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ADDIS ABABA UNIVERSITY
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FACULTY OF BUSINESS AND ECONOMICS

MBA PROGRAM

The problems and Opportunities of the Ethiopian Flower Industry

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APPROVAL BY BOARD OF EXAMINERS

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Abstract

This project tries to analyze the problems and opportunities that the Ethiopian floriculture industry encounters by taking the case of four selected companies. In order to collect data both primary and secondary data collection tools are used. The primary data collection methods are questionnaire and interview and the secondary data methods are the Internet, Different books, various related documents journals and newspapers. The paper identified that the major challenges for the Ethiopian floriculture industry which includes HIV/AIDS concerns, the Labor and Environmental issues and the increasing price of inputs.

The opportunity for the industry includes high Level of support by the government, suitable climatic and natural resources and abundant and cheap labor resource. Finally the paper recommends the immediate implementation of the code of ethics and improvement in the market information system among others.

Content

DECLARATION

I declare that *"The Problems and Opportunities of the Ethiopian Flower Industry (a case of four selected companies)"* is my own work, that it has not been submitted before for any degree or examination in any other University, and that all the sources I have used or quoted have been indicated and acknowledged as complete references.

Name Henok Belete

Signature

Definitions and Abbreviations

Abbreviations

CBI Centre for the promotion of imports from developing countries

CoC Code of Conduct

EHPEA Ethiopian Horticulture Producers and Exporters Association

GDS Global Development Solutions

Definitions

Floriculture, cultivation of ornamental flowering plants for aesthetic purposes, whether grown in window boxes, greenhouses, or gardens.

Flower, reproductive organ of most seed-bearing plants. Flowers carry out the multiple roles of sexual reproduction, seed development, and fruit production.

Horticulture (Latin hortus,"garden"; cultura,"cultivation"), science and art of growing fruits, vegetables, flowers, shrubs, and trees. Horticulture originally meant the practice of gardening and, by extension, now means the cultivation of plants once grown in gardens

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1. Introduction

1.1 Background

The export-oriented flower industry of Ethiopia has been growing rapidly and forms an important element in the country's efforts to expand and diversify the economy, raise export earnings and create employment. This rapid growth is remarkable particularly when placed in a historic context. In the year 2002 the total foreign currency earning from the Ethiopian flower sector amounted to USD 5million. In five years time the total export earnings with increased to USD 120 millions and several hundred hectares of greenhouse-infrastructure have been put in production. In an agricultural sector that is dominated by small-scale farmers using traditional low input/low output farming technologies such developments are impressive.

Whilst it is important to acknowledge the efforts and successes of the past, it is also important to assess how best to consolidate the recent achievements and strengthen the future position of the Ethiopian flower industry as a basis for further growth and development. *(EHPEA, 2006)*

The global floriculture industry is constantly changing, largely as a result of globalization. Before the 1970s, most of the world's floriculture consumption was supplied by domestic production. Countries tended to trade floriculture products with their neighbors. Now technological advances in the form of frequent, reliable air transport and improved receiving, handling and shipping facilities have expanded markets and made it possible for countries to trade these products all over the world (USITC, 2003). This has resulted in a decline in domestic production and an increase in global imports of floriculture products.

The effect of the accelerated international trade in these products was that demand exceeded supply in the global markets during the 1970s and 1980s. During these periods, Africa and Latin America shifted their focus from agriculture to higher-value horticultural production and so developed their floriculture production and their export capabilities (De Groot, 1998; USITC, 2003). During the 1990s international floriculture production continued to increase, as more countries entered the international floriculture market. Demand, however, stabilized or increased only marginally in the main consumption markets (e.g. Germany and France) (USITC, 2003). As a result, world production of floriculture products (especially of cut flowers such as

roses) surpassed demand and caused a steep decline in prices (De Groot, 1998; Thoen et al., 2000; USITC, 2003). All these factors contribute to an extremely competitive environment in the current floriculture markets (USITC, 2003).

1.2 The agricultural context in Ethiopia

Ethiopia is a federal republic of 9 states with capital city Addis Ababa. It is a landlocked country of more than 1,125,000 square kilometers with an estimated population of well over 75 million inhabitants out of which 85% live in rural areas and are mainly subsistence farmers and pastoralists. The Ethiopian economy depends to a large extent on the agricultural sector which accounts for nearly 50% to the Gross Domestic Product (GDP). However, the contribution of agriculture is expected to be far higher as the production of subsistence farmers tends to be excluded from the calculations. In general, the agricultural sector consists of numerous scattered small farmers at subsistence level and relatively few commercial producers and exporters. For many years, the national Government had an important stake in the production of basic agricultural and food items like cereals, milk, meat, fruits and vegetables through its state farms. For years, the focus of the Government of Ethiopia as well as international organizations in the area of poverty reduction has been on food security and self-sufficiency. From both sides more attention is now given to access to food through promotion of purchasing power and market oriented production (including exports).

Reports by the World Bank and African Development Bank on structural bottlenecks of the Ethiopian economy in general and the export oriented sectors in particular, have been well taken by the Government of Ethiopia. Privatization of state enterprises, promotion of commercial production and exports have become part of the Government's policy towards economic growth and poverty reduction (as formulated in the Plan for Accelerated and Sustained Development to End Poverty - PASDEP; September 2006). Policies have been shaped to create a more favorable investment climate and a more enabling environment for private sector development. Agricultural exports to the European Union and North-America have been dominated by a few agro-based commodities like coffee, leather and meat. For long Ethiopia depended to a large extent on coffee for its foreign exchange earnings as it used to account for about 65% of its total export revenues. Other important export products are oilseeds, *khat*, pulses and hides and skins. Until recently,

horticulture was seen as one of the most underdeveloped sectors in Ethiopia and its contribution to the country's export earnings had been almost negligible (until 2001 less than 2% in export value).

Large state farms dominated the production and export of fresh fruits and vegetables. Few years ago however, most of these farms have privatized and the cultivation of fruits, vegetables and flowers for export have been promoted.

The market oriented policy reforms also aim to attract foreign direct investment (FDI) into the agricultural sector and exports from Ethiopia. A number of sectors are reserved for domestic private investors and the state, but the horticulture sector was opened up for FDI. Now foreign investors are exempted from customs duties and import tariffs on all capital equipment and up to 15% on spare parts; income tax holidays from 1 to 5 years are also given.

