentives;
e. Assess the possibility of tax exemption;
f. Provide a concrete example of tax exemption in Ethiopia and detail the mechanism to get it approved;
g. Identify clear policy and tax exemptions or incentives;
h. Recommend appropriate policy framework, including incentives for ease of business.

1.4 Limitations of the Study

The main limitation of this study is lack of secondary/quantitative information. The majority of the dairy processors and input importers did not provide the required data. Only one company provided the required data in full and two companies provided partial information. As a result, sufficient data were not obtained for better analysis. The other challenge was the reluctance of key informants to give interview at the date of appointment. Some flatly refused to give information and expelled members of the study team. Due to the limitation of quantitative data on cost of production from the majority of the processing companies, the study team had, therefore, difficulty in analyzing the share of imported duties and taxes from the total cost of production. Since the study team only got the cost of production for pasteurized milk and yogurt from Ada'a Dairy Processing Cooperative Plc. it was confined to the data obtained from the company. The research team believes that the result of the analysis could have been better had the majority of the dairy processing companies provided data.

1.5 Methodology

Qualitative and quantitative data collection and analysis methods were used in combination. The qualitative method included Key Informant Interview to allow in-depth understanding and illustrate key issues; and the quantitative method was mostly applied to assess the financial implications of the various import tariffs (duty and taxes) on dairy processing and importing companies and compare them with implications on imported dairy products.

Views of the different stakeholders that have roles in the dairy sector were gathered from the relevant ministries, dairy processors, dairy input importers and other relevant agencies like professional associations. Data were accordingly collected from Ministry of Finance, Ministry of Trade and Industry, Meat and Dairy Industries Development Institute, Food, Beverages and Pharmaceutical Development Institute, Customs and Revenues Authority and Investment Agency, sampled dairy processing companies, inputs and machinery suppliers, and other relevant agencies.

The first task in the analysis work was the transcribing of the collected primary data. In the process text migration methods were used to summarize the different information. Triangulation of the different qualitative data was undertaken and the key informant data complemented with the quantitative data

obtained from literature and secondary sources. In the case of quantitative information, descriptive statistical tools like percentiles and tabulation have been used to describe results.

II. LITERATURE REVIEW

2.1 Tax Structure in Ethiopia

The Government of Ethiopia levies five customs duties and taxes on imported goods. Out of the five, one is customs duty/tariff and the remaining four taxes/non tariffs.

2.1.1 Customs Duty

With regard to customs duty on imported items, Ethiopia has six different rates; the rates depend on the type of products imported. The six duty rates are classified as 0, 5, 10, 20, 30, and 35 percent. The calculation of the total customs duty is generally based on the CIF (Cost + Insurance + Freight) value of the imported product.

2.1.2 Taxes on Imported Products

Import taxes are four in number and include excise tax, value added tax (VAT), surtax, and withholding tax.

(i) Excise tax
Excise tax is levied on luxury items and demand inelastic products. The tax is product dependent and ranges between 10 to 100 percent. Excise tax has 10 bands or groups of rates at which excise can be charged. These band rates are 10%, 20%, 30%, 33%, 40%, 50%, 60%, 75%, 80% and 100%. The rates are used to calculate the payable excise tax.

(ii) Value Added Tax (VAT)
VAT is levied on import items. In Ethiopia, VAT is levied at a flat percentage rate. To the exclusion of goods detailed in article 8 of Proclamation No. 285/2002 and goods exempted from VAT by the directive issued by Ministry of Finance and Economic Development, VAT is levied on every imported item. Importers are liable to pay 15 percent of the sum of cost, insurance, freight, customs duty, and excise tax, unless exempted.

(iii) Surtax
Surtax is imposed on import items. It was introduced in the Ethiopian tax system on April 9, 2007. The Council of Ministers issued the regulation to levy 10 percent surtax on imported goods. The imposition of surtax was necessitated to build the financial capacity of the government for interventions to solve the rise in the cost of living which is affecting consumers with low and medium income levels. The government has been exerting efforts to make grain available at a low price to urban dwellers with medium and low income levels. It, therefore, needed additional budget to pay for the subsidy, and this has been financed by surtax on import items. However, care has been taken to prevent a rise in cost of living and in cost of goods for investment as a result of the imposition of surtax over imported goods. Ten percent of the cost, insurance, freight, customs duty, excise tax, and VAT are the basis of computation for surtax on all goods imported into the country; unless the imported item is exempted from the tax.

(iv) Withholding tax

Withholding tax is a flat tax of 3 percent on Cost Insurance Freight (CIF) value of all imports, unless otherwise exempted. Exemptions include, but are not limited to, products imported by diplomats, organizations with duty free status, and raw materials and capital goods for power, mining and petroleum industries. The withholding tax is tantamount to an income tax which is used as a means of ensuring that companies importing products from abroad are paying their fair share of income taxes.

2.2 Import Tax and Duty Calculation

Customs Duty: - Import customs duty (CD) in Ethiopia is in general calculated based on the CIF (C+I+F- cost+ insurance+ freight) value of the item imported based on Customs and Revenues Authority. To calculate the customs duty (CD), it is multiplied with one of the six customs rates (CR 0, 5, 10, 20, 20, 30, and 35 percent) levied on specific imported items. From this we can deduce that CD is equal to the CIF value multiplied by respective CR (customs rate) designated as A. Mathematically, CD= CIF*CR (A).

Excise Tax: - Excise tax (ET) is calculated based on the summation of CIF value and the customs duty (CD) of the imported item. To calculate the excise tax, you multiply the sum of CIF value and customs duty by the excise tax rate (ER) assigned for the imported good. Mathematically, ET= (CIF+CD)*ER (B).

Value Added Tax: - This tax is calculated based on the summation of CIF value, the customs duty (CD) and excise tax (ET). To calculate VAT, you multiply the sum of CIF value, customs duty (CD) and the excise tax (ET) by VAT rate (VR-15%) assigned flat for all imported goods, unless exempted. Mathematically, VAT= (CIF+CD+ET)*VR (15%) (C).

Sur Tax: - Sur tax (ST) is calculated based on the summation of CIF value, customs duty (CD), excise tax (ET) and VAT by surtax rate (SR-10%). To calculate surtax (ST), you multiply the sum of CIF value, customs duty (CD), excise tax (ET) and VAT by surtax rate (SR-10%) assigned flat for all imported goods, unless exempted. Mathematically, ST= (CIF+CD+ET+VAT)*SR (10%) (D)

Withholding tax: - Withholding tax (WT) is multiplied by 3 percent rate (WR) on CIF value of the imported item and calculated as WT= CIF*WR (3%). (E)

*A= CIF*CR*	*Where,*
*B=A*ER*	*A=Customs Duty*
*C= (A+B)*VAT (15%)*	*B=Excise tax*
*D= (A + B+C)*SR (10%)*	*C=VAT*
E= (CIF) WR (3%)*	*D=Surtax*
Total Duty and Tax Payable = A + B + C + D + E	*E= Withholding Tax*

2.3 Value of Imported Dairy Products and Taxes Collected

Ethiopia imports a significant amount of finished dairy products in the form powder milk, yogurt, butter, cheese and other forms to meet its milk consumption. In the past three years (2016 to 2018), the country imported about ETB 1.5 billion worth finished dairy products, which means about half

a million ETB every year. The country does not produce milk products supplemented by additional nutrients, except one repacking company (Anchor); and all powder milks with mineral ingredients are imported from abroad. The importation of these products demanded a lot of foreign currency. See Table 1 below for details of the annual importation and the corresponding duties and taxes paid for dairy products in Ethiopia.

The country can overcome this surmountable challenge by producing the products locally and substituting the huge importation.

Table 1: Total import and duty/tax (Dairy products in ETB)

Year	CIF Value	Duty	VAT	Sur tax	Withholding tax	Total duty/Tax
2016	463,818,715	84,093,286	7,614,987	45,876,106	10,463,458	148, 047,837
2017	676,165,926	127,608,793	7,944,321	73,279,145	16,833,874	225,666,133
2018	340,405,239	65,783,432	4,251,913	38,698,524	9,313,584	118,047,453
Average	493,463,293	92,495,170	6,603,740	52,617,925	12,203,639	114,571,195

Source;- ERCA, 2016, 2017, 2018 imports

From the above table one can see the amount of dairy products imported to Ethiopia. The total calculated duties levied and paid on imported dairy products are about 20% on CIF value; and the total duty and tax is about 35% of CIF value. Other than the import duty, the additional major import taxes include surtax and withholding taxes. VAT is levied on few products, especially those products that are value adding and not consumed in the form of liquid milk (like yogurt, butter and cheese). Excise tax is totally omitted from the import tax and duty structure. The total duty and tax paid on imported dairy products could be said significant as compared to its CIF value.

2.4 Import Duty and Tax Experiences of Other Countries

To compare the duty and tax structure and its level of implication on local processors, the study has examined the import duty of Kenya and India on some imported dairy products and inputs. In this regard, Kenya applies East Africa Community (EAC) duties and taxes on imported items. The import tax rates vary between 0%, 10%, and 25%; and the normal rate of VAT is 16%. India levies a higher duty that reaches up to 60% on imported dairy products. Data show that India levies the highest import duty on imported dairy products. Ethiopia set the next big import duty, and EAC/Kenya levies the lowest import duties. The duty levied on imported milking machine, dairy machinery, inputs like packaging material, rennet, and others also vary from country to country. Even though the duty for some of the imported items is as high as 25% in EAC/Kenya, majority of the imported items are free of duty. Although Ethiopia's Investment Incentive Proclamation Number 270/2012 states that duty is free for machinery and spare parts up to 15% of the fixed capital, some 5%-35% of duty is paid on imported inputs. In India, with the exception of some imported inputs, the import duty levied looks lower to medium (for the majority the duty level ranges from 7.5% to 10%). As far as the duty levied on premix minerals and vitamins is concerned, Kenya/EAC does not totally levy any duty on these nutrients. According to the HS Code of 2017, Ethiopia charges 5 percent duty on these nutrients; and this can be termed as medium. India levies 10 percent import duty on these items, which is the highest compared to the other two countries.

From the above information, one can safely deduce that Ethiopia, which is one of the lowest dairy-processing countries, still levies quite big duty and the tax on imported dairy inputs.

III. FINDINGS OF THE STUDY AND DISCUSSIONS

3.1 Tariff - Duty Structure of Dairy Products and Inputs for Processing and Fortification

3.1.1 Tariff duty structure of dairy products

Dairy products are subject to tariff and non-tariff taxes. Respondents have revealed that major ingredients, mainly inputs required for processing and fortifications, are taxed while imported. They explained that the tax amounted to about 20% of production cost, and about 80% of production cost to raw milk. Below is a summary of ingredients and inputs that fall under the tax structure of the Customs Book.

- Different types of milk products (10-30% tariff & 13-28% non-tariff)
- Yogurt (30% tariff & 28% non-tariff)
- Cheese (30% tariff & 28% non-tariff)
- Butter (30% tariff & 28% non-tariff)
- Whey (30% tariff & 28% non-tariff)
- Powder milk (20%tariff & 13% non-tariff)

In Ethiopia, milk and milk products are imported in different forms. The Customs Code Book of 2017 gives detail account of tariff and non-tariff taxes levied on different types of milk and milk products imported to the country. Thirty percent duty tax, 10 percent surtax, and 3 percent withholding tax are imposed on milk and cream products of different forms (clean, sweetened or unsweetened); whereas food manufacturing industries importing milk in bulk are subjected to 20 percent duty, 10 percent surtax and 3 percent withholding taxes. This entails that importation of those milk products is discouraged by high level of taxation that compounded to a total of 35-46 percent.

Other forms of dairy products with high food value are also exposed to more taxation. Yogurt, cheese, whey and butter are under the category which imposes 30 percent duty, 15 percent VAT, 10 percent surtax, and 3 percent withholding tax, accounting to a total of 67.5 percent. Powder milk has long shelf life of more than one year. The government imposes on this product 20 percent duty, 10 percent surtax and 3 percent withholding tax, collecting a total of 35 percent.

From this, one can understand that dairy products that are processed by most local dairy industries are well protected by as high as 67.5 percent import taxes on imported processed dairy products. This seems to encourage local manufacturers to boost production and marketing, but not influencing them. This view is supported by many of the key informants who stated that importation of dairy products of same type as local manufacturers do not have impact on their processing. One of the reasons for this is that the market niche of the imported products of same type is quite different from the local processors. Few local processors have looked this situation from the perspective of deficit filling. Since the major problem of local industries is shortage of quality milk supply, the potential demand for milk and milk products is believed to be met by at least this channel of marketing system. Nonetheless, doubts are expressed by few processing industries that importers of these products are competing for the limited foreign currency.

3.1.2 Tax Rates of Inputs for Milk Processing, including Fortification

The tax rates for inputs of milk processing are:

- Vitamin pre-mix (5% tariff & 18% non-tariff);
- Mineral pre-mix (10% tariff & 18% non-tariff);
- Additives like maltodextrin (5% tariff & 28% non-tariff);
- Flavors like sugar & fruit (10% tariff & 28% non-tariff);
- Rennet & starter culture (20% tariff & 28% non-tariff).

Local dairy manufacturers or suppliers commonly import inputs indispensible to their processing companies. Among these, pre-mixes and additives are often imported for the purpose of fortification. Flavors, rennet and starter culture are on the other hand solely imported for enhancing the conversion process of raw milk into other forms of dairy products, including cheese, butter, yogurt and cream.

Premixes are of two types. Vitamin and mineral pre-mixes. The key informants explained that the two types can be brought in single or mixed forms. They are important because they can enrich the dairy products with nutrients that the basic diets are naturally deprived of. On vitamin premixes are imposed 5 percent duty, 15 percent Value Added and 3 percent withholding taxes, in addition to 23.75 percent tax rate; whereas on mineral premixes are imposed 10 percent duty, 15 percent Value Added, and 3 percent withholding taxes, adding 29.5 percent tax rate.

Likewise, certain additives such as maltodextrin are imported after 5 percent duty, 15 percent Value Added, 10 percent sur, and 3 percent withholding taxes are collected. This makes the total rate 35.8 percent. Additives are very important components of milk powder that supplement the nutrients required by the human body.

Some dairy processing industries have specialized in few products such as yogurt and cheese. For these industries, rennet, flavors, and starter culture are vital inputs to be imported regularly. Hence, the importation taxes on the inputs are of great concern for these industries. This study has found that flavors, including fruits and sugars, are imported after 10 percent duty, 15 percent Value Added, 10 percent sur, and 3 percent withholding tax payment. On rennet and starter culture are also imposed 20 percent duty, 15 percent Value Added, 10 percent sur, and 3 percent withholding taxes.

Though all these inputs are generally necessary and indispensible components of dairy products, the question is what proportion of each type of input per unit of milk; say 1,000 liters, must be mixed during processing. For instance, respondents of the study have said that a small amount of starter culture is used to initiate the curd formation process of large volume of pasteurized milk. Similarly, very small amount of flavors (strawberry, orange, mango or pine apple powders), and stabilizers (such as alginates, pectin, and starch) are added to large volume of milk during processing. The standard procedure in cheese manufacturing, especially hard cheeses, is to mix rennet to milk at a proportion of 1:10,000 (or 0.1ml rennet per 1,000 liters sterilized milk). Starter culture (bacteria) is added at a very low proportion to milk (e.g. 0.1ml per 1,000 liter of milk) as described in Codex Standard for Fermented Milks (CODEX STAN 243-2003). So much so, the lower the proportion of these inputs the lower the cost share compared to cost of raw milk and others. This fact was supported by considerable number of key informants whose view leverages more to unavailability of raw milk to industries than the impact of importation duty taxes.

3.1.3 Tax Rates of Packaging Materials

The tax rates of packaging materials are:
- Sachet (20% tariff & 28% non-tariff);
- Plastic cup (20% tariff & 28% non-tariff);
- Aluminum top (20% tariff & 28% non-tariff);
- Printed sheet (10% tariff & 28% non-tariff).

Key informants of this study have confirmed that different types of packaging materials are used to make the processed food available to consumers. Most industries use sachets of different grades for pasteurized and UHT milk selling; plastic cups seamed with aluminum top for yogurt; printed sheet and metal cans for blending of powder milks. Correspondingly, on sachet is imposed 20 percent duty, 15 percent Value Added, 10 percent sur, and 3 percent withholding taxes; while on plastic cup and aluminum top are imposed 20 percent duty, 15 percent Value Added, 10 percent sur, and 3 percent withholding taxes. Printed sheet is also imported with the same tax rate for non-tariff taxes in addition to 10 percent duty tax, making the total 42 percent. Overall, the tax rate set for packaging materials is in the range of 42.2-54.8 percent.

