THE AUTOMOTIVE INDUSTRY AND TREND ANALYSIS IN ETHIOPIA

Submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration (MBA)

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DECLARATION

I, **Eskinder Desta Moges,** declare that the study entitled "**The Automotive Industry and Trend Analysis in Ethiopia**" is the result of my own effort in research undertaking. The study has not been submitted to any Degree or Diploma in any college or university. It is submitted for the partial fulfillment of the requirement of the Degree of Master of Business Administration.

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CERTIFICATE

This is to certify that Eskinder Desta has worked on " Automotive Industry and Trend Analysis in Ethiopia" under my supervision. This work is original in nature and it is suitable for submission of the partial fulfillment of the requirement for the Degree of **Master of Business Administration.**

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Dr. Rakesh Belwal

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ABSTRACT

The main purpose of the research was to analyze the automotive industry and its trend in Ethiopia. In recent years, the contribution of the automotive sector is increasing and it is playing important role in the national economy. Although the automotive sector is playing significant role, it is still at low level and many factors contributed for that, including:

- Government regulations
- Road conditions
- Purchasing power of the people
- Lack of skilled manpower and capacity
- Shortage of capital

To address those issues, the researcher used both primary and secondary data. The collected data were analyzed and the result of the analysis was summarized in to positive and negative aspects.

It was revealed that the positive aspects; contribution to the national economy, future growth prospect, employment opportunity and profitability of the operation outweigh the negative aspects.

As the research had scope and limitations, it was recommended to the governing authorities to undertake further studies to make an informed decision on how to support the growth and development of the automotive industry in Ethiopia.

Chapter One

1.1 Background of the Project

Ethiopia, being one of the African Countries, requires continuous improvement in agriculture, manufacturing and service sectors.

In accomplishing the development on these sectors, the role of infrastructure is vital. The developments of the infrastructure in turn highly depend on the availability of various types of vehicles (Cars, pickups, trucks, etc...), construction machineries and agricultural equipments.

In addition, Ethiopia is one of the land-locked countries in Africa. It uses mainly Djibouti Port, which is located about 1000 km away from the capital city for import and export of goods. The transportation of goods from Djibouti port to various parts of Ethiopia and from various parts of the country to the port is done using trucks.

Since Ethiopia doesn't manufacture automotive, construction machineries and agricultural equipments locally at present, it imports those from various countries of the world. Automotive importing companies in Ethiopia are importing different types of vehicles to the country's vehicle market. In doing so, a predictive study on the marketing trends of imported automotive is necessary to clearly see the demand supply gap and for the growth in sales of automotive in Ethiopia.

This project is mainly prepared to reveal the truck market trend in Ethiopia and to indicate ways of increasing the contribution of the automotive sector to the Ethiopian economy. The project covered briefly the overview of Ethiopia's economical, geographical and cultural conditions including investment opportunities in relation to the automotive industry.

The project reveals the actual market trend of different types of trucks classified according to their operation in general and freight transport sector in particular. Having taken reliable data from different private companies and governmental institutions, efforts have been made to predict the Ethiopian truck market.

"In Ethiopia, road transport is the major means of passenger and freight. In 2006, Ethiopia had 33,300 km of roads (5,400 km paved and 27,900 unpaved) as against 681KM railways and 18 airports with paved runways".[1] Still a low percentage of the population has access to roads. As a result, Government gives top priority to infrastructure development, in general, and road construction in particular.

Ethiopia imports all of its automotive needs. It does not manufacture automotive. Some companies only assemble and build bodies of buses and dry and wet cargo on chassis imported with cab. In the past 10(ten) years, the market for vehicles shows significant improvement and growth. "On average, during the last five years (2002-2006), the number of vehicles imported has been

[1] UD Sales Business Plan. Nyala Motors.(2007, January). Addis Ababa

increasing by about 27% per annum".[2] With the on-going expansion of road construction and consequent increase in access to roads, the demand for vehicles shall also grow significantly. At present, the total vehicle population reaches around 200,000.[3] The automotive industry is serving the transportation of freight and passenger. In this study, the focus is made on freight transport. The contribution of automotive industry in solving the freight transport has been studied in detail.

The demand for automobiles is mainly influenced and adversely or positively affected by the following factors[4]:

- Prevailing political and economic environment
- House hold income (purchasing power)
- Economic development (GDP)
- Price and running costs
- Quality of after sales support (parts & workshop)
- Availability of secondary (used vehicles) market
- Resale value
- Promotion and advertisement
- Design, brand name, country of manufacturing
- Interchangeability of spare parts
- Ease of maintenance and cost of maintenance
- Reliability of the product
- Government policy
- Road
- Customs and Excise duty
- Population and demography
- Technology

[2] UD Sales Business Plan. Nyala Motors.(2007, January). Addis Ababa
[3] IBID
[4] IBID

The automotive industry will have immense contribution to the growth of the national economy if it is well addressed and supported with attractive incentives.