In short, the agricultural context and investment climate in Ethiopia has altered over the past few years in the direction of privatization, facilitating direct (foreign) investments, export oriented production and diversification. This trend is expected to be sustained over the coming years. After a rapid increase in production and export trade, particularly in the floriculture sub-sector, it is important to assess the needs and opportunities for consolidating the positive achievements of recent years and seizing opportunities for further growth and development. *(MoARD, 2006)*

1.3 Government policy objectives for the export horticulture

As a follow-up from the Sustainable Development and Poverty Reduction Program (SDPRP), the Government of Ethiopia formulated a comprehensive development strategy for the period 2005/06 – 2009/10 called 'Plan for Accelerated and Sustained Development to End Poverty' (PASDEP). Ethiopia has set itself the objective to lay out the directions for accelerated, sustained and people-centered economic development so that the Millennium Development Goals (MDGs) will be attained by 2015. To this effect the Ethiopian Government aims amongst other to build an economy which has a modern and productive agricultural sector that plays a leading role in the economy. To achieve this, a further commercialization of the agricultural sector and an acceleration of the private sector development are to be

promoted. Expansion of the production and exports in the floriculture sector forms an integral part of this policy objective. With regard to the production of flowers for exports, the PASDEP program targets intensification of the recently initiated flower production in areas with altitude between 1,600–2,600 meters above sea-level. Accordingly out of the total of 2,031 ha of land leased to investors, the land covered by greenhouses is expected to reach 1,600 ha; an additional 400 ha of land will be put under greenhouse shelter. The area under flower production (roses, cuttings, summer flowers) would thus increase from 519 ha in 2005/06 to 2,000 ha in 2009/10. In terms of employment generation the policy objectives is to increase the number of employees from well over 21, 000 in 2005 (64.4% female workers) to a total of 70,000 in 2009/10. (MoTI , 2006)

Table 1: Share of Ethiopian Flower Export from the Total Export (USD) (2001 - 2005)

Year	Flower Export in '000 USD	Total Export in '000 USD	Share of flower Export
2001	660	447,976	0.15
2002	1,213	436,310	0.28
2003	2,904	842,700	0.34
2004	5,050	596,521	0.85
2005	12,645	793,228	1.59
2006	26,900	1,000,000	2.69
2007	133,000	1,200,000	11.08

(Source: MoTI)

2. Overview of the Ethiopian floriculture sector

2.1 General introduction to the sector

Floriculture is a relatively new sub-sector to Ethiopia as for long the production of flowers had been limited to few varieties of field flowers (like Allium). However, this situation has changed very rapidly over the past years (see table 1) and nowadays producers in other countries eagerly look at the developments in Ethiopia, either to be prepared for future competition or also to invest in the country. In 2006 Ethiopia was the second largest exporter of large roses to the Dutch auctions (after Kenya) and the third largest supplier for small roses (after Kenya and Uganda).The majority of flower growers with an estimated 80% of the production area cultivate roses. The first rose producer started around 1997, a second in 1999.From 2001 onwards, other growers started coming in. The number of farms producing other cut-flowers than roses is still limited, but growing. *(EHPEA, 2006)*

At altitudes of around 2,400 to 2,600 meters, the Ethiopian Highlands around Addis Ababa are characterized by high daily temperatures and cool nights, high solar radiation and annual rainfall of about 1,200 mm. These climatic conditions make the highlands very suitable for the production of medium- to large-sized rose varieties (intermediates and T-hybrids). Other regions that are located at lower altitudes of 1,100 to 1,800 meters (Rift Valley, Upper Awash and Ziway) are suitable for the production of small to medium-sized rose varieties (sweethearts and intermediates) and other flowers like summer flowers and cuttings.

Table 2 Major statistics floriculture development in Ethiopia

Year	Number of farms	Cultivated area(ha)	Number of export stems	Export value(USD)
2001/02	DNA	DNA	DNA	305,000
2002/03	DNA	DNA	16,000,000	2,900,000
2003/04	DNA	DNA	32,000,000	5,500,000
2004/05	30	150	83,000,000	12,700,000
2005/06	69	345	186,000,000	26,900,000
2006/07	80	645	1,114,000,000	113,000,000

Source: Ministry of Trade and Industry

DNA: Data Not Available

2.2 Floriculture export markets

The European market is by far the most important market for Ethiopian roses, cuttings and other floriculture products. The opportunities for exports of floriculture products emerged in the 1980's and 1990's when the markets in Europe increased massively and high prices were offered. In addition, the year-round supply grew in the most important markets. This triggered cut flower production in non-traditional production countries such as Israel, Africa (e.g. Kenya, Zambia, Tanzania, and Uganda) and Latin America (e.g. Colombia, Ecuador). In a period of five years these newcomers managed to fully replenish the emerging markets and year-round demand. By that time the market was

Supply-driven and volume based and a 'take-it-or-leave' approach prevailed among the suppliers. The expected market growth in Central and Eastern Europe was much slower than expected and competition increased and prices started to decline. *(J. Wijnands, 2005)*

At the time of market entry by Ethiopia around the turnoff the millennium the European cut-flower market is much more demand driven. Ethiopian growers and exporters have the advantage that they can learn from the

experiences in other exporting countries. Some of these experiences and insights gained over the past years have been well documented and Ethiopian growers and exporters are advised to take note of these. *Annex 1* contains a brief overview of the floriculture sectors in some of the other African exporting countries.

Table 3 Foreign export 2006/07

Type of flower	Expected number of stems produced	Expected foreign currency(USD)
Cut Roses	711,000,000	87,000,000
Cutting	325,000,000	17,000,000
Summer Flower	78,000,000	9,000,000
TOTAL	1,114,000,000	113,000,000
Land area : 645 ha		

Source: Ministry of Trade and Industry

The first flower farms in Ethiopia exported their products mainly via the German Wholesale company Florimex. As the number of growers increased, the Ethiopians diversified their sales to other European markets and the Middle East (Dubai). Over the past few years, the role of the Dutch auctions as market facilitator (for auction sales as well as direct supplies by contract) has strongly increased. It is estimated that about half of all flowers is currently exported via the two main Dutch import auctions (i.e. FloraHolland and Aalsmeer Flower Auction VBA). Both auctions now have a representative in Ethiopia. Other important destinations for Ethiopian cut flowers are Germany, UK, Switzerland, Russia, etc.