Packaging cost constitutes the biggest share of imported items for local dairy processors. There are only few packaging materials locally produced. The processers complain about the quality and the price of the locally produced packaging materials. The local products are poor in quality and high in price when compared to the imported ones. The cost implication of imported raw materials in the study is assessed for one packaging material producing company. The import cost and accompanied duty and taxes were found to be very significant and reached up 60% of the company's production cost. The duty and tax levied on imported raw materials to produce packaging material reached 27% of its CIF value of the imported items. This cost implication trickled down to the dairy processing companies and correspondingly to consumers as it has implications on the processed dairy product prices.

3.2 Processed Dairy Products with Possible Fortification

Dairy products locally produced are pasteurized milk, ultra high temperature (UHT) milk, yogurt, butter, cheese, cream, and blended and repackaged powder milk. Of these, the major product is pasteurized milk. With the exception of the repacking company, all the other companies do not produce fortified milk which is supported by nutritive ingredients.

The following observations are made after scheduled visits to sample industries to see the products and the processing lines:

Pasteurized milk processing involves fat separation, homogenization and standardization, heat treatment to kill pathogenic micro-organisms (for 15 sec. at 72°C) and finally packaging in single-service containers, i.e., in flexible plastic pouch/sachet.

Sterilized milk processing involves fat separation, homogenization and standardization. Then, the skimmed milk is treated by Ultra Heat Treatment (UHT) at 140°C for 2 sec. or at 135°C for 3sec., and the end product is packaged very aseptically. This product has a six-month shelf life.

Cream product processing mainly constitutes ice cream. Depending on the food habit, it may be supplemented with coffee, or fruits. Then, it is aseptically packaged or kept in fridge. Here the necessary material is plastic cup.

Butter processing involves the process of skimming (fat separation), pasteurization, inoculation by starter culture, churning (beating in of air), working (kneading) and aseptic packaging. Here the necessary inputs are starter culture and plastic film packages.

Blending and repackaging of milk powder involve blending of whole, skim or whey milk powder with sugars, premixes (vitamin & minerals) and maltodextrin ingredients. This is followed by bagging of the blended product into a carton, tinplate or sachet. Here the necessary ingredients are milk powder, premix of vitamin and minerals, sugars and maltodextrin. The important packaging materials are carton, tin plate or sachet and aluminum foils.

Fermented Milk: The most commonly accepted fermented milk at industry level is yogurt. The process of yogurt production involves heating, inoculation by starter culture bacteria, incubation, packaging, fermentation and storage. Here the necessary inputs and materials required for processing are starter culture, plastic cup, aluminum foil; and flavors such as strawberry, orange, mango or pine apple powders.

Cheese: The manufacture of cheese involves several different processes. The following steps are essential to all variety of cheeses, including soft and hard cheeses. These are clotting of milk, removal of the whey, acid production, salting, and fusion of curd grains into a coherent loaf, curing, storing and packaging. Here the necessary inputs and materials required for processing are starter culture, rennet, plastic film packaging.

3.3 Stakeholders in Tax Incentives and Mechanisms for Tax Exemption

Ethiopia has different tax structures and offers investment incentives for manufacturers, including dairy processing companies. Different institutions are established to help investors technically and to facilitate investment. In this regard, the Ethiopian Meat and Dairy Industries Development Institute (EMDIDI) hosts all dairy industries to provide technical and administrative support. At federal level, the government bodies responsible for tax incentive for the dairy sector include Ministry of Finance (MoF), Ministry of Trade and Industry (MoTI), Ethiopian Revenues and Custom Authority (ERCA), and Investment Agency of Ethiopia (IAE). Procedurally, application for tax incentive is initiated by the company; and the process is as follows:

- The company submits its request along with supporting and required documents to the relevant ministry;
- In the case of dairy processing companies, they can present their requests to MoTI, with support letter from the Ethiopian Meat and Dairy Industries Development Institute (EMDIDI);
- If the ministry accepts the tax incentive request, it will send it to MoF with a support letter;
- A committee led by MoF and members from the same ministry, MoI, IAE, and ERCA reviews the request and approves or rejects the request. When rejected the Minister of Finance and Economy Cooperation will give the response to the companies.
- If approved, MoTI will issue a certificate and send it to ERCA for implementation.

The aforementioned committee is responsible for helping dairy processing companies to get tax incentives for imported inputs, spare parts and packaging materials. One of the advantages of this committee is that it can make use of the provision of the second schedule scheme for the import items and lower import duties and taxations. Tax incentive priority is also given for companies that produce import substitutes and involved in value adding activities.

The major stakeholders of the dairy sector and their roles for the provision of import duty and tax incentive are summarized in the following table.

Table 2: Stakeholder analysis of tax incentive for dairy processors

No.	Stakeholder/institution	Role of the stakeholder
1	MoF	Sets duty and tax for imported items across the HS Code Leads the federal level technical committee for tax incentive and approves requests
2	MoTI	Approves tax incentive request and submits same to MoFEC Issues certificate for approved duty and tax and sends same to ERCA for implementation Member of the federal committee for tax incentive
3	ERCA	Member of the federal committee for tax incentive Implementer of the import duty and tax incentives provisions
4	IAE	Member of the federal committee for tax incentive Supports investors in accessing tax incentives especially for those producing exportable products
5	EMDIDI	Lobbies decision makers to reduce duty and taxes for dairy industries requesting tax exemption/reduction
6	Dairy processing companies	Submit tax incentive request with a study and convincing justifications
7	Ethiopian Food, Beverage and Pharmaceutical Development Institute	Responsible for fortification of food products

3.4 Tax Incentives in Ethiopia

Ethiopia has tax incentives that encourage industries, especially for those engaged in the production of import substituting products, value addition products, and exportable products. This is because they have significant implications in the country's economic development. The production of import substituting products has big implication in minimizing foreign currency requirements and producing exportable products that maximize foreign currency earnings. The value adding products will also have significant contribution to the economy.

In view of these, Ethiopia offers a comprehensive set of fiscal and non-fiscal incentives to encourage investment in its priority areas. The incentives include:

- Customs duty exemptions of up to 100% on imports of capital goods for eligible areas of investment;
- Income tax exemptions for a period ranging between 1 and 9 years, depending on the specific activity and the location of the investor;
- Loss carry forward for business that suffer losses during the income tax exemption period for half of the tax exemption period;
- With the exception of a few products, no export tax is levied on Ethiopian export products;
- Duty Drawback Scheme, Voucher Scheme and Bonded Factory and Manufacturing Warehouse Schemes, various non-fiscal incentives for exporters and guaranteed remittance of capital for foreign investors.

Council of Ministers' Regulation Number 270/2012 section two has given incentives free of duty/tax on capital goods and spare parts up to 15% of fixed capital. In addition, the same regulation has given a three-year income tax exemption as tax incentives for dairy processing companies established in Addis Ababa and the surroundings; and a five-year income tax exemption for other companies established in other places.

Ethiopia has an open policy for import tax reconsideration for companies that present their request with study and justification. For this to happen, the government has established institutions under the different ministers to support companies to receive the service. When a government body accepts the request of the company, the import duty and tax incentives will be permitted. There are evidences that several industries had received import tax reduction in this regard. Moreover, the government provides incentives for companies that produce import substitute products, value added products, and exportable products. Applicants are able to enjoy the benefits from the second schedule import duty and taxes. According to a key informant in MoF, import duty and tax reconsideration study for agricultural inputs is underway with the view to promoting the agriculture sector.

3.5 Impacts of Import Duty and Taxes on Processing Companies and Consumers

In Ethiopia, import duty and tax of are calculated progressively. Since the tax rate is progressive, the import duty/tax is very huge. In view of this, the compounded total import duty and tax on imported items for processing the different dairy products range from 18 to 67.5 percent. Specifically, the import duty and tax to produce pasteurized milk, UHT milk, cheese, cream and butter is 54.8 percent. The total compounded import duty and tax to repack powder milk in different sizes is 35%. Imported packages and ingredients used for yogurt production incur an import total duty and tax ranging from 18 to 67.5 percent. The production of fortified milk requires mineral and vitamin ingredients, and the compounded total import duty and tax for these ingredients range from 23.75 to 29.5 percent. This huge payment will have impact on the production cost of the dairy processors, and in turn affects the purchasing power of dairy product consumers. The detail sum of the compounded import duty and tax structure for processing the different dairy products, including ingredients for fortified dairy products, are described in the following table.

Table 3: Compounded import duty and tax on major types of inputs and packages used to produce the different dairy products/product lines (including fortification)

Product type	Major import items required	HS Code	Duty	VAT	Surtax	WithHT.	Total
Pasteurized milk	Plastic films (Low-Density Polyethylene)	39201000	20	15	10	3	54.8
UHT milk	Tetra Pack (Carton paper coated with polyethylene)	39231000	20	15	10	3	54.8
Butter	Parchment paper or wax coated paper or cellophane or aluminum foil		20	15	10	3	54.8
Yogurt	Plastic cups, aluminum foils, Cultures (thermophilic or mesophilic lactic acid bacteria),	83099000	20	15	10	3	54.8
	Cultures (thermophilic or mesophilic lactic acid bacteria)	17021900	5	15	10		32.9
	Whey ingredients	04049000	30	15	10	3	67.5
	Starch modified	35051000	20	15	10	3	54.8
	Potassium sorbate	29161900	10	15	10	3	42.2
	Starter culture	30029090	0	15	0	3	18
	Additives & flavors (strawberry, orange, mango & pine apple)	21069090	30	15	10	3	67.5
Cheese	Plastic film packaging,		20	15	10	3	54.8
	Rennet	35071000	20	15	10	3	54.8
	Culture	17021900	5	15	10		32.9
Powder milk repack(fortified)	Cartons, tin plates, sachets, pre-mix (minerals and vitamins), maltodextrin, caster sugar	19011010	20	0	10	3	35
	Whole Milk Powder	04022100	20	0	10	3	35
	Skim Milk Powder	04022100	20	0	10	3	35
	Whey powder	04041000	30	15	10	3	67.5
	Sugar (plus 33% excise tax)	72101200	5	15	10	3	63.6
	Vitamin premix	29369000	5	15		3	23.75
	Mineral premix	25309000	10	15		3	29.5
	Maltodextrin	17021900	5	15	10	3	35.8
Cream	Low Density Polyethylene pouch	17021900		15	10	3	54.8
	Cream	4029900	20	15	10	3	54.8
For fortified products	Premix (vitamins and minerals)	29361000	5	15	0	3	23.75

Source: Customs Book 2017

The above table clearly shows that the import duty and tax levied on imported packages and ingredients used for dairy processing are huge and have implication on the cost of production. For instance, the total sum of import duty and tax for whey ingredient, which is one of the major inputs to produce fortified yogurt, is 67.5 percent. It was also observed that cost of production even increased when vitamin and mineral ingredients are added for fortification in the products.

Qualitatively, the percentage of imported items on the total cost of production is 20 percent. The calculated cost share of duty and tax levied on these imported inputs (18- 67.5 %) will bear 3.6 - 13.5 percent value on the total product cost. Even though the cost share of imported items is estimated to be about 20 percent in qualitative terms, the study team further gathered and analyzed the cost implication based on the cost of production for pasteurized milk and yogurt production it obtained from Ada'a Dairy Processing Company.

Cost of Production - The Case of Ada'a Dairy Processing Cooperative Plc.

At Ada'a Dairy Processing Cooperative plc the cost of production of one liter of pasteurized milk is ETB 22.79. Out of this, ETB 2.50 is used for package. The calculated cost share of the package is about six percent of the total cost of pasteurized milk production. The cost of production for 500 ml of yogurt is estimated at ETB 18.32. Of this cost, ETB 6.05 expenditure is used for package and ETB 0.47 for starter culture. The remaining ETB 11.80 is used to buy raw milk and cover other costs. Detail of the cost share of import duties and tax on imported items for yogurt production is shown below.

Table 4: Cost share of import duty and tax on items to produce 500 ml Yogurt (Ada'a Dairy Processing Cooperative Plc.)

Item	Type	Cost (ETB)	Cost share (%)	Import Duty/Tax rate (%)	Import duty/tax payable (ETB)	Cost share of import payable (%)	Remark
A	b	C	d=c/18.32*100	e	F=e*c	g= f/18.32*100	
Raw milk and other local costs	Local	11.80	64.41	0	0		
Package	Local/Imp-orted	6.05	33.02	54.8	3.32	18.10	If package is imported, the import cost constitutes 18.10 % of the total production cost
Starter culture	Imported	0.47	2.57	18	0.08	0.46	If package is not imported, the import cost constitutes only culture and its share is only 0.5% of the total production cost
Total		18.32	100		3.40	18.56	If both are imported, the import duty and tax contribution reaches up to 18.5% of the total production cost.

Source: Ada'a Dairy Processing Cooperative Plc

From the above table one can deduce that import duty and tax on imported inputs and packages have implications on dairy processing companies in two ways - when both are imported and only starter culture is imported.

When both package and starter cultures are imported, import duty and tax on imported packages and culture will reach up to 18.5 percent (Table 4) of the total cost of production. This cost share is very significant. As packaging materials are nowadays locally produced, the import duty and tax impact is not directly observed by the dairy processors. Though not seen directly for processors, the cost of locally produced packages will increase as package producing companies are charged duty and tax on imported raw materials used to produce the packages. This will increase the cost of production of processors while they use the locally produced packages. Subsequently, processors will be forced to increase the price of milk products and this will in turn have impact both on processing companies and consumers.

When starter culture is imported, the cost share of import duty and tax of the starter culture constitutes 0.5% of the total cost of production of yogurt. From this one may deduce that the import duty and tax implication on dairy processers is very small. However, as stated above, since big duty and tax are levied on imported raw materials for the production of packaging material the cost implication is still very huge when both packages and cultures are imported to produce yogurt.

In conclusion, the study has found that cost implication of imported duties and taxes on dairy processing companies as well as consumers is very high, as supported by both qualitative and quantitative data sources. According to the qualitative sources, the cost share of the duties and taxes on imported inputs reached 13.5 percent of the total cost of production; while in the quantitative analysis (using only data of one company) the cost share reached 18.5 percent of the total cost of production.

IV. MAJOR CHALLENGES OF THE DAIRY SECTOR

Findings of the study show the following major challenges in the dairy sector.

1. Supply-side challenges

Majority of the key informants stated that the problem with the supply side is more significant than the import duty and tax size of the dairy sector. This is due to the inadequate supply of milk with the required quality for processing.

Inadequate supply of raw milk: Even if Ethiopia is one of the countries with large number of livestock, its dairy product is not yet satisfying the needs of the population. Milk producers/farmers could not supply sufficient amount of raw milk for processing companies and companies are forced to produce below their capacity (for the majority lower than half their capacity).

Poor quality of milk: In addition to the unsatisfactory supply of milk, the quality is very poor, according to processing company key informants. Milk adulterated by chemicals, water and other materials are supplied to processors. This is due to the fact that the milk marketing is not based on fat rate method which could have helped to easily control the quality of milk supply.

High cost of raw milk: As milk production is low in the country, the cost of raw milk is high and increasing through time. This will have effect on price setting of the processed milk and consumers.

Low demand for dairy products during fasting periods: Milk producers and processors are highly affected when demand for milk products vividly falls during fasting seasons of Orthodox Christians who are the major consumers. These fasting periods could extend up to 210 days in a year.

2. Lack of attention

Regardless of the presence of the Ethiopian Meat and Dairy Industries Development Institute which is mandated to support dairy industries in both technical and administrative problems, the key informants asserted that due attention has not been given to the dairy sector. As a result, the leading African country in cattle population gains much lesser advantages from the sector than most sub-Saharan African countries. Thus the dairy sector needs an independent board which governs the overall dairy development and marketing aspects of the country. It should have been established long as as a body that challenges government policies to the advantages of dairy farmers and dairy industries in particular and consumers in general.

3. Challenges in relation to customs procedures

Long customs clearance procedures: According to processors and input importers, the challenge equally important to the tax/duty size is the time taken for customs clearance of imported items as this incurs big costs. The costs are incurred in two ways - first as warehouse payment, and second in the staying idle of their factories while imported inputs are stuck at customs.