The major areas the contribution can be felt easily along[5]:

-Job creation

-Saving foreign currency

-Efficient commodity distribution and improving intercity commodity transaction

-Market access

-Decreasing accident level there by reducing the loss of human lives and resources.

The major problems observed in the automotive sector are in the areas of Government regulation, lack of adequate road infrastructure, absence of trained manpower and lack of adequate financing facilities.

1.2 Statement of the problem

The automotive sector did not show satisfactory growth though a major money contributor to the Ethiopian economy. The sector is at low level of development in comparison to other countries including those in Africa. The major contributors for the slow growth of the automotive industry and the main obstacles one faces in the marketing of automobiles are as follow:

- Government regulation not favorable with respect to high customs duties and cumbersome bureaucracy in licensing processes

[5] UD Sales Business Plan. Nyala Motors.(2007, January). Addis Ababa

- There is lack of foreign currency, as forex is controlled & restricted for action by the end-user
- The road infrastructure is at low standard
- There is lack of capable trained man power in the sector. Moreover, the industry suffers from lack of incentive in promoting local manufacturing of automotive.
- There are no adequate raw materials to operate in the sector. The public is biased towards imported automotive than locally assembled products.
- There is stiff competition in very limited areas of operations.
- Import and export volume of cargo is unbalanced.
- Fluctuating demand
- Lack of capacity in repair and maintenance
- Lack of adequate bank finance
- The low level of purchasing power in the country
- The importation and wholesale distribution sector is a reserved section for Ethiopian nationals.

Some of the issues outlined above, while significant cannot be addressed either in the short-term or as a result of any single policy change. However, an effort is needed to address those for the benefit of transport sector in particular and Ethiopian economic development in general.

1.3 Objective of the study

The main objective of this study is to examine the development of the automotive industry in Ethiopia and its contribution to the overall economy in general.

The specific objectives are:

- To evaluate the impediments faced by the sector from achieving its peak in growth.
- To scrutinize the overall performance and contribution of the automotive industry.
- To assess the prospect of the automotive industry in the near future, and
- To recommend/suggest measures to be taken for accelerating the growth of the sector and there by increasing the sector's contribution to the national economy.

1.4 Methodology

1.4.1 Data Set

Both primary and secondary data have been used. Information gathered from the designed sample through structured questionnaire. The secondary data collected from all relevant materials both published and unpublished documents such as previous studies on similar areas and International Automotive Fair (IAF), Transport Authority (TA), National Bank of Ethiopia (NBE), Ministry of Finance and Economic Development (MOFED), Customs Authority (CA) and Central Statistics Agency (CSA) bulletins and documents, etc. In carrying out the work relating to this section of the report a variety of reports, documents and articles were reviewed.

1.4.2 Sampling Technique

A total of two automotive dealers, one trailer manufacturer, one consultant who did study on the sector and ten truck owners were selected as sample of the study. However, eight out of the total selected samples responded to the questionnaires. Selected higher officials from the selected dealers and manufacturer were questioned using interview and questionnaires. In order to describe, analyze and integrate the data, appropriate statistical measure were employed.

1.5 Scope and limitation of the study

This research tried to address only the development & market trend of automotive industry in Ethiopia and the overall effect on the freight transport sector and performance. As it involves wide and complex issue, one should require detail analysis and evaluation and also the experience of other.

This research is based on the result of few questionnaires and literature review on the area. As a result, the outcome of this research shall not be considered as a comprehensive study on the automotive industry in Ethiopia.

1.6 Significance of the study

. The research outcome would add expertise to the existing body of knowledge.
. The research outcome may help policy makers

. The research could open the door for other researchers who are going to undertake further study in the area.

1.7 Organization of the paper

This project has four chapters. The first chapter contains the introduction, statement of the problem, objective of the study, significance of the study, methodology used and scope and limitation of the study. The second chapter deals with review of literature. The third chapter deals with the analysis and interpretation of the data. While the last chapter, chapter four concludes the results obtained from the research and provides appropriate recommendations.