3. Statement of the problem

It is not difficult to observe that the flower industry of Ethiopia is growing very fast. This can be seen from the fact that the number of flower firms in Ethiopia has increased from 5 in the year 2002 to nearly 80 in the year 2008. But still there are some problems associated with the industry. *(EHPEA, 2006)*
This study will try to answer the following fundamental research questions:

- ➔ What are the problems that the flower industry of the country encounters?
- ➔ What are the opportunities that are available for the flower companies of the country?
- ➔ How is the overall performance and progress of the flower industry of the country?
- ➔ What measures should be taken so as to solve the problems that are observed in the industry?

4. Limitation of the Study

The time and money allotted for this study is not sufficient to incorporate and analyze the case of many flowering firms.

Unavailability of different levels of respondents makes the study time consuming and tiresome. The researcher is forced to visit one flowering farm four or five times since it was difficult to contact some top level managers.

5. Scope of the study

This study is limited to identifying the problems and opportunities in the flower industry of Ethiopia by taking in to account the case of four highly performing companies of the industry. Though general idea concerning the flower industry will be discussed, the study will focus on assessing the conditions in the selected companies of the industry.

6. Objectives of the study

The study has the following objectives:

- To identify the problems in the flower industry of Ethiopia by analyzing the case of selected companies;
- To assess the opportunities that are available for the flower industry of Ethiopia;
- To look in to the overall performance of the flower industry of the country; and
- To recommend feasible ideas that may help in solving the problems of the industry and make use of the opportunities available.

7. Significance of the study

This study is believed to provide invaluable information for companies in the flower industry by identifying the problems and opportunities of the Ethiopian flower industry. They may use this paper so as to adjust their activities in such a way that they can use the opportunities available and make themselves ready to tackle the problems. Moreover, the study is also significant for anyone who wants to conduct a study in related topic.

8. Research Methodology

8.1 Sampling size and technique

In this research four top-level officials from the four selected companies are contacted. Therefore, in total 16 top-level officials of the flower companies are contacted. Responsible officials from the Ministry of Trade and Industry, Ethiopian Horticulture Producer Exporters Association (EHPEA), National Flower Alliance (NFA, a group of six civic society organizations) and The Ethiopian Environmental Protection Authority took part in the study. Employees of the selected companies are also participated in the study. About 80 Farmers that are living adjacent to the flower firms are included in the study. In order to take samples from the population Convenience sampling method are used. The main reason for selecting this sampling method is the fact that it relatively takes a short period to get the samples and it minimizes the effort during data collection.

In total 80 employees, 20 from each company are contacted. It is believed that the population is somewhat similar with respect to the purpose of the study and hence the sample size is enough so as to draw inferences and can fairly represent the population.

8.2 Data Collection Methods

Primary Data

Questionnaire: is one data collection method which is used in the study. It is distributed for employees so as to collect information about the controversial labor issues.

Interview: is the major primary data collection method in this study. The purpose of the interview which is going to be made with the top-level managers of the flower firms, representatives from the Ministry of Trade and Industry and EHPEA is to find out the progress of the industry and the opportunities that are available. The interview with the officials from the Ethiopian Environmental Protection Authority helps in giving a clear picture of the impact of the flower industry on the surrounding environment.

Unstructured or semi-structure interview is conducted even though it was time consuming for student research program and some problems are encountered in controlling the range of topics.

The sole reason for using unstructured interview is the fact that the subject matter is highly confidential and commercially sensitive. That is the information that companies provide for the research project might positively or negatively affect their business transaction.

Secondary Data

Secondary data played a vital role in the attainment of the objective of the study. The sources are the Internet, Different books, various related documents journals and newspapers. The stated secondary sources help in gathering general information about the flower industry. Especially the Internet is used so as to know the recent developments in the area.

9. Literature Review

9.1 The international floriculture industry

In floriculture, plants are grown for individual effect; in landscape gardening, for total effect. Although flowers have been cultivated since the rise of civilizations, commercial cultivation in greenhouses of plants and flowers native to other countries was not established until the 19th century.

The global floriculture industry has many active participants on all continents. World exports and imports of floriculture products both exceed US$9 billion. Europe is the largest importer and exporter of floriculture products *(Van Liemt, 1999; ITC, 2004; Pathfast Publishing, 2004)*. Table 3 shows the major floriculture producers and exporters in the world and the value of their exports, and Table 4 shows the value and volume of imports of floriculture products into the European Union. From Tables 3 and 4 it is clear that developing countries, with the exception of Kenya, are not among the top floriculture producers in the world. Developing countries, especially in sub-Saharan Africa, have been focusing mainly on horticultural products, but the value of their floriculture products imported into the European Union (EU) has been steadily increasing (CBI, 2003).

Table 4 The Top Ten World floriculture exporters in 2002($000)

Country	Total
Netherlands	4 350 353
Colombia	551 218
Italy	546 448
Denmark	527 271
Belgium	353 620
Germany	296 638
Kenya	238 018
USA	236 682
Canada	214 900
France	214 288
Total	**9 012 352**

Source: Pathfast Publishing (2004).

Table 5 Imports of cut flowers and foliage into the EU, 1999-2001(eurothousand/tones)

	1999		2000		2001	
	Value	Volume	Value	Volume	Value	Volume
Intra EU	2 213 837	522 057	2 378 915	476 991	2 295 818	436 823
Extra EU	582 580	178 439	689 555	169 296	713 523	66 797
Developing countries	455 047	138 912	533 254	125 911	574 905	131 612
Total	2 796 417	700 496	3 068 470	646 287	3 009 341	603 620

Growth in floriculture production and exports in these regions is one of the most significant cases of non-traditional export development during the past two decades *(Thoen et al., 2000)*. However, developing countries compete against their developed world counterparts in terms of cost factors. They have, for instance, an abundance of cheap labor and land *(De Groot, 1998)*. Unfortunately, they struggle to compete in terms of non-cost factors such as cultivating new varieties, image and prolonged shelf-life of the floriculture products. They also have to comply with several tariff (e.g. import duties) and non-tariff (e.g. health and safety regulations) barriers set by the various developed countries *(CBI, 2003)*.Competition in the global floriculture industry can be described as being in a constant state of flux, largely because of market trends. Trends are the result of fashion and are the reason for some floriculture products being more popular than others, resulting in fluctuations in both the demand for certain varieties and the prices *(Flower Council of Holland, 2004)*. In other words, trends determine the segmentation of consumers and their consumption patterns. Current market information on trends forms the link between consumers' demands and the producers' supply *(CBI, 2003)*.The international trade structure of floriculture products is evolving as new distribution channels emerge. For example, the products are no longer only distributed via one of the auctions but increasingly sold directly to buyers (e.g. supermarkets). These buyers, especially supermarkets, are increasing their market share in the sales of these products *(CBI, 2003)*. According to Hughes (2000), retailers influence the developing

country floriculture exporters that form part of their networks, because retailers can adapt their networks and control the knowledge therein.