Subjectivity of duty/tax setting: The other basic problem mentioned by the key informants is the subjectivity of customs officers in setting duty and taxes on imported goods. The customs officers usually assign different rates for similar imported items; and in that case producers are forced to pay high duty/tax rate which is above the normal rate for the imported items.

4. Shortage of foreign currency

The other challenge mentioned by the processors and input importers is that they do not get sufficient foreign currency to import the required items on time. As a result, their factories are not operational at full capacity.

5. High import duty and tax rate

Processors in general pointed out that the tax rate for imported inputs for dairy processing is huge. As can be seen from the Customs Book, the import duty and tax for packages and inputs, including milk fortification ingredients, is a lot of money. The compounded sum of duty and tax on these items ranges from 18% to 67.5%, which could be big just looking from its CIF value. The calculated duty and taxes payable on imported items constitute up to 13.5 to 18.5 percent of the total production costs of dairy products.

6. Limited interest for dairy product fortification

Most of the key informants and professional associations stated that milk is a complete food that constitutes the major nutrients required for healthy life. According to them, the challenge is the shortage of raw milk supply to produce basic dairy products rather than producing fortified milk. Nutrition professionals said that Ethiopia has selected only three products/vehicles, namely salt, wheat flour, and edible oil for fortification,; as these products are consumed by the majority of the people and centrally produced in big factories. Milk is not among the selected items for fortification purpose. If milk is to be selected as vehicle for fortification, a detail study is required to know for which target community is the fortified product produced and which types of nutritive ingredients to be added in the dairy product. Moreover, standards and procedures have to be developed to let fortified milk products mandatory.

V. CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

Ethiopia's annual per capita consumption of dairy products is one of the lowest in the world. As milk supply is limited and the required quality not maintained, local processers could not meet the dairy product needs of the population. With limited capacity, the dairy processing companies in Ethiopia mainly produce pasteurized milk, UHT milk, yogurt, butter, cheese, cream, and repacked milk powder. From among these products, the main product is pasteurized milk. As the price for milk is high and increasing through time, the price is not affordable for consumers and the majority cannot access dairy products. As a result, children do not get the required amount of milk as basic food in their early ages and are consequently exposed to malnourishment/stunted growth. To address this problem, fortification of food items, including milk, is suggested by the Addis Ababa Chamber of Commerce and Sectoral Associations and GAIN. However, in Ethiopia there are no processing companies that are involved in fortified milk production, except one repacking powder milk producer company (Anchor Powder Milk).

Ethiopia has selected three vehicles for fortification (salt, wheat flour and edible oil) as these products are consumed by the majority of the population and can be produced centrally to easily mix the ingredients.

With the aim of producing fortified milk in Ethiopia in order to address the malnutrition problem, this study focused on the impacts of import tariff on imported packages and inputs, including ingredients for fortification. The findings of the study showed that import duty and tax levied on imported machinery and spare parts (up to 15% of capital cost) are free of payment. The duties and taxes levied on packaging materials and other inputs, including mineral and vitamin nutrient ingredients used for fortification, range from 18% to 67.5% of CIF value. The calculated cost of import duty and taxes on inputs and packages cover 13.5 to 18.5 percent of the total cost of production. This is huge and needs reconsideration by the government as the issue of malnutrition is basic to creating healthy citizens. This also helps Ethiopia to reduce cost of hunger, which is stated as "one USD investment on nutrition will have 30 USD return".

Though the main interest of the processors is on the supply-side of dairy production, they propose that import duty and tax on milk production inputs be removed. They also put emphasis on VAT levied on imported inputs. It is known that VAT is levied on inputs of yogurt and cheese processors. According to the processors, VAT has to be omitted as it has big impact on increasing sales price of their products, and as a result high dairy product price. This high price setting by companies on processed dairy products will have direct implication on affordability. The key informants also mentioned that import tax is in favor of milk importers than milk processors as imported milk is free of VAT. Besides, they are highly discouraged by the long clearance procedures at customs and the subjectivity of duty/tax levying.

Finally, with the existing limited information (especially quantitative data), the findings of the study revealed that the share of import duty and tax is huge on cost of production. However, to see its implications in more precise manner, there should be further analysis with sufficient quantitative data from the cost of production point of view to exactly deduce how significant it is from the total cost of production. To reach at precise findings, processors have to provide quantitative data of their cost of production.

5.2 Recommendations

In order to improve the dairy sector, Ethiopia has to work not only on the impact of import duty and tax but also on the sector as a whole. Since the objectives of this study are, however, limited to the impacts of import tariff on dairy products and processing companies, with special emphasis on fortified milk products, the following recommendations focus on duty and tax issues.

1. **Import duty and tax revision**: Ethiopia in among the countries where dairy products are so expensive that they are unaffordable for the majority of the population. Lack of balanced food is a common issue especially with children below five; and most of them are stunt. To alleviate the problem to some extent, boosting local dairy production would help. However, the customs duty and taxes on imported dairy inputs and packages generally reach up to 67.5%. This will have significant impact on the cost of production of processing companies. The 15% VAT levied on imports has especially a direct impact on consumers. As dairy is one of the basic foods that combats malnutrition, especially stunting of children, the Government of Ethiopia has to either reduce or totally exempt all import duty and taxes levied on imported dairy items (inputs and packages) so as to benefit processing companies and consequently citizens.

2. **Improve Customs Clearance Procedure**: One of the challenges of local dairy processing companies is the long customs clearance procedure for imported dairy processing items. As the time of customs clearance increases, producers incur warehouse payments/costs and their factories would be idle due to lack of materials/inputs under customs process. Therefore, the ERCA has to devise a mechanism that reduces the time taken for customs clearing.

3. **Avoid subjectivity in levying duty/tax**: Subjectivity of customs officers in setting duty and taxes on imported item is the other challenge. According to the importers, the imposition of different costs, duty and tax on same imported items is common. Because of the subjectivity of customs officers different duties and taxes are allotted to similar items. The other challenge is cost calculation. The Ethiopian Revenues and Customs Authority does not usually accept costs submitted by importers. In this case the Customs calculate the CIF value for the imported item and this mostly increases the cost of the item and the corresponding import duty and tax. This will have significant impact on the producers and subsequently on the consumer. Hence, ERCA has to work conscientiously to avoid the subjectivity of its officers.

4. **Improve foreign currency availability**: Shortage and lack of timely availability of foreign currency is the other challenge in the dairy sector. Processors are challenged to get the required foreign currency to import inputs and packaging materials. Since dairy production is however essential to improve the nutritional status of the population, especially children, the government has to give priority in making foreign currency available to processors.

5. **Awareness creation on fortification**: The knowhow of stakeholders on the production of fortified food products is limited. Ethiopia has only three selected vehicles for fortification. Diversification of fortified products, including dairy products, could help to reduce the challenges of malnutrition. Hence awareness creation for stakeholders, including government bodies, could be a way to produce fortified products in Ethiopia.

6. **Detail study on how to fortify milk in Ethiopia**: Interviewed professionals on food and nutrition have been advising the need for a detail assessment and study before fortification of dairy products.

However, the nutrition gap, the ingredients required, and the target population have to be first well understood. It has also to be determined whether the specific dairy product is really the right vehicle to be fortified. Does the dairy product fulfill the criteria for selection of the vehicle? Is it accessible and affordable by the poor? The vehicle for fortification should be a food type that is consumed by the majority and produced centrally. Hence it is advisable and good entry point to start by conducting research on how to fortify dairy products.

7. **Appropriate policy framework**: To produce fortified products, there should be standards, procedures, and considerations of sustainability. The fortified products should also be mandatory and the quality of the products controlled. In sum, the country should have a clear policy for the production of fortified products. Similarly, even though Ethiopia provides tax incentives and space for tax reconsideration to encourage investment, special attention has to be given for tax policy review for important imported items like dairy processing inputs and packages to promote the dairy sector.

References

1. Abebe Hunachew Taxpayers Education and Communication Senior Expert, Import and taxes in Ethiopia
2. AGP-Livestock Market Development Project, 2013. End market analysis for Meat/Live Animals, Leather and Leather Products, Dairy Products Value Chain
3. Central board of Indirect taxes and customs tariffs, Custom tariff (as 01-07-2019), department of customs, Ministry of finance for India
4. EKUMA Consultancy and Training Service PLC, Analysis of value and barriers for fortified Dairy Products in Ethiopia, April 2018
5. Ethiopian Custom Guide (March 2017). Ethiopian Revenues and Customs Authority (ERCA)
6. Ethiopian Public Health Institute, 2013, Ethiopia National Food Consumption Survey, Addis Ababa
7. East African Community amends customs duties and common external tariffs, 30 Indirect Tax Alert (July 2018)
8. Federal Democratic Republic Of Ethiopia National Nutrition Program, 2016–2020
9. Harmonized Commodity Description and Coding System (Version 2017) of ERCA
10. Import 2014-2018, Ethiopian Revenues and Customs Authority (ERCA)
11. Pieter Walstra, Jan T.M. Wouters and Tom J. Geurts (2006). Dairy Science and Technology, Tayler and Francis Group, LLC pp: 421-675.
12. Tam Consult, 2008. SNV Netherland Development Organization: Dairy Investment Opportunity in Ethiopia.
13. Tarif book- end –of- 2017, Ethiopian Revenues and Customs Authority (ERCA)
14. https://www.kra.go.ke/en/business/companies-partnerships/companies-partnerships-pin-taxes/company-partnership-imports-exemptions- Taxation for Companies & Partnerships-www.investethiopia.gov.et/index.php/investment-process/incentives-taxation-and-other-procedures.html

Analysis of Policy Options for Improved SPS Measures - The Case of Selected Ethiopian Export Products*

ABSTRACT

The paper primarily focuses on assessing the Sanitary and Phytosanitary (SPS) measures as applied *by EU markets, by examining the issue within the broader context of the country's planned accession to the world trade organization (WTO), and the commitment to join the Africa Continental Free Trade Area (ACFTA). It can as well be viewed as a snapshot of the country's trade within the European market.*

The impact assessment (IA) is built upon available data on the rejection of a few (10) selected export products by the EU - namely Sesame, red pepper powder ("berbere"), spice mixture, paprika powder, chilli powder, ginger powder, long peppers, black pepper, turmeric powder, and ground spiced pepper. The paper can be viewed as a snapshot of the country's trade within the European market. As such, it does not dwell on the broader picture as taking place in other major trading partners (such as the East Asian countries, Northern America, etc), which is out of its scope.

The focus on SPS is informed by the fact that Ethiopia's export products are predominantly primary agricultural products which are affected by SPS measures resulting in increased transaction costs, damage to reputation, and a loss of confidence to be accepted by export certification systems.

The IA furthermore demonstrates that SPS measures do strongly influence (and, in return, they themselves are influenced by), a host of variables - including the environment, gender, production, transportation, services, and trade, among others. Importantly, such dependency is shown to be symbiotic in that the efficacy and expected outcome of the proposed option critically hinges on the associated complementary measures, which consist of institutionalized training & awareness creation, ensuring an SME lens, gender specific measures to address the plight of women, policy coherence and alignment, and law enforcement.

After some level of analysis and comparison of the three alternative perspectives, the paper recommends enhanced institutional capacity building of national quality, through incremental investments (in infrastructure, systems, people, and testing centers/laboratories) through a decentralized system. This is hoped to improve access to the conformity assessment services at the points of need (of production/ export hubs) in various Regions of the country as a better option for policy making.

The caveat is that this should not in any way stifle private sector involvement. As such, it is also important for the government to gradually give way, after laying down the necessary critical foundation, for the private sector to move into the industry. This entails systemic and phased interventions by the public sector, and putting in place the right mix of investments and capacities, which are out of the reaches of private companies, including designing the requisite incentives for the transition to private sector-led NQI and/or through PPP.

* *Shibeshi Bettemariam holds MSc in Economics from Addis Ababa University*

Looked at this angle, the paper can help caution policy making circles from the temptation to perceive privatization as a panacea to all problems confronting the national economy at the moment. It might as well serve as a case study on Regulatory Impact Assessment (RIA) in local academic circles.

In fact, the goal of achieving improved export performance in Ethiopia is a multi-factor mechanism. But the quest for that goal, however, should go beyond mere increments in numbers and quantity - as quality is its unique formula.

I. Part – I: Impact Assessment

1.1. Approach and Scope

The paper[1] looks into SPS issues within the context of trade policy and primarily focuses on assessing the SPS measures as applied by EU markets on Ethiopian export products. It also attempts to relate and examine the issue within the broader context of the country's reform programme, the planned accession to the world trade organization (WTO), and the commitment to join the Africa Continental Free Trade Area (ACFTA) - the Framework Agreement of which is already signed.

The impact assessment is built upon the issue of inadequate quality infrastructure to meet SPS/TBTs requirements in Ethiopia by building the case on a few (10) selected export products - namely *Sesame, red pepper powder ("berbere"), spice mixture, paprika powder, chilli powder, ginger powder, long peppers, black pepper, turmeric powder, and ground spiced pepper*. The major source of data used in this assignment is the European Union's online data base, entitled the *"Rapid alert System for Food and Feed (RASFF)"* which reports on serious risks detected in relation to food and/or feed exports. The caveat is that the RASFF notifies only of cases as reported by EU member states. Due to this, the extent of Sanitary and Phytosanitary (SPS) rejections shown in this study do only reflect the reality in the European market, and as such the situation on the country's other major trading partners such as the East Asian countries, Northern America, etc is out of the scope the study.

The entire paper (Parts I and II) is structured to have 5 interconnected sections, where section 1.2 attempts to provide brief information on the context by showing the state of the country's export sector and the institutional arrangement in place for SPS. Section 1.3 defines and states the problem, identifies the underlying causes and suggests why government action is needed for its solution. In section 1.4, we summarized the three options, analyzed & compared them against set-parameters of sustainability (economic, social & gender, and environmental), and legal & administrative aspects, including the importance of stakeholder consultation. Section 1.5, in Part-II, summarizes the findings of the overall impact assessment exercise and proposes a draft decision to be taken up by the Government[2].

1 The original version of this paper is prepared in partial fulfillment of a course on *Advanced Trade Policy* at the Trade Academy of Sweden – 2019/2020. It was initially drafted in response to the assignment on policy Impact Assessment of proposed options put forward by the writer to solve the problem: "Inadequate Quality Infrastructure to meet SPS Requirements as a Barrier to Trade" in Ethiopia.

2 At hindsight, we feel that it would have been more productive had we continued with the pursuit to employ interviews of key informants (KII), questionnaire, and FGDs to gather perspectives of major stakeholders on recommended options.

1.2. Background

1.2.1. Definition – *"Annex A" of the SPS Agreement* (WTO) defines a sanitary or phytosanitary measure as any measures applied:

- to protect human or animal life from risks arising from additives, contaminants, toxins or disease-causing organisms in their food;
- to protect human life from plant- or animal-carried diseases;
- to protect animal or plant life from pests, diseases, or disease-causing organisms; and
- to prevent or limit other damage to a country from the entry, establishment or spread of pests.

SPS measures include those taken to protect the health of fish and wild fauna, as well as of forests and wild flora, and they also pertain to all relevant laws, decrees, regulations, requirements and procedures including, inter alia, end product criteria; processes and production methods; testing, inspection, certification and approval procedures; quarantine treatments including relevant requirements associated with the transport of animals or plants, or with the materials necessary for their survival during transport; provisions on relevant statistical methods, sampling procedures and methods of risk assessment; and packaging and labeling requirements directly related to food safety[3].

It will clarify matters and bring the discussion in context if we spend a word on the WTO agreement on the application of Sanitary and Phyto-Sanitary measure (SPS). The sanitary and phytosanitary (SPS) agreement forms part of the WTO agreement and aims at laying a firm foundation in the implementation of food safety standards in agricultural trade towards the objective of consumer protection[4]. These measures are taken by countries to ensure that food is safe for consumers and to prevent the spread of pests.

On the other hand, SPS also builds on GATT rules to check whether measures related with standards are misused for the purpose of trade protection in the guise of human, plant and animal health within a country's territory with the intent to ensure that the use of SPS measures does not bring about barriers to international trade. Article 5 of the WTO Agreement on SPS further requires that the following to be taken into account in deciding the proper SPS measures: (a) Relevant economic and technical factors; (b) The objective of minimal negative trade effect; and (c) Participation in different SPS committees and the like. In fact, the act of requiring risk assessment and sufficient scientific evidence are essential from the perspective of maintaining a balance in the agreement between the shared yet competing interests of promoting free international trade and protection of life and health of humans, animals and plants.