Chapter Two

Literature Review

2.1 Introduction

An automobile (also motor car or simply car) is a wheeled passenger vehicle that carries its own motor. Most definitions of the term specify that automobiles are designed to run primarily on roads, to have seating for one to eight people, to typically have four wheels, and to be constructed principally for the transport of people rather than goods.[6]

Automakers, also known as carmakers, automobile manufacturers, motor manufacturers, or the automobile industry are companies that design and manufacture automobiles. The automobile industry is dominated by relatively few large corporations. The biggest of these by annual production are Toyota, General Motors and Ford Motor Company in that order. The most profitable per-unit car-maker of recent years has been Porsche due to its premium price tag.[7]

In 2005, 67 million automobiles (cars and light trucks) were produced worldwide. In 2006, 16 million new automobiles were sold in the USA, 15 million in Western Europe, 4 million in China and one million in India. In 2007, the markets in Canada,

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[6] (1976) Pocket Oxford Dictionary. London: Oxford University Press.

[7] Kwan M.(2007, January 23).Mobile Magazine.

USA, Western Europe and Japan are stagnating, while those in South America (especially Brazil) and Asia grow.[8]

The beginning of road transport in Ethiopian is related with the import of the first automotive to the country. In the history of Ethiopia, the first automobile was brought to the country in 1908 during the reign of Emperor Menilik. The vehicle was brought from Britain. A foreigner caller Mr. Bentley was the one who could successfully import first the motor vehicle to Ethiopia. However, he was convinced that in the absence of paved roads, he needs a very strong kind of vehicle that can withstand the long trip and unfavorable road conditions.

Mr. Bentley consulted his plan to the then manager of a vehicle manufacturing company called Wesley Tool and Motor Manufacturing Company. The manager, Mr. Sidley, supported his plan and started selecting the appropriate type of vehicle. The issue of selecting the vehicle was then to be done by the automobile manufacturing company.

Mr. Bentley together with Mr. Wales, the driver started the long trip to Abyssinia. It took them 27 days on the sea to arrive at Djibouti. The car was also the first automobile to Djibouti. Mr. Wales and Mr. Bentley stayed for ten days planning their trip to Ethiopia. They travelled to Ethiopia via Zeila of British Somali.[9]

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8 IBID

[9] Gnogno P. (2007). Atse Minilik(3rd ed.), Addis Ababa, Aynalem Bookstore.

In 1904 E.C Dagmawi Menelik received a present from the king of Austria, a roller for paving roads, which operates with steam energy. In 1907 other Motor Vehicles were imported to Ethiopia from Germany and Britain. [10]

2.2 Government Policy for Development of the Sector

Ethiopia's automotive industry is one of the major contributors' to the national economy. The development of automotive industry in general and the transport sector in particular has been positively influenced by the recent favorable economic developments. Its development has further been favorably influenced by the Government's liberalization policy stance that gradually aims to reduce government's direct involvement in the delivery of both public and freight transport. The government's role in the sector is now envisaged as the provision of the physical infrastructure and legal and regulatory framework. This will create conducive environment to the private sector to perform its expected role in the development of the sector, and in the country's economic performance.[11]

The Government's economic policy for the sector is to liberalize the sector. It is in pursuit of this policy that the Road Transport Proclamation No. 14/1992 was issued, whereby private commercial vehicle operators were permitted to form their own business associations (co-operatives), Quality licensing was removed and price control was also removed in stages, starting with the removal of the freight transport tariff and then the

[10] Tenaw D. (1995).Lesson on Driving and Traffic Regulations, (5th ed.)Addis Ababa

[11] Ernst & Young. (2004). Due Diligence Report on Bekelcha Transport Enterprise

passenger transport fare setting. At present, tariffs other than for public transport and bulk fuel transport are not regulated and healthy competition has developed among transport providers who include individual entrepreneurs, private companies and public enterprises.[12]

Government has to consider introducing a tax policy that discourages used car importers and focuses on attracting new car assemblers, taking into consideration the spin-offs from the sector. The importance the government attaches to the transport sector, in the economic development effort, is reflected in the share of the economic development capital expenditure budget allocated to it. The figures in table 1 show that the sector share in 1999 at 24.8% was the highest followed by agriculture and natural resources at 23.2%.[13]

2.3 Government regulation

Since 1992, truck owners/operators operates under free market condition, cargo tariff; other than for bulk fuel, has been liberalized and route licensing has also not been required. The result is that competition has increased and is likely to continue to do so in medium term. This will drive margins down and the sector profitability, if not survival, will depend on operational efficiency and financial capacity and management.