9.2 Historical Background of the Ethiopian floriculture Industry

Cut flower production in Ethiopia for commercial purpose was started in the early eighties. During this period, Ethiopia was producing and exporting low value cut flowers to European market solely from the state farms. Flower production reached climax in 1987 with an area coverage of 159 hectares. However, from 1987 to 1999 for 12 consecutive years, production went on declining whereby finally ceased. Lack of planning and coordination were the reasons for the decline of production. Moreover production was mainly targeted for fetching foreign currency rather than for profit making. *(Adhanome, 2007)*

9.3 Ethiopian floriculture New Era

The year 2003/04 was the landmark and the beginning of a new era for Ethiopian floriculture Industry. It was in this year that floriculture as a fast export business in Ethiopia was realized. Since then, the sector is growing dramatically contributing foreign currency and creating job opportunity for rural and urban citizens. Its rapid growth is due to the attention given by the government and the unprecedented advantages Ethiopia has in the sector. *(Adhanome, 2007)*

9.4 Investment trends in the floriculture Industry

Licensed floriculture investment projects

Local investors, foreign investors and local and foreign investors in a joint venture are the owners of the industry.

As of June 2006, number of licensed floriculture projects is over 235 with an aggregate capital of 7.5 billion birr. 171 floriculture projects with capital of 5.3 billion birr were registered by overseas investors while 64 of them with the capital of 2 billion birr were registered by local investors. (Niguse 2006)

Floriculture Development Trend

The sector is mainly dealt with rose production under protected environment (Green house). Currently there are 52 rose farms located in the high, mid and low altitude of the country. Roses account for 74% of flower production in the country. Still the development trend of rose production is growing up by calling new foreign and local investors. By in large, roses under production are of T-hybrids and sweetheart. Rose T-hybrids are mainly grown at higher altitudes (2000 meters and above) while Rose Sweetheart are grown at mid and lower altitudes (1900-1700 meters). Currently Rose-Spray is also grown in one farm in the highland of west Shoa.

The second groups of flowers grown are the summer flowers. Summer flowers production also shows trend of development but not as big as of the rose production. Summer flower farms are mostly located in high altitudes of the Oromia Region. There are 14 Summer flower farms growing gypsophila, carnation, hypericum and geranium.

The third group of flowers is cuttings under greenhouses. Among the major cutting are chrysanthemum and poinsettia. Only four farms are producing cuttings located in the mid-altitude region of the country.

Over the last five years (2003 to 2007), the sector has shown dramatic growth in hectare and production. Ethiopia is currently the second largest flower producer in Africa next to Kenya with over 900 hectares of land.

The major part of the production is for Export. The export volume and value have increased from 1.6 million stems to 689 million stems and from 0.3 million USD to 63 million USD between 1999 and 2007 respectively. *(Adhanome, 2007)*

9.5 Major flower Production sites, principal products and firm

Flowering firms

The number of companies that are engaged in the floriculture business is constantly increasing. The following table summarizes the name, location, establishment date, the investment ownership and employment opportunity created because of the sector.

Table 6 Flower farms, their location, employment and ownership

Farm Name	Location	Area under Production/ ha	Establishment	Number of Employee	Owner
Ethio-dream	Holeta	14	2002	1000	Eth-Italy
Golden Rose	Tefki	25+150	1999	1000	England
Enye Ethio-Rose	Kara kore	20 + 30	2002	880	Ethiopia
Dugda Floriculture	Debrezeit	5.5 + 8.5	2005	450	Ethiopia
Joy Tech	Debrezeit	10	2004	400	Ethio-Israel
Share Ethiopia	Zeway	45 +255	2006	3400	Dutch
Marnque flower	Mertijeju	5 + 25	2006	300	Dutch
Rose Ethiopia	Holeta	5 + 23	2006	400	Ethiopia
DYR Business Group	Tefki	13	2006	600	Ethiopia
Spirit Flower ltd.	Dukem	12	2006	200	Israel
Red-fox Ethiopia	Koka	25	2004	1000	Germany
Abyssinia Flora	Legedadi	14 + 14	2005	600	Dutch
Menagesha Flower	Menagesha	14 + 11	2003	600	Ethiopia
Others	+ 22 companies	123	-	10 000	-

(Source: Niguse Kassa, 2006)

Looking at the share of Ethiopian flower Export out of the total export (USD) in 2001 - 2005, it showed a marked rise from 660,000 in 2001 to 12,645,000. The flower export grew from about 5 percent in 2001 to 87 percent in 2005, while the share of flower export increased from 0.5 percent in 2001 to 1.59 in 2005.

Principal Production Sites

The country's producers of horticultural and floricultural products can generally be grouped into three major categories. Namely: state farms, private commercial farms and small scale farms around the capital, UpperAwashValley, LakeZiway and Gibe.

Addis Ababa, the capital, with its altitude, elevated about 2000 meters, is the most suitable place for the production of high quality roses. Besides its suitable weather, all the infrastructures like roads, power, telecommunication and water have been availed for the investors in floriculture sector. All the 25 foreign and domestic investors on flower production have started their production on this area. It is also practically witnessed that Ethiopian highlands provide "near ideal" growing condition for roses. Ethiopia has globally competitive advantages in the production of roses in quality, freight cost and production cost. As one pioneer investor in this sector commented "the best value for many roses in the world goes to Ethiopian roses."

In the Upper Awash Valley there are four farms with an altitude spanning from the range of 1200 to 1400 meters and an area totaling 8610 hectares. The farms are located along the length of the River Awash within 149 -220 km away from the capital.

Ziway Farm, which is located in the southern region of the country (165 km from Addis Ababa) situated between Lake Ziway and the main highway, is known for its fine beans and cut flower production. It is 970 hectares wide and its altitude ranges between 1600 -1700 meters above sea level.