Finally, it is worth appreciating that quality and standards are inherently linked. Quality is the degree to which the innate characteristics of a product or process, or person fulfill stated and unstated customer requirements and expectations; comply with stated norms, regulations, and laws; or both. Standards, on the other hand, are often used to codify technological requirements expected by customers or governments, making them an essential element in the effort to upgrade quality in a country[5].

As shown below the reason why we focus on SPS emanates from the fact that the country's export products are predominantly primary agricultural products: *coffee beans, oil seeds and pulses, spices,*

3 *WTO SPS Agreement*
4 *Food Safety issues, Trade and WTO rules: A Developing Country perspective, Prema-Chandra Atuakorala (2003), Blackwell publishing limited, pp 1409)*
5 *The National Quality Infrastructure (Innovative Policy Reform, By Christina Tippmann, World Bank, 2013)*

hides and skins, vegetables, fruits, cut flowers, meat products, etc, which in one way or another are affected by SPS measures[6]. As some studies show, increased production costs resulting from the implementation of SPS measures are the main factor undermining LDCs' ability to access foreign markets. Even when access to markets is gained, repeated rejections of shipments on SPS grounds typically result in stricter scrutiny by the importing countries, increased transaction costs, damage to reputation of the product from that country, and a loss of confidence in the competent authority's export certification system[7]. Hence the need for a more elaborate and detailed analysis of SPS compliance!

1.2.2. A Few Words on Ethiopia's Exports

International trade is seen by many scholars as a key driver of economic growth and hence poverty reduction. Major arguments cited in this instance on the incremental and positive impact of trade on growth include:

a) trade leads to increasing specialization and expanding the efficiency-raising benefits of comparative advantage,
b) that trade offers greater economies of scale due to an enlargement of the effective market size,
c) trade creates a situation for greater capacity utilization,
d) that it induces rapid technological change, and
e) it can result in higher productivity gains leading to wage premiums and job creation.

Primary agricultural exports are the predominant sources of foreign exchange for Ethiopia - *coffee beans, oil seeds and pulses, spices, hides and skins, vegetables, fruits, cut flowers, meat products, etc*, which in one way or another are affected by SPS measures. On the other hand, access to high end developed markets is conditioned upon strict compliance with SPS requirements of importing countries. The problem is more severe when we factor in the predominance of unprocessed and least value added primary agricultural exports of the country. WTO Agreement on the Application of SPS (SPS Agreement) has been introduced to facilitate trade in agricultural and food products by establishing minimum requirements to protect animal, plant or human life or health.

Looking over the past 20 or more years of the Ethiopian economy, a few generalizations can be made as far as trade, especially international trade and export is concerned. Here are some:

i) Ethiopia's export sector expanded rapidly from the early 2000s to 2014, after which it has shown a steady decline until very recently were it has shown some signs of "revival" in 2020[8]. Records show that Ethiopia's growth cycle did not only see rapid growth in investment, but also in exports.

6 This is not to say that SPS alone is the single most important issue of export in Ethiopia. Important challenges facing international trade and the broader dimension of flow facilitation in Ethiopia include: inadequate and higher logistics cots *(i.e. limited port facility, limited capacity of the Ethiopian Shipping lines, higher port charges and longer transit time (delay) for export)*; inefficient customs and financial services; underdeveloped, inefficient, and not well integrated ICT system applications to organize, plan and timely arrange export shipments; long procedures to secure banking services and also to secure export permit; high levels of nominal and effective rates of protection; under-tapping of the available opportunity for diversification through full exploitation of available trade preferences (AGOA, Everything But Arms (EBA), etc); poor integration efforts and limited (or non) participation in available trading blocs and regional economic cooperation (RECs); rigid labor laws, restricted movement of scarce resources (labor and capital), inefficiency of transport; problems to the repatriation of dividend due to sustained forex crunch; issues of access to finance, continued dominance of State owned Enterprises (SOEs) and crowding out the private sector in credit markets; huge debt stock and external public debt service payments; poor coordination and weak capacity of trade facilitation institutions; etc. All of these act as barriers to the flow of goods and services in and out of the country and in combination they strongly impacted the performance and efficiency of the country's international trade.

7 *Standard & Trade Development Facility (STDF), "Enhancing SPS capacity to promote trade for dev't in LDCs", A Review of Diagnostic Trade Integration Studies, Ambra Gobena, October 2016).*

8 HARVARD GROWTH LAB: ETHIOPIA | Pathways for Productive Diversification in Ethiopia, May 13, 2020

From 2002 to 2008, exports grew from a low base at an annualized 20% rate, which until 2014 kept growing at a two-digit pace. Merchandise exports hit a peak value in 2014, accompanied by a rapid decline in the value of export of goods and stagnation. Although there are inconsistencies in different reports of trade flows, all reporting fails to show any significant increases in merchandise exports since 2015. Export slowdown not only partially explains the deceleration of growth in the last period but has also prevented the country's ambition of completing the goals set in the second Growth and Transformation Plan (GTP II), which expected a much larger role for merchandise exports – both in agricultural and manufacturing goods – in the process of structural transformation.

ii) *The export boom from the early 2000s to 2014 was concentrated in a small variety of goods and services*. In the country, the export basket largely consists of transportation services (led by Ethiopian Airlines), followed by other services and a small variety of agricultural goods and minerals. As of 2017, a few agriculture goods represent 77% of merchandise exports, while the country's growing textile sector only represents 8% of its merchandise exports and 3% of gross exports. The merchandise export basket is more concentrated than in all of its regional comparators' export baskets, according to different measures of market concentration. It is hence not surprising that both the growth acceleration since the early 2000s and the growth slowdown in 2014 were driven by the few products that represent the majority of the country's exports. Dynamics of Ethiopia's coffee, gold, cut flowers and other animal and vegetable exports largely explain both the rise and fall of the country's export sector. All product categories – including manufactured exports (which include garments, metals, pharmaceuticals and chemicals) have shown sub standard performance – below 50% in many cases with regards to GTP-II goals for 2018. In the fiscal year 2017/18, coffee exports only reached 50% of targeted exports, with similar results in cut flowers and pulses. Garments, chemicals and leather products reached less than 40% of the yearly target for the same period[9].

iii) *Ethiopia's export growth outperformed most regional peers in the last decade but has nevertheless failed to converge to their export levels*.

Ethiopia's export growth throughout the growth acceleration was not unique across emerging markets, but nevertheless outpaced many of its regional peers, particularly through the late 2000s and early 2010s. Until 2014, this allowed Ethiopia to partially converge in its export per capita levels with its regional peers. The export growth slowdown was not uncommon between Ethiopia's peers, but hit Ethiopia harder than others. As of 2017, Ethiopia still showed the lowest exports per capita (as well as exports as a share of GDP) amongst its regional peers, with levels substantially below regional benchmarks[10].

iv) *The country has introduced some new products to its export basket in the last two decades, but these have not significantly altered the export composition, away from primary agricultural base*[11].

Ethiopia's textile industry, comprised of both apparel and footwear manufacturers, has surged, especially over the last ten years. Over the same period, Ethiopia was able to consolidate its cut flower export industry as well as introduce a handful of new exports in the agriculture sector. Altogether, these groups of new products now represent a significant share of Ethiopia's products, their share in Ethiopia's export basket is relatively low, although higher than the equivalent shares for the country's

9 Ibid
10 HARVARD GROWTH LAB: ETHIOPIA | Pathways for Productive Diversification in Ethiopia, May 13, 2020
11 Ibid.

peers in the same period. It is notable that Ethiopia pursued (through GTPs I and II) strategic bets for diversification that have not yet materialized as exports, such as with sugar, which required major public investments, and pharmaceuticals, which has depended mostly on private participation. With the exception of products in the textile and apparel and the leather value chains, new manufacturing industries have failed to materialize as exports.

The above trend can as well be explained better by looking at the policy and institutional arrangements that are put in place to facilitate, develop, nurture, and enhance trade in general, and international trade (imports and exports), in particular. One such area that consists of both institutional and policy aspects is to be found in the National Quality Infrastructure/Highway.

The proliferation, increased incidence and stringency of food safety and agricultural health standards have been a source of concern among many developing nations, including Ethiopia. A National Quality Infrastructure (NQI) is a system, which determines, controls, and guarantees that the goods (produced/exported/consumed) are safe, compatible, and fit for local consumption or export. As such, a well-functioning NQI is essential to remain competitive in the global economy.

As some studies show, increased production costs resulting from the implementation of SPS measures are the main factor undermining LDCs' ability to access foreign markets[12]. Hence the need for a more elaborate and detailed analysis of SPS compliance.

1.2.3. Institutional Arrangement for Standards and SPS in Ethiopia

The Ethiopian Standard Agency (ESA) is a governmental, non-profit organization that operates as the sole National Standards Body (NSB) operating in the country. Besides working with international and regional standard bodies, ESA also works closely with different national standard bodies under bilateral agreements. ESA is at present accountable to the Ministry of Trade and Industry, and has a National Standardization Council whose members are drawn from appropriate Governmental and other bodies as designated by the government. There are four institutions that are accountable to ESA and they are: *the Ethiopian Standards Agency (ESA), Ethiopian Conformity Assessment Enterprise, Ethiopian Metrology Institute and Ethiopian Accreditation Office*[13].

It is also worth mentioning the presence of two programmes that have complimentary outcomes to quality & standards. One, a UNIDO financed programme entitled "Trade Capacity Building (TCB) Project", which provides technical support to the Government of Ethiopia to improve trade logistics / trade facilitation by identifying relevant SPS/TBT matters in three priority sub-sectors (agro-industry, leather, and textiles) thereby improve competitiveness and market access (in partnership with UNCTAD), and to developing a sectoral Trade Facilitation Strategic Roadmap (in partnership with UNECA/E) for the chosen sectors/products. The World Bank (WB) has also initiated a five-year programme (2017-2022) supporting the Government of Ethiopia in its efforts to address challenges and constraints in relation to the country's NQI, which focuses again on the above three key value chains that are believed to be drivers of export-based industrialization.

12 *Standard & Trade Development Facility (STDF), "Enhancing SPS capacity to promote trade for development in LDCs", A Review of Diagnostic Trade Integration Studies, Ambra Gobena, October 2016*

13 The NQI comprises a variety of organizations each of which plays a role in establishing standards; evaluating whether products, process, or services fulfill specified technical requirements; and certifying that these requirements are met. The best practices approach to NQI, as set forth by the World Bank, is based on a decentralized system with the various bodies acting as legally autonomous units.

1.3. Problem Statement

1.3.1. The Problem – as shown above in section 1.2.2. above, Ethiopia's export has steadily performed well below its peers for more than a decade. One of *the most serious problems behind this abysmal performance relates to inadequate quality infrastructure to meet SPS/TBT requirements, which limits the country's ability to meet international standards*.

Empirical evidences generated from the **"Rapid Alert System for Food and Feed (RASFF)"** reveal the following facts:

Table – 1: Notifications by Country of Origin (2015-2018)

Country	2015	2016	2017	2018
Algeria	3		11	
Burkina Faso	1	2	4	
Cameroon	2	2	1	1
Côte d'Ivoire	1	1	3	
Egypt	78	59	60	56
Ethiopia	7	12	16	11
Gambia	9	1	1	24
Ghana	19	23	13	11
Guinea	1	2	1	2
Kenya	18	3	2	

- The following ten export products of Ethiopia are found to be severely affected by sub-standard quality and standards: *red pepper powder ("berbere"), spice mixture, paprika powder, chilli powder, ginger powder, long peppers, black pepper, turmeric powder, ground spiced pepper, and sesame;*
- During the years under review, six major European countries have issued notifications on Ethiopian exports, and they are Germany, UK, Sweden, France, Finland, and Norway, and except for a few cases, the risks associated with the action are found to be *"serious"* and most actions taken by notifying countries relate to outright *"border rejection";*
- The most common reasons behind the notifications are found to be *Ochratoxin A (65 µg/kg - ppb), Aflatoxins (B1 = 16.0; Tot. = 51.4 µg/kg - ppb) and improper health certificate(s)* and/or no identification code on the boxes matching the health certificate;
- Out of a total of 39 cases that are included in the sample, 18 cases of Aflatoxin (46.2%) and 10 cases (25.6 %) of Ochratoxin, including serious incidences of *Salmonella Pathogenic micro organisms on sesame seeds* are reported, implying that incidences of Aflatoxin and Ochratoxin have been the most important causes for the rejection of Ethiopia's exports by European markets. Absence of health certificates, improper certification and absence of identification code on the boxes accounts for 20.5 % cases for the rejection of the Ethiopia's exports by European markets [14].

14 On top of this, although coffee continues to constitute a large part of Ethiopian exports, recent evidences (2018/2019) suggest that up to 20% of the export to (for example) Japan has been rejected at the border due to unfulfilled quality requirements.

1.3.2. Underlying Causes

There are a number of factors that gave birth to (and contributed sustain) the afore-mentioned undesirable state of affairs. Important among them are:

- *Limited quality and standards of export goods* – Evidences show that the country's export products have less acceptance and they are being rejected in EU and other global markets on account of poor quality and SPS and other standard requirements. This makes the situation worse for exporters to penetrate international markets with sophisticated product standards and high-end consumers such as the European Union and Japan, without premium and brand products that are difficult to come by in the short-run. The country does not still have adequate quality infrastructure in place that can help products be tested and certified through conformity assessment procedures compliant with the requirements from developed markets and consumers.
- *Large incidence of rejections for pesticides residues, pathogenic microorganism and Aflatoxin and Ochratoxin on exports*[15].
- *Product Traceability* – as observed in the form of widespread absence of open, honest and informative labeling of products. This has resulted in the EU market imposing a Traceability requirement for all fresh products effective January 2005, to track and record the product history from "farm to fork", i.e. pre-harvest, harvest and post-harvest mismanagements, including poor transport, storage and processing conditions.
- *Local certifications and conformity assessment procedures (and certificates) are not mutually/ multilaterally recognized*. Meeting sanitary and phytosanitary (SPS) requirements of other countries is a challenge, mainly because SPS requirements are not harmonized, which adds to the difficulty of knowing the rules for each trading partner. As shown above, a good percentage of Ethiopia's exported spices have border rejection due to improper and incomplete health certificates. Inability to issue accredited product certificates as per international *accreditation* rules (and according to WTO rules) is a major problem widely affecting export of some products. On top of this, a few advanced economies do not accept certificates or test reports issued by the country's conformity assessment enterprise and private testing labs. As a result, some exporters are obliged to use foreign laboratories (e.g. South Africa) which are accredited to international standards in order to show compliance with foreign buyer requirements. This, in turn, forces exporting companies to bear the extra export costs.
- *Lack of awareness* of the benefits to be gained from adopting appropriate, internationally recognized norms and standards is a pervasive problem. This is compounded by the entry of inexperienced exporters with little formal knowledge on the requirements of the market. The problem worsens when a number of buyers (middlemen) purchase and sell low quality products in the local market while ignoring quality at the expense of export quantity.

In sum, as a result of all these problems, the country cannot meet TBT/SPS requirements which are acting as barriers to trade.

1.3.3. Why Government Action is Needed

SPS measures are simply the right thing to do as they are also imperative upon the government to protect the lives of its citizens and its consumers. On top of this, SPS are regulations that are commonly used to protect consumer health, animal or plant life and the environment and as such they belong to the domain of government domestic regulations. It is a well established fact that Government has a

15 *As a case in point, the European Commission Implementing Regulation (EU) no. 884/2014 of 13th Aug. 2014 has imposed special conditions and border rejection measure on exported goods from Ethiopia due to contamination risk by Aflatoxins.*

role in facilitating trade by harmonizing its national standards with international ones, and ensure that standards of major trade partners be adopted by domestic export firms. In Ethiopia too, standards and conformity assessment for long operate under a government non-profit.

It is to be recalled that conformity assessment services by government, be it capacity building on assessment food safety risks, or supply of quality food products are mandatory by nature. In particular, the capacity to enforce law including export inspection and monitoring at exit/entry borders belong to traditional government oversight. Government would also need to lure private investment in conformity assessment services by revising its investment laws and introduce more attractive incentive packages by way of tax havens, duty free import privileges, and the whole issues of policy alignment and coherence, etc call for government action. The country is also in the accession process to be a member of World Trade Organization which process has been expedited by Government decision to finalize the *accession process* by end of 2021. All of the above including the power to even reform, legislate and promulgate a new law on NQI are in the hands of the government.