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[13] UD Sales Business Plan. Nyala Motors.(2007, January). Addis Ababa

Table 1: Capital Expenditure Shares

	1991/92-1994/95 **Average**	**1995/96**	**1996/97**	**1997/98**	**1998/99**
Economic Development Share	67.8	73.5	69.8	57.5	60.1
Of Which:					
Roads	16.7	19	17.3	21.1	24.8
Agriculture &Natural resources	24.8	21.9	18.3	19.7	23.2
Social Development	16.6	20	19.6	23.8	22.3

Source: Annual Report of The Ethiopian Economy, Edited by: B. Degefe & B. Nega.

The increased expenditure is meant to improve and expand the Ethiopian transport system which is currently served by 4,109 km of asphalt road, 9,287 KM gravel road and 5,610 KM of rural (earth) road.

2.4 Road Condition

Ethiopian Road Authority, a Governmental Institution, took the higher share of road constructions in Ethiopia. In 2006/2007 Ethiopian budget year, Ethiopian Road Authority budgeted about 4 Billion Ethiopian Birr. In the current budget year Ethiopia has got 7.9 billion Birr from International Development Association as credit. The amount of money the federal government is spending on the road construction sector is growing considerably, with the Ethiopian Roads Authority (ERA) projecting an expenditure of 8.8 billion Br during the 2007/2008 fiscal year. The Authority hopes that the federal government would cover close to 73% of the total spending. This is almost

twice the amount of the budget ERA has during the current fiscal year.[14]

The road network in Ethiopia consists of 33,297 KM of trunk, major link and regional roads. Out of 10,276 KM of trunk roads, approximately 3,996 KM is paved and 6,284 KM has gravel surfaces. The major link roads constitute about 12,702 KM; mostly gravel surfaced with only 1,291 KM of paved surface. In addition, there is 30,000 KM of unclassified, low standard, earth (dry weather) track trails (Please Refer Table 2).

Table 2: Road Condition

Class of Roads	***Paved***	***Gravel***	***Total***
Trunk	*3,996*	*6,284*	*10,276*
Major Link	*1,291*	*11,411*	*12,702*
Regional	*128*	*10,440*	*10,312*
Total	***5,385***	***28,135***	***33,290***

Source: Ministry of Economic Development and Cooperation: Economic performance report.

Paved portions of the road are all weather roads. On the other hand, gravel roads are mostly dry weather. These roads are dusty, rough and muddy especially in the rainy season.

The status of the road condition impacts on the operational costs as it affects average speed consumption of fuel and tires and vehicle maintenance costs. The road condition of the roads

[14] UD Sales Business Plan. Nyala Motors.(2007, January). Addis Ababa

and especially on Djibouti side of the Addis Ababa–Djibouti road is a threat to the profitability of the industry.[15]

The amount of money the federal government is spending on the road construction sector is growing considerably, with the Ethiopian Roads Authority (ERA) projecting an expenditure of 8.8 billion Br during the 2007/2008 fiscal year. The Authority hopes that the federal government would cover close to 73pc of the total spending. This is almost twice the amount of the budget ERA has during the current fiscal year.

2.5 Market size and growth

As the dry cargo business in Ethiopia is dominated by traffic from and to Djibouti, the size of the overall market is closely related to the volumes of national imports and exports.

While more recent statistics indicate that import levels have dropped in recent months and that this is reflected in the low level of current activity reported by all the freight transport enterprises. Such volumes in themselves will result in a major expansion of the market over the next number of months, though the expansion is unlikely to be sustained into the future.

2.5.1 Competition

The structure of the road transport industry in Ethiopia, as in most countries, is highly polarized, with a small number of large fleets and associations and a large number of owner-drivers or small fleets. In general the large fleets operate maximum-capacity vehicles (typically 30 tons payload) whereas

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the owner-drivers have smaller and older trucks. The associations have been set up to seek work on a collective basis, but provide few higher order services such as parts and tires procurement for their members.

Statistics from the Road Transport Authority for large trucks (defined as 22 to 40 ton payload) showed a total of 3,138 registrations in 1998/99. Of that total, the operators have identified 12 fleets with at least 100 vehicles. Clearly these estimates must be on the high side, judging from the national registration total, but they do demonstrate the concentration of the industry in the maximum-capacity sector.

In addition to the vehicles currently registered, key players in the truck import business indicate that a very significant number of new articulated vehicles and truck/trailers are on order. One importer has sold four times his normal annual volume, while the other leading brands have also obtained good business, suggesting that well over 1,000 new trucks could be registered over the next year or so. In parallel over 2000 dump trucks are imported in 2006 alone related with the ongoing big construction activity in road, power, building and water sector.