Gibe farm is another state farm situated along the banks of the Gibe River, about 185-km southwest of Addis Ababa at an elevation of 1100m. It comprises a total area of 689 hectares. The farm was known by its flavorful high quality capsicum production, which won a gold medal in the German market. Other three small private companies are also producing pea beans and cut flower for the European market in the Ziway Area. They totally cover about 100 hectares of land.

Principal Produce

Horticulture:

Research findings and business experiences have attested that the Ethiopian soil and climatic condition are very much ideal for growing a variety of fruits and vegetables. Among the common varieties in Ethiopian export business the following are prominent ones:

- Bobby BeansHeld Beans French Beans
- Red Onion AmboyTalion
- Red ShallotPotatoTomato
- MelonsOkraCapsicum
- Peppers AsparagusMango
- PapayaMinneolaGrapefruit

Floriculture:

The existing agro-ecological factors also allow producing a great variety of flower crops. The major flower varieties produced in the country and entered in to export business includes: Roses Allium Carnation (stand, spray), Carthamus Statice (Yellow, Purple, and White)

Floriculture production

Cut-flower cultivation

Around 70 farms are currently involved in cut-flower production of which more than 30 are indeed also exporting. The export volume is still increasing significantly each year s gradually a larger area is coming under production. For example, near the town of Ziway, Sher-Ethiopia (subsidiary of Sher-Holland, the biggest flower producer in the world), is leasing about 1,000 hectares of land to develop what will be the largest flower farm in the country. Sher plans to build about 40 to 50 hectares of greenhouses every year up to a total of 250 hectares. The intention is to rent out most of the greenhouses to other growers in parts of 9 hectares plus handling area. Sher may deploy its own transport and cargo plane to shuttle its exports between Addis Ababa and The Netherlands. Also in other parts of the country such as Debre Zeyt, Nazaret, Holetta and Sebeta new greenhouses are erected for production expansion. *(Adhanome, 2007)*

The average farm size is between 3.5 – 10 ha, with few larger producers have an area under cultivation of up to 20 ha. The majority of the farms grow only roses. Most of the farms grow multiple rose varieties, six to ten on average. The most important rose varieties currently in use are *Pascha, Circus, Alolia, Milva, Shanty, Duett, T. Amazon, Paschamina, Jupitor, Indian Sunset, Sweet Candia.*

Most farmers grow their roses on soil, but a few rose growers have started to use hydroponics as growing medium. All exporters of floriculture products have their own cooled processing and packing warehouse where the roses are prepared for transport after harvest. Virtually all export growers also have their own refrigerated truck which is use to deliver the flowers to the airport. As in most other African exporting countries the international transport and marketing constitutes the largest part of the overall farm-to-market cost. A recently conducted value chain analysis for the Ethiopian rose sector provides an insight in the costs and benefits of using the growing mediums. It furthermore outlines in details the production, transport and marketing costs in the Ethiopian rose sector.*(Niguse 2006)*

Cuttings

Another category of floriculture farms comprises propagators, who are mainly subsidiaries of European breeding companies. They have high-tech, sophisticated production systems and supply their mother companies on direct order. Total European imports of young plant material (pot plant and cut flower planting material) amounted to€ 323 million in 2004. Unrooted and rooted cuttings each represented about half of the market.

Until 2004, Ethiopian exports of unrooted and rooted cuttings were negligible. From2005 onwards, however, several breeding companies have set up production facilities in Ethiopia. The first exports of these new companies will be reflected in the 2005 trading statistics. The young plant business is dominated by relatively few European breeding companies that are specialized in developing new varieties and their propagation. They sell their cuttings to growers worldwide. Under strict licenses of breeders, increasingly young plant material is propagated in production facilities in low-cost countries under optimal climatic conditions. At the end of 2005, there were some 5 propagation farms in Ethiopia producing pot plant and cut flower cuttings, amongst others Pelargonium, Chrysanthemum and Poinsettia. A number of rose farms also propagate cuttings for their own use and for sale to other farms. Two major Pelargonium breeders competing in the world market are represented in Ethiopia with two sites closely located to each other.

This proximity to each other resulted in workers switching between these nearby employers. Compared to flower farms, propagators are a more homogenous group. Many breeders have extensive experience in other non-European countries. As a result, they are able to set up high-quality production locations in which cuttings are propagated according to well developed and tested production systems. Technical knowledge is not a limiting factor. Cuttings are usually shipped to the mother company in Europe that further dispatches the products towards the clients (growers who cultivate them into end products). In other words, the farm in Ethiopia is often producing according to fixed supply contracts and is not directly involved in selling the cuttings to the clients.

The export supply period of the propagation farms tend to differ from the main export seasons of cut flower producers. While flower export for the Christmas season peaks early December, the propagators send their Poinsettia cuttings to European growers in July / August in order for them to have full grown 'Christmas Stars' by the end of November. The export volume of cuttings and plant material cannot be compared to the much more voluminous cut flowers.

In short, although the cut flowers and young plant material are commonly treated as similar parts of the floriculture sub-sector, the two are quite distinct. It is clear that local investors have been able to enter into the cut flower business, whereas the young plant business remains a somewhat closed line of trade.

(GDS 2006)

10. Analysis and Discussion

From the open-ended questions of the questioner and interview conducted with concerned parties the following points are identified as the contribution of the floriculture sector to the country:

- **Providing ample Employment opportunity**: employment benefit obtained from the sector is very encouraging. The nature of operations in the production, harvesting grading and packaging is labor intensive. Over 30,000 seasonal and permanent workers are employed in the sector and out of which more than 70% are female. When all the licensed floriculture development projects become operational, jobs for over 100,000 people is estimated to be created with additional social and economic benefits to the community. (Adhanom, 2007)
- **Contribute to the Foreign exchange earning for the country**. The contribution of the floriculture industry to the foreign exchange earning is very significant. In the last few years the share of the flower industry in the export market is getting higher and higher. For instance in 2003 the share of the floriculture in the export market was only 0.6 %(with 842,000 USD) but this amount has increased to 11.08 %(1, 2000, 000USD) in the year 2007. (MoTI)
- **Improved participation of the community in education**: since schools from KG level to High school are established by the flowering companies the local community has got an access to education. Students are now not expected to go far to attend there education because it is available in the area they live.
- **The Local Community benefited from Infrastructure development**: though implemented by a few flowering firms, the local community is benefited from the various infrastructural developments road construction. There are some companies like Share Ethiopia that build school for the community.