1.4. Recommended Options and Solutions

Attempt is made here below to put forward and analyze three specific recommendations/policy options for action by government.

1.4.1. Identification of Options

Based on the discussions above, we recommend the following three options for detailed impact assessment to decide upon the selection of the final proposed option, which we shall show shortly.

i) Option 1: Doing Nothing (Status-Quo)
ii) Option 2: Enhanced institutional capacity of national quality within a decentralized system, and
iii) Option 3: Full-fledged privatization of the conformity assessment services

1.4.2. Analysis of the three Options

***Option 1 (Doing Nothing/Status Quo*):** The ideal starting point would be to begin the analysis with the existing reality or the *status quo*. The organization that is directly linked to the problem identified for this assignment is the *Ethiopian Conformity Assessment Enterprise (ECAE)*, whose main mission is the delivery of three important services to its customers.

These services are:

- Provision of independent third-party and internationally accredited inspection services on the following five areas based on ISO/IEC 17020: factory evaluation, pre-production, during production, pre-shipment, and supervision of loading inspections.
- Provision of testing services - There are only six testing laboratories (all of them in the capital, Addis Ababa) under the state-owned ECAE[16]. The six specialized testing laboratories that are operating at the head quarters are Chemical, Electrical, Mechanical, Microbiology & Textile, and Radiation laboratories. Typical products that receive testing services from these laboratories include: agricultural and food products (honey, oil seeds, beeswax, civet, "injera", soft drink, beer, alcoholic beverages, etc); Chemical products (toilet soap, laundry soap, detergent powder,

16 In Ethiopia, there is only one testing laboratory that is owned by private sector.

liquid detergent, cement, leather products, hydrogen peroxide, iron, copper wire, aluminum, cosmetics, fertilizer , environmental samples, etc); meat and meat by products, dairy products, canned foods, cereals, grains, pasta, macaroni, poultry and poultry products, chocolates and confectioneries, fish and fishery products, fruits, vegetables, beverages, juices, soft drinks, beer, water, edible oil, biscuits, tomato paste, peanut paste, etc; flour, milk, cosmetics, different minerals, etc.

Provision of three major certification services based on mandatory and voluntary Ethiopian Standards and International Standards, namely *product certification (ISO/IEC 17065), system certification, and cleaning plants certification*, where System Certification services are based on ISO/IEC 17021-1:2015.

The conformity assessment puts emphasis on the supply side, i.e. most interventions centre around issues of optimizing the local laboratories and ensuring better quality of products being exported from Ethiopia. While these interventions are indeed crucial, it does not offer much room for analysis of the demand side. Little market research has been done, and it is unclear to which degree export markets (particularly to the EU) demand which types of Ethiopian products. On the other hand, there is not enough demand for testing services locally, which makes it unprofitable to invest in local laboratories[17].

A key element of the proposed new regulation should thus be to address this gap by incorporating the element of thorough market analyses to identify markets and products with the biggest export potential, ensuring that investments target the sectors with the biggest export potential to enable Ethiopian businesses to increase their exports, and create conducive environment for private sector.

Option 2 (Enhanced institutional capacity building of national quality, through incremental investments in infrastructure *(systems and people, increased number of testing centers/laboratories) in a decentralized system thereby improving access at the points of need (of production/export hubs) in various Regions of the country)*: As mentioned before, there is little involvement of the private sector and all conformity assessment facilities and all those under government are located centrally in the capital city. A closer scrutiny reveals that fruits, vegetables (i.e. smallholder participation chains to high-value markets, especially for fresh produce), and flowers production, are critical value chains to the country in terms of their export potential. It is also fair to notice that these are also dominated by women employees, and success in achieving SPS compliance is therefore, dependent on addressing the particular challenges women are facing. In fact, fruits and vegetables (i.e. smallholder participation chains to high-value markets, especially for fresh produce), and flowers production/processing/ exporting including in coffee cooperatives, pulses and oil seeds are mainly dominated by women. Hence, compliance with SPS measures can as well be a barrier to women and excludes them from participating in processes that could generate higher economic gains. Due to all these reasons, there is felt need that the proposed option be designed and implemented in ways that are gender-sensitive.

To sum up, incremental investment in testing centers and laboratories is the first step to address the problem. This should however be made in a manner that addresses accessibility issues by making them closer to the points of need (i.e. closer to centers of production and trade hubs by decentralizing the existing services and adding more into the regions) through the regulation and promotion of Public Private Partnership could be a feasible option to address both the problems of investment finance and also to garner private participation. Ethiopia should find the way for a globally integrated approach to conformity assessment, and develop the accreditation system as a necessary and key public sector service. Today, in most modern standardization systems the legislative function (converting standards

17 It is important to note that as most of these export-substandard products get their way into the local market and consumed.

into technical regulations) and accreditation functions are in the public sector, while certification and consultancy services are generally open to competition.

In the eyes of this writer, there are two ways of executing the proposed option through decentralization. One way is by directly relocating the conformity assessment facilities (and/or establishing new ones) in the nine regions of the country, making them accountable to the regional bureaus of Trade and Industry. The *industrial parks*[18] that are established in various locations of the country can provide the ideal starting point to push this national endeavor forward. A second approach would be by directly relocating or embedding them (and or establishing new ones) into the industry park developments (there are eleven such parks to date) that are fairly distributed across the regions. The various facilities under the Ethiopian Commodity Exchange (ECX) that are found spread in many parts of the country can as well be utilized to compliment this effort by accommodating the incremental conformity assessment services implied in this option. We do believe that such an arrangement will simplify implementation of the proposed option and help build upon and exploit existing local structures and capacities as are to be found already in place, without necessarily creating new organizational arrangements. The option calls for heightened government intervention (both at the Federal and Regional states levels) and as such demands huge public finance, while it creates employment, and contributes its share to balanced growth and considers gender and other social factors as well.

Option 3 (Full-fledged privatization of the conformity assessment services): At present, the whole set up for standards, accreditation and certification by way of conformity assessment leans towards crowding out the private sector. Such a situation cannot sustain without creating the space for enhanced competitiveness through the active participation of private sector in investment, knowledge transfer, technology use and adaptation, etc. As the experiences of many countries show, improvements in SPS compliance have been boosted by private sector initiatives towards gaining market access. Sudan's experience is exemplary as a case for public-private partnerships in the horticulture sector to build infrastructure and improve practices[19].

The private sector can play a central role by ensuring responsible business conduct within and across borders, by respecting basic human rights, by promoting equal labor rights between men and women, thereby improving working conditions for women and avoiding negative environmental externalities, both within the company and along its supply chain. Nonetheless, it is imperative that companies engaged in quality infrastructure need to be sensitized to address gender issues where women face severe discrimination or where enterprise activities significantly affect the local economy, environment and access to land and livelihoods.

Thus, a clear cut policy enactment should be promulgated in favor of privatizing the conformity assessment services in the country. This will encourage private investors to invest incremental capital in food laboratory testing services, introduce modern and efficient systems and technology and provide accredited product certification and inspection services and help alleviate the shortcomings of public finance. The Government should, on the other hand, design comprehensive and adequate incentives' packages, including fiscal and others, to lure private investment. By so doing, the proposed policy reform will be more conducive to private sector development and diversification as well.

18 The country's industrial development strategy attaches huge importance to industrial parks, and there are 11 industrial parks located along key economic corridors of the country and connected to ports. The parks are designed for specific sectors such as textile & apparel, leather & leather products, pharmaceuticals, agro-processing etc. and aim at coordinated production along value chains. Three of them are located in Addis Ababa representing the central part, while the rest eight are distributed to the East, North East, North, North West, West, and South of the country. Currently six industrial parks are operational, while two others are inaugurated and the remaining three are under construction.

19 Standard & Trade Development Facility (STDF): *"Enhancing SPS capacity to promote trade for development in LDCs", A Review of Diagnostic Trade Integration Studies, Ambra Gobena, October 2016, p.44.*

1.4.3. Comparison of the three Options

To make a fairly balanced comparison, we employed four parameters that span the *sustainability (economical, social and gender, and environmental), and legal+ administrative* aspects. Each one of the proposed options, including the option of "doing nothing" (status quo), is then evaluated against the above four set of parameters, where anticipated impacts (+ and -) are discussed and summarized[20]. Important conclusions and summaries to be drawn from these comparisons are narrated as follows.

1. Comparison of options on the basis of their ***economic impacts***

- **Option 1** – it helps decrease compliance costs (lab testing, certification fee, etc) for businesses because it operates under a not-for-profit arrangement. On the other hand, it sustains loss (opportunity costs) due to rejections of goods, decreases access to markets and forex earnings and crowds out the private sector.
- **Option 2** - helps increase quality & int'l competitiveness, reduces rejections of goods and minimizes opportunity cost, decreases compliance costs for businesses, enhances access to markets, improves capacity utilization & scale economics (& macroeconomic efficiencies), results in incremental forex earnings and helps address balanced growth, while it calls for huge doses of public finance, which can potentially crowd out the private sector.
- **Option 3** crowds-in the private sector and increases competition, thereby improves quality of conformity assessment services, increases quality & int'l competitiveness, reduces rejections of goods and minimizes opportunity cost, increases access to markets, might militate to decreasing profitability of businesses engaged in export (but could increase profitability of firms engaged in the conformity assessment), eases operational/budgetary obligations to government, and increases government revenue from income (profit) tax.
- To conclude, **option 2** has more positive economic outcomes than the other two options, while option 3 being the second-best option implying the need to do away with option 1. But, option-2 comes also with increased budgetary impact to government, and decreased compliance costs for businesses, implying the potential trade-offs that exist between two objectives of the same economic sustainability agenda.

2. Comparison of options on the basis of their ***social and gender impacts***

- **Option 1** yields a situation of decreased food quality for local population, decreased overall consumer safety and high exposure to food-borne diseases, decreased goodwill of country's products, decreased awareness and education, decreased leadership opportunities for women, decreased overall employment, and insignificant impact to reduce poverty/inequality.
- **Option 2**, increases overall consumer safety, decreases exposure to food-borne diseases increases food quality for local population, increases the goodwill of country's products, lends itself for more employment and leadership opportunities for women; increases employment overall, has the potential to reduce poverty/inequality, more empowerment and integration of poor/marginalized groups in society, and it is more responsive to rights and needs of women or other disadvantaged groups, and helps improve social stability.

20 In the interest of space, detailed impact assessment of the three options are kept aside in a separate Annex-2, where the basic impact assessments i.e. economic sustainability, social & gender sustainability, environmental sustainability, and legal & admin aspects are presented in 4 tables.

- On the positive note, **option 3** can create more employment but tends to decrease awareness and education, decrease opportunities for women, might even increase poverty/inequality, and it has the potential to be less responsive to rights/needs of women & disadvantaged groups and social stability.
- To sum up, the social and gender dimensions of **option 2** far outweigh both the 1st and 3rd options, making it the most preferred option; while highlighting the need to change option1.

3. Comparison of options on the basis of their ***environmental impacts***

- All the three options will contribute to decreasing the environmental threats to human health but each with different scales and levels.
- The option with the highest expected positive environmental impact is again option 2. In other words, option 2 yields more positive outcomes than the other two options, while option 3 could come up with undesirable negative outcomes (profit drive).

4. Comparison of options on the basis of their ***legal & administrative impacts***

- At the face of it, **Option 1** of Doing Nothing is least cost option as it does not entail change of regulation, structure, etc.
- **Option 2** could decrease bureaucratic hurdles and oversight costs for government while bringing incremental costs of (new) legislation, expenses for new structures, etc. This should, however, be weighed against the advantages (impacts) to be gotten from the new legislation as coined under option 2 which lends itself to maximizing current structures and capacities as to be found in industry parks, etc
- **Option 3** brings with itself additional demands and costs related to administration, investment, management and new legislation.

Summary of Comparison of options:

- By summing up all the above results, the overall result of sustainability comparisons justifies *option 2* which, as we show below, is also compatible with SDGs, as the best option to be recommended for government action.
- By definition, SPS measures directly target issues related to sustainable development and play an intermediary role between trade and SDGs. This is so because they deal with quality of food, health and safety standards/requirements for sustainable production methods; protect from risks arising from additives, contaminants, toxins or disease-causing organisms in food/drink, animals and plants, including protection of agricultural production from pests and diseases; protect consumers by informing them about production methods, e.g. labeling of sugar content, GMO; regulate safety of imported pharmaceutical products and hazardous substances; and help protect ecosystems and biodiversity from pests and invasive species. Therefore, improved SPS regulation as coined under **Option 2** will help address **SDG Goals 2** (*end hunger, achieve food security and improved nutrition; promote sustainable agriculture),* **SDG Goal 3** (*ensure healthy lives, promote well-being for all),* and **SDG Goal 14** (*conserve and sustainably use oceans, seas and marine resources)* and contribute to sustainability.

1.4.4. Stakeholder Consultations - A growing number of standards are not specific to companies but are shared internationally that span supply chains, countries, and economic sectors. As a result, producers and traders that face growing pressure to meet SPS and other standard quality requirements require coordination. A comprehensive system of interrelated actors that facilitate the setup, diffusion, and certification of standards becomes crucial. In fact, the ownership, impact, legitimacy and utility of any policy option and/or recommendation on one or more aspects of trade policy, including on SPS, shall critically depend on effective national engagement and that is possible only through active participation of a range of stakeholders both during and after the development of the policy options. Ensuring whether the right stakeholders have been included, defining the extent of their participation by mapping expectations and roles are essential considerations to achieve the final agreed upon policy outcome. It is only in this way that the outcomes of the recommended policy options can have broad local ownership.

At the heart of particular recommendation, therefore, lies the recognition that capacity is a multi stakeholder engagement. It involves government, the private sector, and other relevant stakeholders. Government policy should focus on investing and strengthening of national quality infrastructure (NQI), the conformity assessment activities like, supporting National accreditation office to be MRA signatory of relevant international organizations (ILAC and IAF).

There is need to engage all actors identified above which can play key policy making and regulatory roles on SPS matters, i.e. the Ministry of Agriculture, Ministry of Technology and Innovation, Ministry of Trade & Industry, Ministry of Health, Plant Protection Agencies, and Food Safety Authority shall be contacted. Good coordination between trade and agriculture Ministries and agencies would in particular help set priorities to focus on important and strategic dimensions of SPS areas, such as sub-sector/ commodity value chains priorities across sectors. Moreover, the following broad spectrum of stakeholders shall be met for interviewing and possible FGD as they have a say in the discussion of SPS matters in Ethiopia:

- Representatives of on-going projects and programmes working on NQI – UNDP
- World Bank country office
- Agencies and organizations working on standards, SPS and other quality related matters (private sector labs included): i.e. the Eth. Conformity Assessment Enterprise (ECAE), Ethiopian Standards Agency, Meteorology Agency, etc and all those labs (6 albs) under ECAE
- Certification agencies (ISO) like DQS (a private certifying company working on ISO),
- Chambers of Commerce
- Sectoral Associations – Ethiopian Horticulture Producers & Exporters Association (EHPEA), Ethiopian Pulses & Oil Seeds Prodcuers & Exporters Association (EPOSPEA), Ethiopian Meat producers & Exporters Association (EMPEA) including other chicken and poultry producing companies, and
- Private companies producing/exporting: spices and hurbs, horticultural and floricultural products, oil seeds, sesame seeds, meat and chicken products[21].
- It is also vital to link with secondary level audiences (the Ethiopian Commodity Exchange which is established to facilitate the buyer-seller relations, to assure of quality, to guarantee delivery and ensure payment; the Investment Commission; food and agro-processing development institute - a specialized sectoral institution working on the dev't and promotion of food and agro processing, etc)

21 Due to a host of factors, mainly the COVID-19 pandemic, a consultation meeting that was planned to incorporate views and reflections from pertinent stakeholders could not take place.

As there are four agencies working on National Quality Infrastructure in Ethiopia, ensuring coordination with a view to maximize scarce resources is of utmost importance. The advantages to be gotten from such an arrangement of stakeholder consultation and coordination are many:

- ✓ the profile of SPS issues shall be raised at national level,
- ✓ public-private dialogues shall be facilitated,
- ✓ there will be improved space to reduce overlapping mandates,
- ✓ resources can also be used in a more transparent and efficient manner, and
- ✓ better chances and options will be created to integrate SPS issues into broader planning/budgetary frameworks and supply chains.