Given the over-capacity that already exists in the sector – confirmed by all the carriers with whom we have spoken – these new purchases could result in intense competition. Any owner who finances his acquisitions through bank loans will come under pressure to win business in order to meet his commitments and this is bound to drive down rates. At the same time, he will use the greater reliability and superior technical performance of his new vehicles to raise the productivity of his operation.

Both factors spell danger for those fleets that are not in a position to make similar investments.

At present it is estimated that the railways hold a market share of no more than 20% of the available goods traffic. However we understand that a project to upgrade capacity is under consideration, and this could have a major impact on the market if it were to be implemented. The timescale for such projects, though, is such that there will be little effect in the near term.

Those with newer and larger trucks may have advantage over those with older and smaller trucks as the margins go down and profit become more dependent on ton-kilometers. However, these benefits have to be weighed against the financing costs. There is over capacity in the sector leading to stiff competition resulting in declining tariffs.[16]

2.5.2 Un-balanced imports and Exports

Most freight business is concentrated on Addis Ababa-Djibouti route. Unfortunately, most of the cargo is imports with exports being only general below 30% of the imports and exports. For example, in 1998 exports were 241,484 tons as compared to 3,557,015 tons of imports. As a consequence of this freight imbalance the average loading to and from Djibouti is very low as sometimes trucks drive empty or partially loaded on the way to Djibouti.

This freight imbalance threatens the profitability of the industry given the concentration of freight business on this

[16] Due Diligence Report, Bekelcha Transport Enterprise, Ernst & Young

route. There is an imbalance in imports and exports on the Addis Ababa – Djibouti route, which constitutes about 70% of the freight market, leading to low average loading and high operating cost per tone-kilometer.[17]

2.6 Macro Developments that Impact on the Sector

Population and per – capita income

With a total land area of about 113 million hectares, Ethiopia is one of the largest countries in Africa. Although barely exploited, the country boasts substantial natural resources.

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Table 3: Population size by age group and sex 1998 – 2015 (millions)

Age/Sex Group	1998		1999		2000	2005	2010	2015	
	No.	%	No.	%	No.	No.	No.	No.	%
All ages									
Both sexes	59.9	100	59.7	100	63.5	73	83.5	94.5	100
Male	30.1	100						47.4	100
Female	29.8	100						47.1	100
Child (0–14)									
Both sexes	26.3	43.9	27.5	46.1				38.1	40.3
Male	13.3	22.2	13.8	23.1				19.3	20.4
Female	13.0	21.7	13.7	23.0				18.8	19.9
Youth (15–24)									
Both sexes	12.2	20.4	30.5	51.1				19.1	20.2
Male	6.2	10.4	15.4	26.0				9.6	10.2
Female	6.0	10.0	15.1	25.1				9.5	10.0
Adults (25–59)									
Both sexes	18.5	30.9						33.0	34.9
Male	9.1	15.2						16.4	17.4
Female	9.4	15.9						16.6	17.5
Elderly (60+)									
Both sexes	2.9	4.8	1.7	2.8				4.4	4.7
Male	1.5	2.5	0.8	1.3				2.1	2.2
Female	1.4	2.3	0.9	1.5				2.3	2.5

Source: Dr. Berhanu Nega, President Ethiopian Economic Association

Ethiopian society is predominantly rural where 85% of the population currently resides while only 16% of the population is expected to live and work in urban areas by the year 2005. The per capita income of the population at USD 100 in 1998 is one of the lowest in the world. This population distribution and the low level of average income are reflections of the structure of production in the country.[18]

Economic performance 1991 – 1998

The Ethiopian economy is a predominantly agrarian economy with very little structural transformation over the past 25 years. The agriculture sector accounts for over 51.2% of the total output on average between 1991–98 while industry accounts for a mere 10.6% and services account for the remaining 38.2%. Clearly there is a lot of room for the expansion of the industrial sector of the country.[19]

Imperial period (1950 – 1974)

The overall performance of the Ethiopian economy in recent decades can be evaluated by looking at three distinct periods reflecting differing policy regimes. The first period was the imperial period beginning in the 1950s up to the 1974 revolution. The policy regime of this period can be characterized by a market friendly policy that encouraged foreign investment to develop an industrial sector using import substitution industrialization strategy. Although significant transformation of the economy did not occur during this period, the policy somewhat succeeded in achieving its objective of

[18] IBID

[19] Degefe B. & Nega B. (2004). Annual report of The Ethiopian Economy. Addis Ababa: Ethiopian Economy Association

initiating the development of an industrial sector and produced a healthy macroeconomic performance until the combined effects of drought and the first oil shock of 1973 significantly slowed down the economy eventually leading to the collapse of the regime.[20]