- **Spillover effects on other economic sectors** (manufacturing, transport etc.) the development of the sector has a appositive impact on other sector. For instance since large number of employees and people are moving to and from the flower companies, it is a good opportunity for the transport sector.
- **Has Improved the Country's image**: to some extent the development of the export flower sector helps in improving the bad image of Ethiopia. The flower export volume is constantly increasing and hence people will recognize Ethiopia not only with drought and Famine but also with its Flowers.

10.1 Challenges for the Ethiopian Floriculture Industry

1. The labor Issue

The cut flower industry employs thousands of workers globally. It has also contributed to foreign exchange earning among others. But the present trend indicates workers are denied of their basic rights. In Ethiopia none of the flower farms are unionized. They are not allowed to form labor unions, exercise collective bargaining agreements and ask for safe and healthy working conditions. It is possible to say that flower growers use an illiterate, underpaid work force. For instance from the questionnaire that are distributed to the work force it becomes clear that the average wage for employees is 8-10 birr per day.

2. Environmental Impact

The industry uses pesticides and chemical fertilizers. Serious criticism has appeared in the print media and internet blogs (www. **jimmatimes**.com/articl) about too much use of these elements which damages the environment. It's also accused of using a lot of water. They worry that flower farms let too much inorganic fertilizer into soil so that the soil develops salinity. Saline soil will not grow plants. Moreover, too much chemicals kill useful organisms in the soil. And if too much pesticide gets into water bodies it damages the biodiversity. However, all

the firms visited claimed to be following strict rules concerning the use of chemicals, spraying only when needed.

Waste disposal mechanisms have also become a controversial issue. Unless waste materials are handled and removed properly, they can get into water bodies or be used by people and cause serious damage. People from the Ethiopian Environmental Authority indicate that Empty pesticide and fertilizer containers should be buried sealed up with plastic while waste water has to be treated at the farm.

3. HIV/AIDS concern

Ethiopia's flower industry is a booming business, but AIDS campaigners fear that inaction by farm owners and government, combined with a poorly educated workforce, could provide fertile ground for HIV. Few farm owners feel the responsibility to ensure that their workforce is educated about HIV. One farm owner quoted saying to the UN news agency IRIN/PLUS that "I don't think raising HIV/AIDS awareness education is the responsibility of the companies here; it is the responsibility of the government," and he added by saying "Even if people are sick, it won't affect our productivity ... we don't need to pay health benefits,". Such kind of irresponsible and negative attitude may cost the country a lot.

4. Inadequate Infrastructures

The various facilities in the country are not in a good condition. There is a fairly good road network but problems are observed in other infrastructures. Especially the severe power shortage that the country face recently is giving a difficult time not only for the floriculture industry but also for all industries in the country. Of course the government has supported the flower growers by letting them import Generators duty- free. But still using generators has increased the operation cost of the farms. Similarly the telecom service in the country is not as such advanced.

5. Limited Trained human resource

Another challenge for the Ethiopian floriculture industry is the minimum number of trained human resource in the floriculture science. It is obvious that cheap human labor is available for the floriculture companies but there is a shortage of trained and experienced employees. Of course government Universities including Jimma University are trying to provide skilled and knowledgeable people in the area but in relation to the demand the number of trained people is very limited.

6. Inadequate banking service.

Banks like The Development Bank of Ethiopia provides various kinds of loans and plays a vital role in this sector. However, the formalities in obtaining loans are long and complicated. Interest rates on long-term loans are high.

7. Inadequate sectorlal research

Research works in the flower sector of Ethiopia is hardly available. Obviously in order to develop the sector in a higher level conducting research is very important. Researches about how to increase productivity, how to diversify products, how to increase the market and the like are very significant. But in case of Ethiopia the sector is not currently supported by Research and Development activities.

8. Narrow range of products:

The Ethiopian flower industry is meanly dependent on the Rose production. Currently Rose accounts 74% of the flower production of the country.(Adhanome, 2007). Such dependency in a single product may have a bad impact on the companies' future performance and success.

9. Regional Imbalance:

Over 90% of the operational farms are found around Addis Ababa within the radius of 50 kilometers in the Oromia region. Some other farms are also located around the rift valley district. The reason is more than climatic and accessibility to transportation.

10. The increasing price of Inputs

Another big challenge for the sector is the ever increasing price of inputs that are used for the production of flowers. The price of Fertilizers, Chemicals and Green house is increasing day after day. For instance the price of one kilogram of Fertilizer was about 7 dollars but now it has increased to 31 dollar per Kilogram. Similarly the price of Chemicals ands green house is also showing a significant increase.

10.2 Opportunities for the Ethiopian floriculture Industry

Some of the opportunities that Ethiopia must use in the floriculture industry include:

1. Suitable Climatic and Natural Resources

Ethiopia has a favorable climate, comparatively abundant land and labor as well as reasonably good water resources, which created ample opportunities for horticulture and floriculture production. The agro-ecological factors of the country give the chances of all-year-round production capability.

The country has 122 billion cubic meter surface water, 2.6 billion cubic meter ground water, 12 river basins, 18 natural lakes including the Rift Valley lakes and a potential of 3.7 million hectares irrigable land.). About 80-90 percent of these resources are located in the west and south-west of the country where close to 40 percent of the Ethiopian population lives and 10-20 percent of these resources are located in the east and central part where most of the population has settled.

Ethiopia's agro-Climatic conditions make it suitable for the production of a broad range of fruits, vegetables as well as cut flowers. The range of altitude, temperature and soil variability of the country has created an enormous ecological diversity and a huge wealth of biological resources. In other words the wide range of ecological conditions that prevail in the country have created a favorable habitat for diversified forms of life including plants, animals and microorganisms. Notable among the resources of Ethiopia is the vegetation. According to a document published in 2001 by the Ethiopian Institute of Biodiversity Conservation and Research, the number of higher plants alone was over 7000 species, approximately 12% of which being endemic.

2. High Level of Support by the government

The Government of Ethiopia has introduced various measures and launched an all-out effort towards the attainment of agricultural development. It highly encourages investors engaged in the production and export of agricultural products (especially in floriculture, horticulture, pulses and oilseeds). The government has allocated a substantial amount of finance for investors who would be engaged in this sector for export and can apply loans for up to 70% of their investment project. This preferential financing scheme clearly demonstrates that the horticulture and floriculture sector is the priority area of the government.