II. Part - II – Draft Proposal for Government Action

Legal basis - The legal basis for the establishment of the Ethiopian Standards Institute (ESI) to engage in standardization, metrology, quality assurance and certification, including SPS is found in proclamation 328/1987.

The Final Proposed Solution *– Enhanced institutional capacity building of national quality, through incremental investments in infrastructure, systems and people, increased number of testing centers/ laboratories in a decentralized system thereby improving access at the points of need (of production/ export hubs) in various Regions of the country.*

Expected Benefits of the Proposed Option – important benefits to be gotten from the proposed option include:

i) Incremental investment in improved capacity of quality services builds trust by the market, and improves the goodwill & acceptability of Ethiopian products in international markets.

ii) Incremental capacity building of NQI improves weak trade facilitation, increases the speed at which goods pass through the border by making conformity assessment certificates accepted on both sides of the border; reduces rejections of goods thereby minimizes the opportunity/trading costs for companies, making them more competitive and sustainable[22]. This, in turn, enables the nation to focus on strategic, quality, & niche European/developed countries' to generate more foreign exchange that help boost development.

iii) The option helps lay down the ground work in preparation for joining important trading blocks, the WTO and the African Continental Free Trade Area[23], in addition to complementing other efforts underway in the country by development partners to boost the country's NQI capacity.

iv) Full-fledged development of the country's phytosanitary capacity can also attract other beneficial capacity enhancing assistances from other players such as from the Int'l Plant Protection Convention (IPPC), etc.

Unintended consequences – it is important to note that SPS measures proposed above might not have positive gender impacts, or they might even reduce benefits to women. To this end, there is a need for a detailed gender analysis to identifying/proposing additional measures that could minimize the potential adverse effects on women. The various forms of access, i.e. access to information, to finance, to training, to jobs, etc are important considerations to be analyzed. Harmonizing national

22 "The Role of Standards and Quality Infrastructure for Trade Facilitation: The UNIDO Approach Delivering on the Trade Facilitation Agreement", Frank Van Rompaey, Nairobi, 14 December, 2015, p. 10)

23 The products identified in this research paper possess huge potential to serve as significant sources of forex to the country. E.g. in 2018, 29.2 million USD was generated from Sesame seeds export; dried pepper fetched more than 4.3 million USD; Turmeric ("curcuma") generated more than 5.9 million USD, implying that more could be earned from enhanced SPS measures (Source: Ministry of Revenue).

SPS measures with international standards & guidelines can also reduce the adverse impacts of trade-related SPS measures on women by facilitating access to multiple country markets.

Complimentary Measures to Maximize Options – The recommended option can yield the intended impact if it is complemented by the following measures:

i) Institutionalized training & awareness creation - Conducting training, awareness campaigns and information dissemination by structured programmes for businesses engaged in export is an essential ingredient for success. These so called "softer" interventions should address gaps in knowledge on quality, standards and information such as on SPS, standards, ISO, entry point rules, procedures and regulations, etc.

ii) SME Lens - Issues of standards and compliance to SPS measures depend on the size & capacity of firms, implying that the effect could be more severe for SMEs which face limitations in time[24] and financing to implementing conformity assessment system. The option would, thus, have higher impact if it has a special package that includes training on importing country market requirements, etc with the clear intent to support SMEs to overcome specific quality requirements.

iii) Gender specific measures to address the plight of women: Mere creation of access to SPS services does not translate into cost effective solutions for women. And as small businesses are dominated by women, costs of compliance can be reduced sustainably if other issues faced by women are addressed. This would mean designing specific women-focused interventions, e.g. decentralizing quality services to make them locally accessible to women thereby help reduce the costs of compliance; promoting social safeguards to address women's well-being by creating more access/control over critical assets/resources (e.g. land), access to utilities, energy and transportation; innovative approaches through the use of mobile phones, local radio programmes on quality/food safety, flexible extension services & training at times when women are free from household choirs; etc

iv) Policy Coherence and Alignment - SPS measures need to be implemented in tandem with policies that target other sectors/value chains (e.g. agro-food processing, textiles, leather, pharmaceuticals, manufacturing, tourism, mining, chemicals, SMEs, etc), which have huge potential linkages with global supply chains. Similarly, national SPS management capacity should also be aligned with broader efforts to build the competitiveness/productivity of agricultural and food processing sectors[25]. A parallel move is recommended to be taken to enhance productivity of important sectors having wider exposure to SPS measures, (i.e. coffee, spices, oil seeds and pulses, horticulture/floriculture, animal products, etc) to better benefit from trade as a means to agricultural/rural development/ poverty alleviation.

v) Law Enforcement - Conformity assessment activities involves actions & processes related to ascertaining compliance of exports with standards, quality assurance, certification and testing on before approval for export. This calls for capacity building on risk assessment and law enforcement through various means of inspecting/monitoring at borders.

Knowing which complementary action is appropriate to implement at a particular stage of regulation (pre, during, and post), i.e. *sequencing* is a critical consideration that policy making need to take into account, as it will reduce unintended consequences and/or maximize the positive outcomes of the policy option.

24 Implementation time depends on many factors, including the level of complexity of the company, desired level of quality of final products, the skill level of personnel, and the degree of management commitment to upholding standards.

25 Lesson from Tanzania is a case in point (Ambra Gobena, ibid, p. 41).

Why Government Action is Needed & Why Now - Enhancing the SPS measures is simply the right thing to do & it is imperative upon the government to protect the lives of its citizens and consumers of products produced/exported by its firms. Here are a few reasons why:

i) On the one hand, SPS are domestic regulations used to protect consumer health, animal or plant life and environment and as such they belong to the domain of government actions. On the other, gov't has the monopoly of regulation-making, which accords it the very power to reform, legislate and promulgate a new law on NQI, and even to penalize offenders.

ii) Government has also a role in facilitating trade by harmonizing its national standards with international practices and ensuring that they are adhered and adopted by leading export industries.

iii) As SPS are mandatory by nature, enforcement of law including export inspection/monitoring at exit/entry borders belong to traditional government oversight. In Ethiopia, there is little orientation and awareness towards quality, coupled with low demand for conformity assessment services, which created market failure, all of which call for government to continue providing the services until the private sector is ready to assume leadership.

The question, therefore, is ***why now?*** Here are a few reasons that oblige (the government) to take immediate actions to implementing the aforementioned policy action now:

i) Exports of goods and services have been declining over the past eight years, with insignificant contribution to GDP, resulting in loss of foreign exchange earnings which adds to severe macro-economic imbalance in the country.

ii) Government is exerting maximum efforts and taking positive moves towards embracing the Africa Continental Free Trade Area (ACFTA), which has been ratified by Parliament and the Framework Conditions are signed.

iii) WTO accession is another huge milestone that the new government sets out to accomplish within the shortest possible time, by end of 2020, all of which oblige government to take immediate action.

iv) So, Government can play its role of integrating the country with the globalized world, earn incremental forex earnings, creates significant new job opportunities, and place the economy on a path to long-term competitiveness and prosperity.

The writer believes that by adopting the recommended option, Government can play its economic strengths by integrating with the globalized world, incremental forex earnings, generate significant new job growth, and place the economy on a path to long-term competitiveness and prosperity.

Bibliography & References

- African Trade Policy Centre, United Nations Economic Commission for Africa: "African Continental Free Trade Area - Questions & Answers", www.uneca.org/atpc, Addis Ababa
- Alan V. Deardorff & Robert M. Stern: "Measurement of Non-Tariff Barriers", OECD Economics Dep't Working Papers, No. 179, University of Michigan, Paris, 1997
- Ambra Gobena : "Enhancing SPS Capacity to Promote Trade for Development in Least Developed Countries
- A Review of Diagnostic Trade Integration Studies", Standards & Trade Development Facility (STDF), October, 2016
- Berihu Assefa and Kiflu Gedefe: "An Economic Inquiry into Ethiopian Exports: Pattern, Characteristics, Dynamics and Survival", EDRI Working Paper 14, May 2016
- Frank van Tongeren, John Beghin, and Stéphane Marette: "A Cost-Benefit Framework for the Assessment of Non-Tariff Measures in Agro-Food Trade", OECD Food, Agriculture and Fisheries Papers, No. 21, OECD Publishing, Paris, 2009, http://dx.doi.org/10.1787/220613725148
- Ha-Joon Chang: "Kicking Away the Ladder - Development Strategy in Historical Perspective", Anthem Press, London, 2002
- HARVARD GROWTH LAB: ETHIOPIA | Pathways for Productive Diversification in Ethiopia, May 13, 2020
- Kingdom of Cambodia: CREST Project – Regulatory Impact Assessment Subproject (Project Number: 38421 Loan and/or Grant Number) , May 2010
- OECD (2005-06-03), "Analysis of Non-Tariff Barriers of Concern to Developing Countries", OECD Trade Policy Papers, No. 16, OECD Publishing, Paris. June 2005, http://dx.doi.org/10.1787/223281783722
- Ralf Peters: "Linkages Non-Tariff Measures and SDGs", UNCTAD, Bangkok, May/June 2017
- Rapid Alert System for Food and Feed (RASFF), Annual Reports - 2015,2016,2017, and 2018
- Robert Basedow & Celine Kauffmann: "International Trade & Good Regulatory Practices – Assessing the Trade Impacts of Regulation", OECD Regulatory Policy Working Papers, No. 4, France, 2016
- Spencer Henson: "Gender and Sanitary and Phytosanitary Measures in the Context of Trade: A Review of Issues and Policy Recommendations", International Center for Trade & Sustainable Development – Issue Paper, November 2018
- UNECA/Trade Mark: "CREATING A UNIFIED REGIONAL MARKET TOWARDS THE IMPLEMENTATION OF THE AFRICAN CONTINENTAL FREE TRADE AREA IN EAST AFRICA" First printing: JANUARY 2020, ISBN: 978-99977-775-5-3, ©2020
- UNCTAD: "TRADING INTO SUSTAINABLE DEVELOPMENT: Trade, Market Access, and the Sustainable Development Goals", DEVELOPING COUNTRIES IN INTERNATIONAL TRADE STUDIES, New York and Geneva, 2016
- https://www.standardsfacility.org/projectgrants?field_region_tid_i18n=1930&field_status_value_i18n=Completed&field_sector_value_i18n=Plant+Health&field_tr_beneficiaries_tid=&=OK
- https://www.ippc.int/en/themes/capacity-development/ http://www.standardsfacility.org/sites/default/files/EIF_STDF_Study_Final.pdf

The Impact of COVID-19 on Selected Businesses in Addis Ababa*

ABSTRACT

With the objective of examining the impact of novel Coronavirus (COVID-19), which is declared as a global pandemic by WHO on the business community in Addis Ababa city, AACCSA has conducted a survey on purposefully selected 175 firms, which are consisted from various business sectors in June 2020. The purpose of the study was to examine the impact of COVID-19 on the business activities of the city and to suggest recommendations that will help the business community to mitigate its possible adversary effects on their activities in view of initially ensuring businesses continuity and later to return them to their previous state of condition. Both secondary and primary sources of data were used in the study. The primary sources of data were collected from pertinent representatives of selected sample businesses with either general management role through face to face interview based on structured interview instrument.

The survey revealed that about 96% of the business community were affected by the pandemic though its adversary impact varied from sector to sector. Specifically, the study also revealed that tourism, financial, manufacturing, and foreign trade (export & import activities) sectors of the city were highly negatively affected by the pandemic. It also revealed that the adversary impacts of the pandemic on the selected businesses of the city were clearly evidenced by decline in sales of goods & services, decline in volume and value of exportable/importable goods and services, reducing workers' attendance to work and somehow deteriorating their morale, disrupting production processes, lowering sales and income, increasing costs and expenses, decline of customers and lowering the demand and purchasing power of people at large. These problems are particularly visible in businesses notably, in tourism and hospitality, manufacturing (of which in companies that depend on imported inputs) and others sub sectors. In a nutshell, the study revealed that businesses have faced several challenges that include operational/supply side/ problems that affected the productivity of the business sector; and setbacks in market/trade activities, which can be characterized by weak supply and demand situations and the cancelation of massive trade contract domestically and internationally.

The study recommended for concerned government entities to consider policy interventions to mitigate the adversary effects of COVID-19 on businesses in the city, among other things, in the areas of tax and tariff, cost reduction, availing loan schemes and foreign exchange, and promoting import substitution. It also recommends that the government should look at waiving unnecessary procedures which adversely affect the productivity and efficiency of businesses, and promoting support and collaboration to enhance business activities in the city.

Key Words: *AACCSA, COVID-19, Survey, Business*

* *Denekew Aman holds MSc in Economics from Addis Ababa University.*
Daniel Dendir holds MA in Economics specialized in Competition Policy and Regulatory Economics from Addis Ababa University.
Seyoum Chane holds MSc in Economics from Addis Ababa University.

1. INTRODUCTION

1.1 Background

The novel corona virus has resulted unprecedented consequences on the global socio-economic setting. The virus has been spreading all over the word at an alarming rate. The outbreak of coronavirus (COVID-19) has already led to major disruptions of the global economy. As a result, the global economic outlook is looking bleak, with recessions in almost every economy across the world.

The economic and social impact of the virus in Ethiopia is not different from what is seen at a global level except that the number of cases and deaths are small in comparison to other countries. Nevertheless, the number of reported cases and deaths is increasing from time to time and many feel that the worst is yet to come.

In response to the pandemic, countries have introduced partial and complete lockdowns limiting movements across borders and within countries. In Ethiopia, various measures have been taken by the government to protect the possible crisis. This includes work at home direction, travel restrictions, closure of schools & training institutions, partial closure of government offices, along with a State of Emergency that was enacted on April 9, 2020.

Demand side and supply side shocks related to the pandemic and policy responses taken have their own impact on the economy as well as businesses. As workers and consumers stay home and the usual supply chains are disrupted, aggregate demand suppressed, businesses (both private and public) are losing revenue, unemployment has risen and loan defaulters increased putting pressure on the banking and financial system.

The slowdown in business and the economy, which is alarming and continuing, has become the serious concern of all stakeholders. Thus, it is important to analyze the real impact of the pandemic on businesses. It is against this background information that, the Addis Ababa Chamber of Commerce & Sectoral Associations (AACCSA) has taken the initiative to launch a survey on the impact of COVID-19 on selected businesses in Addis Ababa to provide an information to gauge the real situation and advise policy makers and businesses during the crisis and post recovery situation.

1.2 Objective of the Study

The main objective of the study is to gather primary evidence on the impact of COVID-19 on selected business sectors and forward recommendations on ways and means of minimizing the impact of the pandemic on trade and investment.

The specific objectives of the study are the following:

- To assess the impact of COVID-19 on different sectors of the economy and forward policy recommendations based on the survey findings, and
- To obtain evidence based information for AACCSA with the intent to advocate relevant measures that help minimize the impacts of the pandemic on the business community.

1.3 Scope of the Assessment

The scope of the study is confined to examining the impact of COVID-19 on selected businesses that operate in Addis Ababa. It also focused on analyzing the impact across various sectors based various review dimensions.

1.4 Methods of Data Collection

Both secondary and primary sources of data were used in the course of the study. The primary data were collected by using a structured questionnaire/survey instrument through a face to face interview. The survey is carried out in June 2020. A sample of 175 businesses were selected and their representatives were interviewed through questionnaire that include open and close ended questions to address the impact of COVID-19 on their business activities.

2. RESULTS AND DISCUSSIONS

In this part of the study's report, a result & discussion made on the primary data gathered through survey about the impact of COVID-19 on selected businesses found in Addis Ababa is presented.
The primary data from representatives of the businesses with more or less general management role were gathered using survey instrument through face to face interview for each. In all, 172 completed questionnaires through enumerators were collected from 175. The response rate was 98.3 percent.

2.1 General Information about Respondents

In this section of the research report, a brief description of sampled businesses about their composition of sector is presented.

Table 1 below shows the composition of respondents that are involved in the survey by their respective sectors/sub-sectors.

The composition of sampled respondents is briefly discussed as follows: 23.4 percent of the respondents were belonging to export-import sector and followed by manufacturing sector with 21.7 percent and others sectors that include sectors like real estate, wholesale trade, printing & logistics) with 19.4 percent. While the share of respondents that are composed from services, tourism & hospitality and construction sectors (the actuals being 9.7%, 8.6% and 8%, respectively) is more or less around 8 percent, the share of finance & agriculture sectors were 6.3 percent & 1.7 percent, respectively.