The socialist period (1974 – 1991)

The second period was probably the worst period in the country's recent history in terms of weak economic performance overall. The 'socialist' development model pursued during this period not only expanded the state's role in the economy through widening regulatory activities and thus increasing bureaucratic red tape, but more importantly it deliberately discouraged private economic activity by nationalizing land, medium and large scale manufacturing firms and other privately held assets and limited private investment to activities with capital less than Br 500,000. The state became the main producer of industrial goods and curtailed distribution activities by establishing marketing monopolies for industrial and agricultural products. In agriculture, the policy encouraged cooperatives usually at the expense of small holder peasant farms.

The combined effect of this entire interventionist stance was a significant slow down in economic activity. Economic growth in the last ten years of the Derg regime averaged a mere 1.9% per annum while per capita income actually declined by an annual rate of 1.2%.[21]

[20] IBID
[21] IBID

2.7 Recent macro economic developments

The market based economic Period (1991 – Date)

The third period starts with the change of government in 1991 particularly since the implementation of the new economic policy of the transitional government that was enacted in 1992 and the structural adjustment programs (SAPs) since then. At the center of the new development thinking is the belief that resources are more efficiently allocated by market forces, with the private sector as the main engine of economic growth and that the state has to concentrate its activities in areas where it has comparative advantage vis a vis the private sector. According to this view the state will be more effective in helping economic development if it concentrates in supplying adequate infrastructure and providing a stable macroeconomic environment for the private sector to function properly. In terms of policy this entails controlling inflation, reducing budget deficits and restructuring expenditures, adjusting exchange rates to reduce external imbalance, encouraging competition through a relatively open foreign trade policy, implementing a more enabling investment environment, privatizing public enterprises…etc. All these policies and more were implemented over the past eight years with encouraging performance in macroeconomic variables.[22]

Foreign investment for the period July 1992 to July 1997 was Br 4,039 billion. The annual rates of growth of the investment for the period are given in table 4.

[22] IBID

Table 4: Foreign investment trends

	1993/94	1994/95	1995/96	1996/97	1997/98
Percentage growth rate of foreign investment wholly and jointly owned in terms of capital of projects approved	90	29.95	-19.4	442	61.4

Source: Degefe B. & Nega B. (2004). Annual report of The Ethiopian Economy. Addis Ababa: Ethiopian Economy Association

Table 5: Inflation Trends

Year	Growth Rates of				Inflation rate
	MI	M2	Nominal GDP	Real GDP	From CPI
1996/97	0.63	5.5	9.3	5.2	-6.4
1997/98	9.5	12.0	8.6	-0.5	-6.3

Source: Degefe B. & Nega B. (2004). Annual report of The Ethiopian Economy. Addis Ababa: Ethiopian Economy Association

The critical determinants of inflation are cost of food, transport costs, housing and energy. The average rate of inflation in the 1990's was 6.7% and according to World Bank statistics 8.9% for the latter period. Since transport cost is on e of the determinant of inflation, it is important for economic development.

The statistical data indicated above imply that the transport sector's contribution for the overall economic development of the country is critical.

Foreign exchange rates

Ethiopia has been operating a market based exchange rate system since 1991. On average the exchange rate has been depreciating at 5% per annum. The Br has depreciated from a 1996 exchange rate of US$ 1.00 = Br 6.3 to US$ 1.00 = Br 8.2 as of 23 March 2000. The depreciation of Birr will affect the import of trucks since the price in birr increases as the exchange rate increases.

Since Ethiopia imports all the automotives the increase in foreign exchange rates (depreciation of Birr against major hard currencies) directly impacts the price of automotives.

2.8 History and Development of the Transport Sector

The Imperial Period (1950 – 1974)

The major players in the freight transport in Ethiopia during this period were:

- The Ministry of Communication, which supervised and controlled travel on road.

- The Road Transport Board, Chaired by the minister and whose members were the Administrator, 4 representatives of the different ministries, 2 operators and 2 shippers representatives who decided on policy matters.

- Road Transport Administration, registered and approved the organization of enterprises and, encouraged the formation of Associations, (Co-operatives). The Administration also fixed minimum and maximum tariffs to be charged by public commercial transport operators. More over it took measures to ensure that the number of vehicles engaged in public commercial Road Transport Service did not exceed the demand.
- The public commercial Road Transport Associations were legally established to co-ordinate the transport service and provide services for their members, such as terminals fuel stations and spare parts. The fuel station services were subsequently taken over by NATRACO
- There were only two share Companies operating during this period. The General Ethiopian Transport (Anbassa) and National Transport Share Company, the former provided urban passenger transport services in Addis Ababa, the latter was engaged in transporting freight on the Assab to Addis Ababa corridor.