3. Ethiopia's Investment Law and Incentives

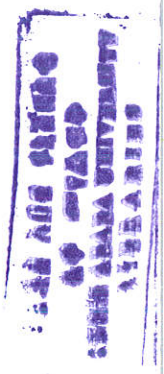
The private sector is encouraged to invest in many areas of the economy. To this end, the government has recently revised the investment law of the country offering attractive incentives.

A foreign investor can invest on his / her own or jointly with domestic investors. The minimum capital required of a foreign investor should not be less than USD 100,000 in cash and / or in kind as an initial investment capital per project to start business. The minimum capital for a foreign investor also wishes to team up with a domestic investor or company for a joint investment is USD 60,000.

The investment law guarantees capital repatriation and remittance of dividends. This investment law also provides investment guarantee.

To encourage private investment and promote the inflow of foreign capital and technology into Ethiopia, some of the major incentives which are granted to investors (both domestic and foreign) engaged in new enterprises or expansion in areas qualified for investment incentives include the following:

- One hundred percent exemption from the payment of import customs duties and other taxes levied on imports is granted to an investor to import all investment capital goods, such as plant machinery, equipment, etc., as well as spare parts worth up to 15% of the value of the imported investment capital goods, provided that the goods are not produced locally in comparable quantity, quality and price.



- Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to another investor enjoying similar privileges.

- Exemptions from customs duties or other taxes levied on imports are granted for raw materials necessary for the production of export goods.

- Ethiopian products and services destined for export are exempted from the payment of any export tax and other taxes levied on exports.

- Any income derived from an approved new manufacturing and agro-industry investment or investment made in agriculture shall be exempted from the payment of income tax for different periods of time depending upon the area of investment selected, the volume of export to be made, and the location in which the investment is undertaken.

- Any remittance made by a foreign investor from the proceeds of the sale or transfer of shares of assets upon liquidation or winding up of an enterprise is exempted from the payment of any tax.

- Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period following the expiry of the exemption period

4. Proximity to the Global Market and Efficiency of the Transport System

Ethiopia is strategically located in the Horn of Africa, at the crossroads between Africa, the Middle East and Europe. It is situated within easy reach of the Horn's major ports which connects it with the Middle East and Europe, which are Ethiopia's traditional markets for its export products. Ethiopia's geographical proximity to Europe and the Middle East, has a direct implication to its floriculture export as the major players in the global market are found in these areas

Ethiopian Airlines, renowned and reputed for its excellence in its more than 60 years of service, offers efficient passenger and cargo air transport services. Its international flights link the country with over 45 cities in four continents. Twenty six in Africa, twelve in Asia, five in Europe and two in America.

Its extensive domestic network serves 26 destinations. The new passenger terminal at Addis Ababa Bole International Airport matches the growth in operation and fleet of the airline. It is believed that the construction of an additional ultra-modern cargo terminal and maintenance hangar will provide the utmost competent service

5. Abundant and cheap labor resource

With a population of more than 70 million, 80% of whom living in the rural areas, Ethiopia can provide sufficient labor force, which is competitive in terms of cost. As it is known, the long process required from seedling, cultivating, packing and exporting makes the horticulture and floriculture sector unique in absorbing huge labor force. The cost of labor in Ethiopia is not only lower than some Asian nations, but also African countries such as Tunisia, Mauritius, Kenya, etc.

6. The Establishment of the Ethiopian Horticultural Producers and Exporters Association (EHPEA)

The establishment of the association is one step forward for the better utilization of the sector. The joint and coordinated effort of the companies is very significant for each member in particular and the country in general. Some of the activists of the Association should be really acknowledged. This activity includes the preparation of the Code of Practice. This document sets out a framework for sustainable practices on flower farms in Ethiopia. It defines essential elements for the development of best-practices within the sector in order to compete at international market level. It defines the minimum requirements acceptable to the leading market segments for the Ethiopian flower sector. However, some of the EHPEA members might exceed these requirements. This document does not set out to provide prescriptive guidance on every method of agricultural production.

11. Conclusion

On the basis of the analyses it may be concluded that the Ethiopian export floriculture has performed very well in the past few years. From a new-comer in the market the floriculture sub-sector has managed to become a recognized supplier with a significant share of the global market in a mere few years. An additional 300 hectares are expected to come into production in the coming year.*(source MoARD)* As such further growth in the export market is still foreseen and is also reflected in the Government's policy projections for the sector. A dramatic expansion in the area under floriculture production in the coming years is, however, not necessarily to be expected. The unavailability of skilled and experienced human capital is among the areas that need to be improved before going into further drastic expansion of the area under floriculture production.

The global horticultural market is predominantly a substitution market with not much opportunity for differentiation. To consolidate the current competitive position in the global market requires, however, constant attention to price/quality factors. It is believed that there is room for improvement both in the production as well as the transport and marketing area.

Competitiveness of the floriculture sub-sector may also be strengthened by further development of the supply sector. In addition to the transport and logistics sector, also capacities and links with the input supplies (varieties, agro-chemicals) and technical services (In-service training, research support services, technical consultancy services) may be strengthened. The Government sector can play an important facilitating role in this respect.

12. Recommendation

1. Capacity building leading to further production improvements; better understanding of interactions between variety-growing conditions; increased productivity and cost awareness; quality management and certification systems; this requires further development of vocational and university education, floriculture research capacity and in-service training for staff and management working in the sector ('constant training').

2. Market information services to be developed further to ensure better understanding of trends and developments at the end market; maintaining close contacts with buyers important; two way information supply to inform buyers also on product and production quality in Ethiopia.

3. Immediate implementation of the Code of Conduct at sector level to solve the controversial labor and environmental issues.

4. Logistics and handling services to further increase in capacity and development of specialized forwarding and handling services; challenge will be to handle the increasing volume of produce at competitive prices to give Ethiopian exports a price advantage compared to other countries in East and Southern Africa.

5. Capacity building in quality management issues too further improve the sorting, packing, cooling, etc. in line with requirements of the chosen end-market.

6. Attention to HIV by all concerned parties starting from the farm owners to the regional Health bureaus. At least monthly or quarterly HIV/ AIDS awareness forms should be organized for the farm workers to make the workers aware of the disease and keep themselves safe.

7. Effort from regional government bodies. As stated earlier most of the flower farms are concentrated around Addis Ababa. It is high time now that the industry has to move and expand towards the south, Amhara and Tigray regions. The regional government bodies have to put efforts to make the industry land in their respective regions by providing support to investors.