Table 1: Composition of Respondents by Sector

Sector of Sampled Businesses	Frequency	Percent
Export-Import	41	23.4
Manufacturing	38	21.7
Others	34	19.4
Services	17	9.7
Tourism & Hospitality	15	8.6
Construction	14	8.0
Finance	11	6.3
Not Responded[26]	3	1.7
Agriculture	2	1.1
Total	**175**	**100.0**

Source: AACCSA (2020), Result of Survey Computation

2.2. Results & Discussions on the Impacts of COVID-1 on Selected Businesses in Addis Ababa

Table 2 below presents the output of the descriptive statistics analysis about the main variables/impact review parameters involved in the survey, which include their mean, standard deviation, minimum and maximum values. This analysis is used to look at the degree of influence of the pandemic on selected businesses included in the survey and overall reflection of respondents to each question.

Summary statistics analysis of the impact of the pandemic on some selected firms are presented in table 2 below generated based on SPSS package.

Table 2: Summary of Statistics of the Impact of the Pandemic

```
. sum impact_covid level_impact

    Variable |        Obs        Mean    Std. Dev.       Min        Max
-------------+---------------------------------------------------------
impact_covid |        175    1.045714    .2353072         1          3
level_impact |        172     3.19186    .8808177         1          4
```

Source: AACCSA (2020), Result of Survey Computation

The analysis output above shows that, the summary statistics of respondents' reply to the impact of the pandemic. The analysis output shows that all respondents replied that COVID-19 had influenced their day to day business activities. The mean of the respondents' reply on the impact of the pandemic is 1.05, which is close to minimum standard value[27], which is an indication that the majority of the

26 Suggested to change "Unable to Answer the question" to "Not Responded"

27 1 is coded for the respondents who responded that the pandemic has impact on their business activities, 2 is coded for ''No" impact and 3 is coded for respondents who answered "don't now" about the level of the impact

respondents have faced challenges resulting from COVID-19. This finding is supported by the value of standard deviation[28], which is 0.23. This shows that the close similarity of the respondents on the impact of the pandemic on their businesses. These summary statistics revealed that almost all respondents responded similarly that COVID-19 had clear impact to their companies. (See Appendix 1 for detail observation of the variables and summary statistics).

Table 3 shows the frequency distribution of respondents' reply about whether COVID-19 has impact on the overall business activities of selected firms.

Table 3: Response about the Impact of COVID-19 on Business Activities by Sub-Sectors

Sector of Sampled Businesses	Percentage Share of Responses on whether COVID-19 had impact on business activities of the companies or not?						Total number of Respondents	
	Yes		No		I don't know			
	Frequency	% age	Frequency	% age	Frequency	% age	Frequency	% age
Export-Import	41	23.43	-	-	-	-	41	23.4
Manufacturing Sector	33	18.86	4	2.29	1	0.6	38	21.7
Others Sector	32	18.29	2	1.1	-	-	34	19.4
Services Sector	17	9.71	-	-	-	-	17	9.7
Tourism-Hospitality	15	8.57	-	-	-	-	15	8.6
Construction Sector	14	8.00	-	-	-	-	14	8.0
Financial Sector	11	6.29	-	-	-	-	11	6.3
Unable to indicate in which sector the company is engaged	3	1.71	-	-	-	-	3	1.7
Agriculture Sector	2	1.14	-	-	-	-	2	1.1
Total	168	96	6	3.4	1	0.6	175.0	100.0

Source: AACCSA (2020), Result of Survey Computation

From a total of 175 respondents selected from different sub-sectors, 168 respondents (96%) replied that COVID-19 has affected their business. These respondents are mainly consisted from export-import, manufacturing (those manufacturing firms' dependent on imported inputs like raw materials, machineries, or accessories) and from other sectors. In contrary to this, 6 respondents (3.4%) have replied that it has no influence on their business activities for the last couple of months before the survey is carried. Only 1 respondent (0.6%) replied that s/he did not notice its impact on its business. All respondents from services, tourism-hospitality, construction, and financial sub sectors have replied that COVID-19 has influenced their entire business activities (See Table 3)[29].

28 If the standard deviation is close to zero that indicates the majority of the respondents' responses are close to the mean.

29 *Given the circumstances of the Coronavirus pandemic, dairy farmers and the entire dairy industry also experienced in the demand for and supply of dairy products. A telephone interview that was made with selected dairy operators in Addis Ababa to identify the impact of COVID-19 on the sector revealed that weak performance in the sector due to decline in dairy consumption and sales for misunderstanding and fear that dairy products can cause COVI-19 infection; escalation of feed price; mounting price for veterinary medicine; shortage in both skilled and unskilled who can provide veterinary services and causal works respectively; and foreign exchange shortages to import inputs such as spare parts, laboratory equipment and packaging resources.*

Table 4 shows the frequency distribution of respondents' reply about anticipated change on export trade performance of selected businesses in the survey.

Table 4: Response about Expected Change on Export Trade Performance on Sampled Businesses

Current/ Expected Change	Frequency	Percent	Cumulative Percentage
Increased	3	1.7	1.7
Decrease	129	73.7	75.4
No change	8	4.6	80.0
Not responded to the question[30]	35	20.0	100.0
Total	**175**	**100.0**	

Source: AACCSA (2020), Result of Survey Computation

The survey revealed that export of goods and services have shown a declining trend following the pandemic that resulted due to the impact of the virus on major export destination of the country. From a total of 175 respondents, 129 (73.7%) responded that their export has decreased. This analysis shows that export business is weakened as a result of the pandemic. Despite other offsetting factors, the decrease in export trade performance has led to shortage of foreign currency in the country (See table 4).

In spite of different incentive mechanisms by the government of Ethiopia to boost the export trade performance of the country, foreign trade deficit has still been a peculiar characteristic of country's foreign trade due to imports bill and volume surpassing significantly that of export. For instance, the country's export and import value were USD 722.8 million and USD 3.8 billion, respectively in the first quarter of 2019/20 FY.

Table 5 shows the frequency distribution of respondents' reply about anticipated change on import trade performance of selected businesses in the survey.

Table 5: Response about Expected Change on Import Trade performance on Sampled Businesses

Current/ Expected change	Frequency	Percent	Cumulative Percentage
Increased	2	1.1	1.1
Decrease	131	74.9	76.0
no change	6	3.4	79.4
Not responded to the question	36	20.6	100.0
Total	175	100.0	

Source: AACCSA (2020), Result of Survey Computation

Similarly, imports of goods and services had also been affected by COVID-19 mainly due to travel restrictions, closing of borders and instituting of social distancing. From a total of 175 respondents, 131 (74.9%) replied that their import of goods and services significantly dropped-off as a result of COVID-19. The decline in import of goods and services has expanded due to limited access to

30 Number of respondents which didn't reply to the question.

foreign currency, reduced demand for goods & services on the side of consumers as a result of partial lockdown decisions in selected sectors and lower business activities as well. Only 2 respondents (1.1%) indicated that their import has increased during the pandemic period, which is attributed mainly due to a significant increase in the import of pharmaceutical products following the pandemic (See table 5)

Table 6 shows the frequency distribution of respondents' reply about the setbacks businesses had faced with respect to access to foreign currency during the pandemic.

Table 6: Response About Setbacks Businesses Has Faced in Terms Of Access To Foreign Currency Due To The Pandemic Of Covid-19

Current/ Expected Change	Frequency	Percent	Cumulative Percentage
Increased	9	5.1	5.1
Decreased	103	58.9	64.0
No change	8	4.6	68.5
Not responded to the question	55	31.4	100.0
Total	175	100.0	

Source: AACCSA (2020), Result of Survey Computation

From a total of 175 respondents, 103 respondents (58.9%) stated that their access to foreign currency has decreased after the pandemic. This reveals that access to foreign currency is still a major impediment to the business communities coupled with the poor export trade performance.

On the other hand, 55 respondents (31.4%) didn't replied to the question, and 9 respondents (5.1%) responded that their access to foreign currency increased, which can be due to government's special considerations to businesses, which were actively engaged in importing, personal protective supplies, health facilities and equipment.

Table 7 shows the frequency distribution of respondents' reply on the impact of COVID-19 on sales of goods & services of selected businesses.

Table 7: Impact of COVID-19 on Sales of Goods & Services of Selected Businesses

Current/Expected Change	Frequency	Percent	Cumulative Percentage
Increased	3	1.7	1.7
Decrease	158	90.3	92.0
No change	5	2.9	94.9
Unable to answer the question	9	5.1	100.0
Total	175	100.0	

Source: AACCSA (2020), Result of Survey Computation

While out of the total 175 respondents, 3 (1.7%) respondents (each from the manufacturing, service and other sectors) replied that their sales of goods and services have increased, 158 (90.3%) respondents (of which most are from tourism & hospitality, export-import, services, financial sector and other sectors) replied that it decreased. 5 (2.9%) respondents (of which most are from construction and manufacturing sectors) stated that they noticed no change on their sales following the pandemic. This shows that the pandemic created an adverse impact on businesses by contracting their sales of goods and services. Concurrently, the income from operation of many businesses has significantly dropped. This is also evidenced in table 8 below, which displays the responses to the question how the pandemic has affected income of businesses (See table 7).

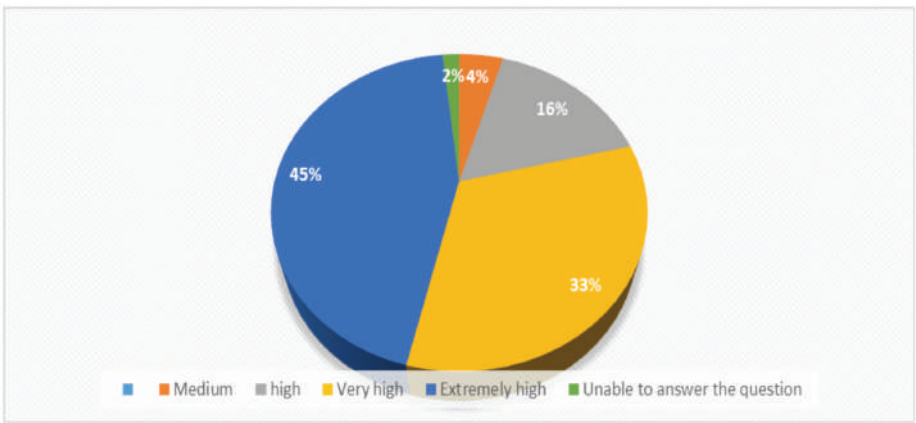
Table 8: Responses to Impact of COVID-19 on Income situation of businesses

Current/ Expected Change	Frequency	Percent	Cumulative Percentage
Increased	5	2.9	2.9
Decrease	156	89.1	92.0
No change	9	5.1	97.1
Unable to answer the Question	5	2.9	100.0
Total	**175**	**100.0**	

Source: AACCSA (2020), Result of Survey Computation

While from a total of 175 respondents, only 5 (2.9%) respondents (of which, three are from manufacturing sector, and two each from service and other sectors) replied that their income has increased after COVID-19; 156 respondents (89.1%) (of which, most are from tourism and hospitality, financial and export-import sectors) explained that their income declined. Nine respondents (5.1%), which are consisted from manufacturing and other sectors stated that the income of their businesses has shown no change after the pandemic. This result is in line with table 7 that showed about 90.3% of the respondents indicated that their sales of goods and services have declined.

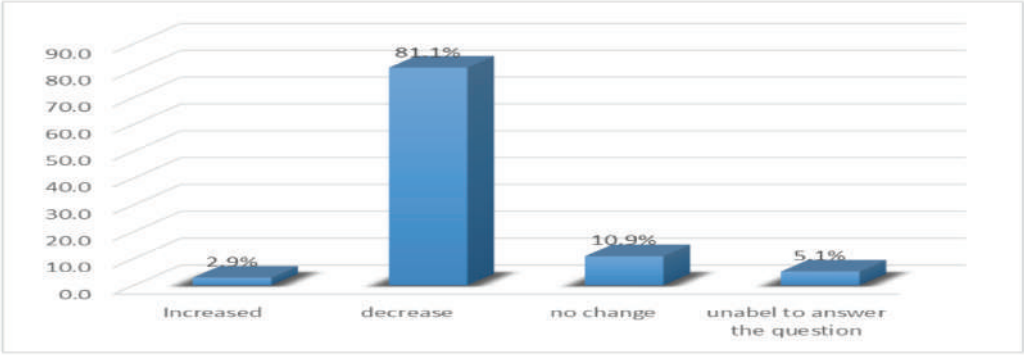
Figure 1: Response on Level of Impact of the Pandemic



Source: AACCSA (2020), Result of Survey Computation

Figure 1 shows the level of the impact of the pandemic based on the ratings of respondents to scales that range from low to high. This inquiry is made to see how respondents feel the level of the impact of the pandemic by using a measuring scale: i.e. low, medium and high. From a total of 175 respondents, those who perceive that its level of impact as medium, high, very high and extremely high accounted for 4%, 16%, 33%, and 45%, respectively. This shows that the majority (94%) of respondents rated the level of the impact of COVID-19 on their businesses is high and above[31].

Figure 2: Situation of customer visit to the businesses



Source: AACCSA COVID-19 Survey Results, 2020

Figure 2 shows the trend of customers visits on selected businesses after the first novel corona virus case is reported in Ethiopia. From a total of 175 respondents, about 8.1%, 10.9% and 2.9% have replied that the trend of customers visits to their businesses have decreased, not changed and increased, respectively. This shows that a significant number of respondents have an impression that the number of customers visiting their companies decreased after the outbreak of the pandemic in the country. About 5 % of the respondents didn't reply to the question.

Table 9 shows the frequency distribution of respondents' reply about the state of the trend of customers in visiting the businesses by their sectors after the occurrence of COVID-19.

31 About 2% of the respondents didn't replied to this question.

Table 9: Response about the Status of Customer Visit to Sampled Businesses by Sub-sectors/Sector

Sector of Sampled Businesses	Percentage Share of Responses that state the Trend of Customers in Visiting the Businesses by their Sectors after the occurrence of COVID-19						Total number of Respondents	
	Increased		Decrease		No change			
	Frequency	% age	Frequency	% age	Frequency	% age	Frequency	% age
Export-Import	-	-	40	22.9	1	0.6	41	23.4
Manufacturing Sector	1	0.6	35	20.0	2	1.1	38	21.7
Others Sectors[32]	-	-	25	14.3	7	4.0	32	18.3
Services Sector	2	1.1	12	6.9	2	1.1	16	9.1
Tourism-Hospitality	-	-	15	8.6	-	-	15	8.6
Construction Sector	-	-	13	7.4	1	0.6	14	8.0
Financial Sector	-	-	11	6.3	-	-	11	6.3
Not-responded	-	-	6	3.4	-	-	6	3.4
Agriculture Sector	-	-	2	1.1	-	-	2	1.1
Total	3	1.7	159	90.9	13	7.4	175	100

Source: AACCSA (2020), Result of Survey Computation

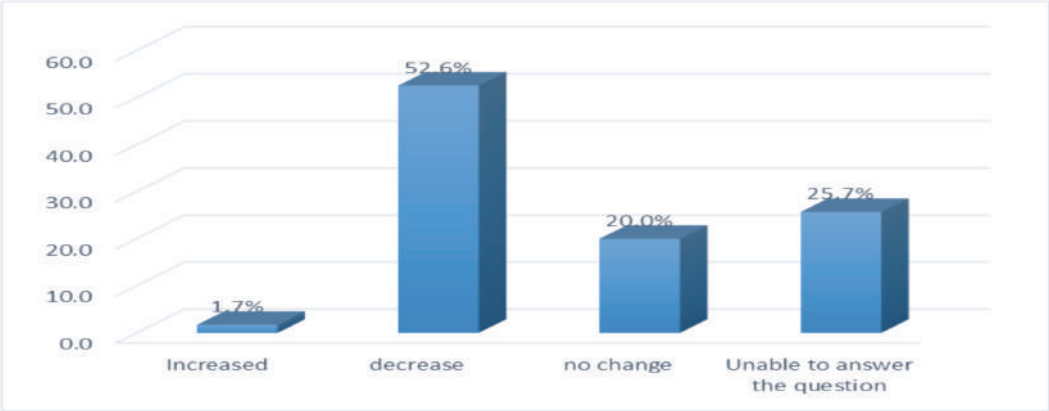
From a total of 175 respondents, 159 respondents (90.9%) replied that their number of customers decreased as a result of the pandemic. In contrary to this, while only three respondents (1.7%) replied that the number of customers that visited their businesses have increased; 13 respondents (7.4%) stated that COVID-19 didn't have any influence on their customers' base.