The Socialist Period (1974 – 1991)

The major players in the freight Transport Service were.

- Ministry of Transport and Communication.
- The Road Transport Authority which was established to enforce rules and regulations pertaining to quantity, quality and price control.

- National Road Transport Corporation (NATRACOR). All owners of public commercial vehicles were required to operate as affiliates (Tebabari) to this government organization, which centrally controlled the operation of road freight and passenger transport services.

- NATRACO-had its origin as an organization established to run the business of two privately owned share companies. One was General Ethiopian Transport (Anbassa) the other was the National Transport Share Company.
- The freight and passenger transport operators were also centralized and branches were established at zones (Ketena), throughout the country to direct and supervise the operations of private owners.

After the Derg Period to Date

The transitional government embarked on the liberalization of the road transport sector. To this effect the road transport Proclamation No. 14/1992 was issued, whereby private commercial vehicle operators were permitted to form their own business associations (co-operatives). Quantity licensing was removed and price control was also removed in stages, starting with the removal of the freight transport tariff and then the passenger transport fare.

In 1994 EFTC and PTC were restructured into 5 and 2 smaller enterprises respectively. The restructuring of EFTC and PTC was meant to improve efficiency of the two corporations' operations that were considered to be very low.

Thus PTC, was split into three enterprises, namely the Inter-City Bus operator (Walia) the Urban bus operator (Anbassa) and the maintenance and spare parts, sales service (Abay Technical).

On the freight operation side, EFTC was split into five enterprises, three for dry freight haulage (Comet, Shebelle and Bekelcha), one tanker fuel transport enterprise, (Weyra) and one maintenance and spare parts sales enterprise (Addis Mechanical).

These enterprises were set up under proclamations number 187 to 194 of 1994.

2.9 Recent Developments of the transport sector

Players in the Sector

The major players in the freight transport service sector in Ethiopia presently include:

- The Road Transport Authority and the Ministry of Transport and Communications.
- The Public Enterprises formed on the split of the Freight Transport Corporation (EFTC) being Weyra Transport Enterprise, Comet Transport Enterprise, Shebelle Transport Enterprise, Bekelcha Transport Enterprise and Addis Mechanical Enterprise. The transport enterprises altogether own 472 trucks with trailers.
- There are approximately 50 private and public transport share companies operating in the country. Altogether they own a fleet of 1,183 vehicles.
- Individual entrepreneurs, engaged in the freight transport business and operating on their own number 171. In total they operate 286 trucks of different sizes.
- Other individual owners, who have formed Public Freight Transport Association (co-operatives), are organized into 40 associations throughout the country and own 4,164 vehicles.
- The remaining 3,992 registered vehicle owners are associated to the three public enterprises and operate by paying commissions of about 2% of their revenue and obtain support services in terms of dispatch and cargo co-ordination.

- The total freight vehicle fleet as of May 1991 E.C (1997/98) operated by all of the above categories of owners number 10,127 vehicles (dry cargo trucks).
- The total number of tanker trucks on the other hand, for commercial use of various capacity, are 1,236 of which Weyra Transport Enterprise's vehicles total 75. The remaining are owned by private companies and individual owners and 3 associations (co-operatives) and private and public share companies.
- Oil companies are another important player in tanker fuel transport and the number of tankers having long term contractual agreements with them are shown below.

Table 6: capacity of fuel companies

Capacity '000	**Total Oil**	**Mobil**	**Agip**	**Shell**	**Total**
8-19	36	-	-	-	36
20-27	1	1	-	-	2
28-31	56	176	135	115	476
32-34	53	40	19	64	176
35-41	38	48	27	47	160
42-60	20	17	13	9	59
Total	**204**	**276**	**194**	**235**	**909**

Source: Due Diligence Report, Bekelcha Transport Enterprise, Ernst & Young

The size of the Market

The road freight transport service constituted 95% of the total tone-km covered by all modes of transport in 1997/98 as shown in Table 7 below.[23]

[23] Due Diligence Report on Bekelcha Transport Enterprise. Ernst & Young. (2004)