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14. ANNEXES

Annex 1 Brief overview of developments in African flower exporting countries

Kenya

Since the early 1970s, Kenya's flower exports have shown strong growth. In the beginning, Dianthus (carnations) was the major crop. Later, the industry changed towards growing roses, which now constitute more than 70% of its flower exports. The sector also diversified into other flowers (like Hypericum, Zantedeschia and Lilium), foliage, propagation material and prepared flowers. Cultivation techniques are becoming more sophisticated and more attention is being paid to the use and quality of inputs. Steel and aluminum greenhouses now rapidly replace wooden structures.

Over 60% of Kenya's flowers are exported to The Netherlands, either to the auctions or via direct market channels. However, the sales of bouquets to supermarket chains, particularly in the UK, are increasing. Currently, the sector contributes more than 12% of Kenya's foreign exchange earnings and is a major employer.

The Horticultural Crops Development Authority (HCDA) is responsible for regulating the industry and issuing licenses to exporters. Kenya has two major producer organizations: the Kenya Flower Council (KFC) with about 40 members (mainly large scale foreign growers) and the Fresh Produce Exporters Association of Kenya (FPEAK) with about 25 members.

Uganda

In Uganda, floriculture started in the early 1990s with roses and foliage. The sector expanded rapidly for a few years, but then ran into trouble in 1997-98 when several growers went out of business. From 1998 onwards however, the sector has come back on track, as a result of an encouraging government policy towards flower exports and initiatives by the Uganda Flower Exporters Association (UFEA). For instance, UFEA has set up its own cold store and export handling facilities at Entebbe Airport (called Fresh Handling Air Cargo).

Despite a lack of new floriculture investors, Ugandan flower exports have kept growing over the past ten years, particularly in terms of volume. While growing conditions favor a limited number of varieties (like sweethearts and few intermediates), roses continue to be the leading product. In sweetheart roses, high yields of up to 500 stems per m2 and good consistent quality are achieved. Almost all Ugandan rose exports are now of small flowered varieties.

South Africa

East African countries have very small local floriculture markets and rely thus heavily on exports. Further south, the South African flower market is growing and is centered on a Dutch-style auction in Johannesburg. On the other hand, the South African flower exports are also growing, particularly the typical South African flowers and foliage like Protea and other so-called Fynbosch products. More traditional floricultural crops like roses encounter major difficulties as a result of the relatively high transportation costs.

Tanzania

Floriculture is a relatively small industry in Tanzania and the country plays a minor role in the international flower trade. The production and export of cut flowers from Tanzania is often seen as part of Kenya's floriculture, as the sector is geographically close and institutionally well connected to Kenya (more than 50 percent of all cut flowers are exported via Nairobi).

In 1987 the flower sector started with the cultivation of Dianthus (carnations), Euphorbia and Ami majus in open fields for export to the EU. During the 1990s, more growers entered the sector and there was a steady growth in the area under flower production (from 28 ha in 1995 to close to 80 ha in 1998). Thereafter, the number of companies' and production area has been practically stagnant. Due to the political situation in Zimbabwe, few (Hypericum) growers shifted their production to Tanzania. The industry has not reached the critical mass required to boost its exports, like regular cargo flights out of Kilimanjaro Airport, registration and regular supply of chemicals, and local capacity building of staff and laborers .In addition to cut flowers, Tanzania is an exporter of chrysanthemum cuttings and other pot plant material. Moreover, growing circumstances in the hills around Arusha and Moshi have attracted several plant

breeders propagating pot plant material, summer flower seeds, bean seeds and hybrid vegetable seeds.

Recently, the Tanzania Horticulture Association (TAHA) was established which has already been able to enter into a constructive dialogue with the relevant authorities resulting into some concrete projects to attract fresh investment to its horticulture sector.

Zambia

In Zambia, the floricultural sector was practically dormant until the late 1980's at which time the Government of Zambian began the liberalization of the economy giving capacity to private entrepreneurs and easing import and export restrictions. The Government strongly encouraged export diversification towards non-traditional produce, floriculture included. Zambia's floriculture industry is dominated by roses, which account for about 95% of the total production while 5% is covered by summer flowers. Almost all flowers are sold in the EU with the Dutch auctions accounting for more than 90%. The Government of Zambia and the Zambia Export Growers' Association (ZEGA) have a good working relationship and jointly they set up a training trust including a horticulture pilot farm.

Zimbabwe

Floriculture exports from Zimbabwe commenced in the mid-1980s. Until recently, the flower industry was the fastest growing agricultural sub-sector in the country. From 1986to 1999, horticultural exports recorded an average annual growth of about 15 percent.

After the controversial land reform in 2000, many foreign growers left the country. Current growers have been struggling with shortages of capital, chemicals and technical know-how. Many farmers do not have the foreign currency to pay royalties. The government's agrarian reform resulted in a strong fall in production. Nevertheless, the remaining and new growers have shown remarkable resilience to the political situation. Roses constitute about 70% of Zimbabwe's flower exports. Other products include Proteas and summer flowers. The principal markets are The Netherlands and South Africa with the surplus going to Australia, the Far East, Germany, United Kingdom and USA.

(EHPEA, 2006)

The English Version of the Questionnaire

This questionnaire is prepared for a project work which is conducted for the partial fulfillment of acquiring a Masters Degree in Business Administration. The title of the project work is ***The problems and opportunities of the Ethiopian flower Industry (A case of four selected companies).***

Part one

1. Gender F ☐ M ☐

2. Age Below 18 ☐ 26-40 ☐

18-25 Above 40 ☐

3. Job Position _____

Part Two

1. How do you evaluate the payment that you get from the company in relation to your work?

Very low ☐ Low ☐ Fair ☐ Good ☐ Very good ☐

2. What are the benefits or allowances that you obtain from the company other you're your wage or salary?

Hosing allowance ☐ Health Insurance ☐

Transportation ☐ Education allowance ☐

If any other, please mention_____

3. After you start working in the company do you face any health related problem? If yes please mention what?

4. What kind of change do you experience in your living standard because of being employed in the organization?

5. What benefits do you think the surrounding community obtained because of the openings of the flower farms?

6. As per your point of view, what are the problems in the flower industry?

7. What measures should be taken so as to solve the problems in the flower industry of Ethiopia?