About 91% of respondents replied that they have noticed drop of customers that visit their companies as a result of the pandemic. Export-import (22.9), manufacturing (20%) and others sectors (14.3%) have experienced a significant drop of customer visits. Sector wise, manufacturing sector (27.4%) including construction has exhibited a significant drop of customers visits followed by export-import sector (22.9%). And, then tourism-hospitality sector (8.6%) and services sector including financial sector (13.1%) are followed. This result substantiates the observation that the mostly highly hit sectors as a result of the pandemic are export-import, manufacturing, others sectors, tourism-hospitality, construction and services sectors.

Figure 3 shows the frequency distribution of respondents' reply about the provision of credit to businesses after the outbreak of COVID-19 pandemic.

32 Include real estate, wholesale trade, printing, and logistics businesses

Figure 3: Response about Provision of Credit to Businesses after the Outbreak of Covid-19

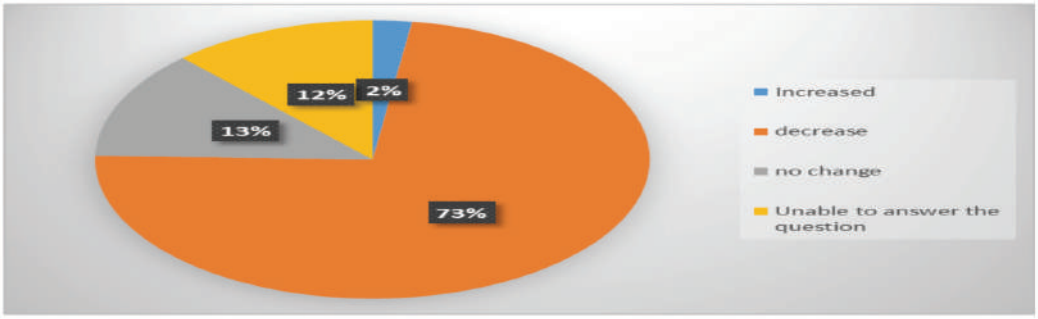


Source: AACCSA (2020), Result of Survey Computation

From a total of 175 respondents, 92 respondents (52.6%) replied that credit they used to get has started to decline following the pandemic. In contrast, about 35 respondents (20.0%) indicated that they didn't noticed any change on availability of credit to their businesses. While 45 respondents (25.7%) didn't replied to this question; three respondents (1.7%) stated that they have been getting an increased credit facility. This result indicates that lack of credit/finance continued to be an impediment to the operation of businesses during COVID-19 pandemic.

Figure 4 shows the frequency distribution of respondents' reply about access to services that will be provided by government & other institutions.

Figure 4: Response about Access to Services from Government & Other Institutions

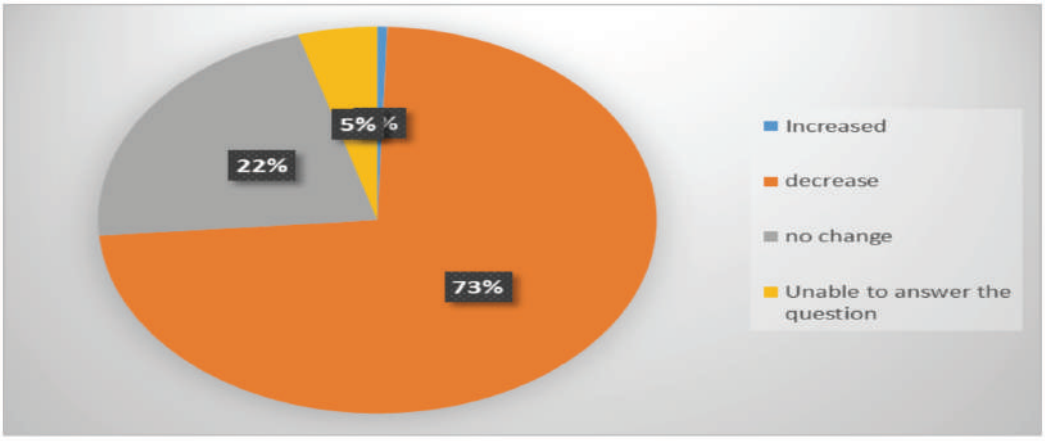


Source: AACCSA (2020), Result of Survey Computation

From a total of 175 respondents, 128 respondents (73%) replied that the services they used to get from government & other institutions have decreased this in return being a cause for decrease in their customers. While 13% of the respondents stated that they have a perception of no change on the accessibility of service provision by government and related institutions; 12% of the respondents didn't replied to the question.

Decline in support and service from government offices has a deterring effect on smooth operation as well as services of businesses.

Figure 5 shows the frequency distribution of respondents' reply about the status of employees' attendance in working hours during the pandemic.



Source: AACCSA (2020), Result of Survey Computation

From a total of 175 respondents, about 73% of respondents expressed that the working hours of their employees have decreased following COVID-19 as part of a mitigating measure to prevent the spread of the virus at the workplace in line with a protocol to prevent the spread of the virus on workplaces issued by the government. While about 22% of the respondents expressed the absence of any change in their employees' attendance resulting from the pandemic. This indicate the existence of productivity drop in the sub-sectors due to limited labour supply and low workers' engagement at work places.

Table 10 shows the frequency distribution of respondents' reply about the status of employees attendace in their duty during COVID-19 pandemic.

Table 10: Response about Status of Employee Attendance during Covid-19 By Sector

Sector of Sampled Businesses	Percentage Share of Responses on Status of Employee Attendace in Duty during the pandemic of COVID-19						Total Number of Respondents	
	Increased		Decreased		No Change			
	Frequency	% age	Frequency	% age	Frequency	% age	Frequency	% age
Export-Import	-	-	33	18.9	8	4.6	41	23.4
Manufacturing Sector	-	-	28	16.0	9	5.1	37	21.1
Others Sector	-	-	22	12.6	10	5.7	32	18.3
Tourism-Hospitality	-	-	15	8.6	-	-	15	8.6
Services Sector	1	0.6	12	6.9	2	1.1	15	8.6
Construction Sector	-	-	10	5.7	4	2.3	14	8.0
Didn't respond to the sector	-	-	8	4.6	-	-	8	4.6
Financial Sector	-	-	7	4.0	4	2.3	11	6.3
Agriculture Sector	-	-	1	0.6	1	0.6	2	1.1
Total	1	0.6	136	77.7	38	21.7	175	100.0

Source: AACCSA (2020), Result of Survey Computation

From a total of 175 respondents, 128 respondents (89.14%) replied that employees' attendance decreased due to the COVID-19 pandemic. The government of Ethiopia has taken several preventive measures since the first COVID-19 case is reported in Ethiopia. This is attributable to reduction of staff size through shifting arrangement and corresponding working hours in different sectors.

Table 11 shows the frequency distribution of respondents' reply on unintended consequences of government action on businesses.

Table 11: Response about Unintended Consequences of Government Action on Businesses

Current/ Expected change	Frequency	Percent	Cumulative Percent
Yes	157	89.7	89.7
No	15	8.6	98.3
Not identified yet	3	1.7	100.0
Total	175	100.0	

From a total of 157 respondents, about 157 respondents (89.7%) responded that the measures taken by the government to prevent & contain the spread of the pandemic have created an unintended result that have an adversary nature on the environment where the businesses operate. These respondents further cited that tourism and hospitality become highly vulnerable due to restrictive and social distancing measures.

In contrary, 15 respondents (8.6%) replied that the measures taken by the government has no effect at all on their businesses and 3 respondents (1.7%) didn't identify the government action and its impact.

2.3. Major Challenges of Businesses due to COVID-19

Based on the survey, respondents reflected on the major challenges they faced while running their businesses as well as ensuring business continuity following COVID-19 pandemic. Under this part of the report, the major challenges that are identified by respondents are presented. They are categorized in to six. These are: operational, market, finance/credit, customers, labour supply shortage and overall performance and presented in the section below.

i. Operational /Supply Side/ problems that affects productivity

Decline in production/output/ of goods as well as service provision (far below normal times) is apparent in most sectors following the pandemic. This is attributable mainly to interrelated factors such as supply disruptions along the value chain, limited cash transactions due to business closures, fear and social distancing; difficulty in importation of necessary equipment, sourcing inputs or distribution; border controls, and limited mobility of workers to workplaces due to restrictions on transportation services.

These effects have resulted in reduction of production and services, delay in the delivery final goods and adversely impacted capacity of businesses to compete in both domestic and international markets.

ii. Market/Trade

Weak export revenue due to very low level of sales was observed especially from 41 respondents engaged in various activities resulting from a decrease in aggregate demand from lockdown measures. This is evidenced by cancellation of sales contracts by firms in destination countries mainly in Europe (like Italy, Netherlands), Middle East, China and USA. In this regard, it is worth noting that industries like textile & garment are hatted severely and drops in the use of airline services as well.

iii. Finance /Credit

Some of the major challenges businesses have raised related to finance and credit are:

- Inability to discharge their debt repayment obligations due to absence of income;
- Inadequate direct financial support or availability of credit to SMEs;
- Lack or shortage of foreign currency;
- Shortage of funds (decline in liquidity position) on the side of banks due to drop in deposits to banks and rise in non-performing loans;

Notwithstanding the above financial challenges, the government of Ethiopia earmarked funds and provided a credit facility for banks from the National Bank of Ethiopia.

iv. Customers

In relation to customers, the responses show that

- Drop in customers due to the closure of school, training institutions and movement restrictions and associated decline in sales, and
- Significant drop in demand for goods and services due to decline in purchasing power of buyers.

v. Labour supply shortages

Labour supply shortages are evident in most businesses mainly originated from supply and demand shocks related to the pandemic and lockdown measures. Reduction in staff hours coupled with curfews and restrictions on public transport have led to difficulties with ensuring sufficient staffing as staffs have fears and reduced morale. Disruption in office hours and lack of sufficient staffing further affected the provision of services in government offices, which eventually affect business operations.

vi. Overall Business Performance

In general, businesses surveyed stated that they faced income losses and significant drop in their financial performance following COVID-19 pandemic due to increase in costs and expenses as justified by inability to cover employee payroll costs, loan repayment commitments, bank charges, increase in cost of goods and services, sharp rise in operating expenses; and revenue decline as high as 35%-60% in most businesses.

3. CONCLUSION AND RECOMMENDATIONS

3.1. Conclusion

Based on the findings & discussions of the survey, the following conclusion is drawn.

Since its first reported case, the novel Corona Virus (COVID-19) has disrupted and slowed down most of the global production value chains following trade upheaval and uncertainty. In Ethiopia, the pandemic affected many businesses as evidenced in direct closures of hotels, restaurants, markets, entertainment facilities, cafeteria and other food outlets; restrictions on movement of customers and tourists; income losses across sectors; reduction in purchasing power, etc. The pandemic has also affected many businesses that source inputs and equipment from abroad, and distribute them to local markets mainly due to social distancing measures, transport restrictions and/or border controls. The negative impact on businesses is manifested by reducing workers' engagement to work and fulfil their morale, causing supply chain disruptions, lowering sales and income, increasing costs and expenses, and decreasing the demand for goods & services and purchasing power of people at large.

3.2. Sector Specific and General Interventions/Recommendations

Based on the findings and discussions of the survey, COVID-19 have a significant negative impact on hotel and hospitality, export-import trading (wholesale and retail), manufacturing, and finance sectors.

Therefore, the following interventions are suggested for due consideration by concerned entities during and after the pandemic to mitigate the adverse impact of the pandemic on businesses found in Addis Ababa.

i. Hotel and Hospitality

- Reduction in utility fees for up to two years and extension of tax holidays to allow recovery,
- Continue with monetary policy interventions, which help to reduce interest rate reduction,
- Provide access to affordable financial capital to start operations in the financial sector, & Reduce promotional expenses by availing free advertisement channels and air time.

ii. Manufacturing

- Provide support to avail new procurement/supply delivery channels,
- Reduce in import tariff for basic imported items and raw materials,
- Reduce in utility fees and charges up to two years,
- Set up a guideline or a supporting tool to allow local manufacturers have continued access to imported materials,
- Ease barriers of transport and cargo movements in domestic and international corridors to facilitate delivery of raw materials and finished goods thereby maintaining the production cycle to the state of pre COVID-19 levels,
- Encourage and create an appropriate environment for import substitution of any raw materials by focusing on local additions, and
- Facilitate to increase the procurement of inputs from local or international businesses as well as reducing business operating costs.

iii. Export –Import

- Flexible approach to compliance procedures in the areas of tax, tariff and timing against the normal circumstances,
- Avail continuous professional and logistic support to promote exportable commodities,
- The Ministry of Transport has taken an encouraging policy schemes to reduce cost of transport and logistics to manufacturers engaged in exporting though it seems stayed for few months concurrent with the issuance of the state of emergency proclamation to prevent the spread of the virus and reduce its adverse impact on the economy. This include free rail freight transport for export shipments along Modjo-Djibouti leg, significant reduction in road freight tariff and dry port services charges, and freight rates. The Ministry of Transport should look at the possibilities to extend these support schemes to an elongated period till the normal business cycle resume,

    - These actions need to be strengthened for SMEs using cargo facilities. Moreover, it is important to provide support to businesses that establish relationship with alternative suppliers and markets by removing transport and logistics barriers and facilitating a modern e-payment system.
- Adopt policies that recognize, license and regulate the online trading system, &
- Promote or support the use of digital and communication technologies

iv. Dairy Processors

- Provide support to operators and farmers with high quality inputs such as veterinary medicine, spare parts, packaging materials, ingredients, and fertilizer, etc.

v. Finance

- The government of Ethiopian should look at additional monetary measures to support banks. In this connection, further increase of both financial and regulatory support to banks by National Bank of Ethiopia will help to enhance the liquidity position of commercial and private banks thereby upscale their capacities to avail loan to various businesses and projects as well as arrange loan rescheduling and debt relief to their clients.
- Most businesses especially in manufacturing sector require foreign currency to source their inputs necessary for production. Thus, availing foreign currency to sectors which help generate revenue and employment such as export, tourism and hospitality and manufacturing.

3.3. Additional Suggestions

- Businesses suggest the need for a collaborative work between government and businesses with respect to regulatory issues, relief and economic stimulus packages. COVID-19 has affected the people at large and employees in particular due to price rise of major consumer goods and services, which are shown after the pandemic. The government has taken measures to the extent to close businesses charging above the normal ceilings. Direct subsidies by the government should continue to major food items, medical supplies and treatments and fuel to normalize prices and resolve supply shortages as the problem showed less improvement,
- The businesses have also suggested for the need to ease bureaucratic procedures by way of lifting or waving unnecessary procedures which adversely affect the productivity and efficiency of businesses in each sub-sectors.
- Businesses strongly believe he need to look towards sustainability beyond the pandemic and hence immediate actions to back in operation actions to be put in place along with health norms and regulations.

This survey study has attempted to examine the impact of COVID-19 on selected businesses that consist of various sub-sectors in Addis Ababa. Thus, further research as well as periodic follow up of studies and surveys should be conducted to monitor changes related with the impact of COVID-19 on businesses and monitor the mitigating measures of businesses to ensure their business continuity & growth.

References

Baldwin, R. & B.W. Di Mauro (2020). Economics in the Time of Covid-19. CEPR. (Accessed on [https://voxeu.org/content/economics-time-covid-19 accessed on [Insert Date/Month/Year] at [inert Time]

Geda, A. (2020). The Macroeconomic and Social Impact of COVID-19 in Ethiopia and Suggested Direction for Policy Response.

[Insert company (2020). Impacts of COVID-19 on the U.S. Dairy Industry, May 2020

Is it a magazine

Ozili, P. K. (2020). COVID-19 in Africa: socioeconomic impact, policy response and opportunities. Policy Response and Opportunities (April 13, 2020).

World Bank (2020). Global Economic Prospects

Addis Ababa Chamber of Commerce and Sectoral Associations
Tel: +251 11 551 8055
Fax: +251 11 551 1479
Email: info@addischamber.com
www.addischamber.com