Table 7: Freight Service – by mode of transport

Transport Mode	Tonnes '000	Tonne/km in million
Road Transport		
1.1 Dry Cargo	5,532.8	2,229.9
1.2 Petroleum	1,030.9	655.5
Rail Transport (CDE)		
2.1 Domestic	41.3	17.1
2.2 International	161.0	73.2
Marine Transport (ESLC)		
3.1 Coastal	132.4	35.4
3.2 International	268.9	1,578.0
Air Transport (EAL)		
4.1 Domestic	1.2	0.6
4.2 International	37.6	148.2
Total	**7,045.1**	**4,737.9**

Source: Privatization strategy report, Shebelle Transport Enterprise, Ernst & Young

The total dry cargo carried annually by road freight operators between 1993/94 and 1997/98 is shown in Table 8 below.[24]

Table 8: Dry Cargo Freight

Year	Tones '000	Tone/km in Millions
1993/94	2,814.2	1,002.7
1994/95	3366.5	1,467.9
1995/96	4060.3	1,714.9
1996/97	5134.3	2,070.9
1997/98	5,532.8	2,229.9

[24] Privatization strategy report on Shebelle Transport Enterprise. Ernst & Young (2004)

The data in Table 10 shows that dry cargo freight grew by almost 200% between 1993/94 and 1997/8 or at average annual rate of 18%. The forecast for dry cargo for the year 2005 is 10,420.6 thousand tones and 13,467.7 million tone-km

The total petroleum transported by tanker trucks increased from 689.1 thousand metric tones to 1,030.9 thousand and from 391.2 million metric tone km to 655.5 million metric tones between 1993/94 and 1997/98 respectively as shown in
Table 9 below.

Table 9: Petroleum Transported by Road

Year	Metric Tone '000	Metric Tone/km in million
1993/94	689.1	391.2
1994/95	655.8	629.3
1995/96	846.1	583.9
1996/97	895.1	570.9
1997/98	1030.9	655.9

Source: Due Diligence report, Shebelle Transport Enterprise, Ernst & Young

The forecast fuel cargo for year 2005 is 2,551.63 metric tones and 2,098.09 metric tone km.[25]

Import and Export Freight

Of the total cargo moved in the country 67% is carried from and to the port of Djibouti, and relates to foreign trade. The total imports in 1997/98 were 3,557.02 thousand tonnes which mainly included fuel, capital goods, consumer and industrial goods and semi finished goods. Exports for the same year amounted to 241,484 tones comprising mainly of coffee, hides and skins and oil seeds.

[25] Due Diligence report on Shebelle Transport Enterprise. Ernst & Young (2004)

The trend in the volume of exports over the last nine years has increased modestly while imports have increased significantly. Imports increased, though unevenly, at an average rate of 3.6% per annum and exports at 10.6% per year respectively as shown in Table 10 below.

Table 10: Import and Export Freight

S/N	Year	Import		Export	
		Quantity in tons	Value in Mill. Br	Quantity in ton	Value in Mill. Br
1	1990	1,441,491.7	2,227.5	390,820.0	613.82
2	1991	494,457.1	976.6	109,388.3	390.42
3	1992	1,051,637.7	1,987.8	219.667.6	503.90
4	1993	1,629,975.0	3,852.3	261,284.0	1,007.5
5	1994	2,158.614.1	5,650.7	389,378.9	2,062.4
6	1995	1,877,404.2	7,041.8	276,111.7	2,602.3
7	1996	1,362,009.00	7,103.13	345,986.3	2,782.4
8	1997	1,106,933.7	7,490.5	363,783.3	3,719.3
9	1998	3,557,015.6	10,391.8	241.484.4	3,965.9

Source: Privatization Strategy Report, Shebelle Transport Enterprise, Ernst & Young

The projected volume of trade, for the year 2005 at a conservative estimate would be 7,181 million tons of import and 501 thousand tons of export. This however would be achieved only if all other things remain as they are today. The projections do not take into account the effects of the war was and presence of natural disasters such as draught.[26]

[26] Privatization Strategy Report on Shebelle Transport Enterprise. Ernst & Young. (2004).

Freight transport capacity

The small and medium trucks with less than 70 quintals (7 tones) loading capacity numbered 10,347 in 1993/94 and their number had grown to 13,982 in 1997/98. This is an increase of 7% per annum.

Heavy Trucks with a pay-load of 71 up to 180 quintals (7-18 tones), increased from 5,866 to 10,778 between 1993/94 and 1997/98 respectively.

The number of truck tractors has also increased from 515 to 1,005 in the same period. The heavy-duty trucks increased by 16.75%, while truck tractors increased by 19%.

Trailers amounted to 1,761 in 1993/94 and in 1997/98 their number reached 2,993. Semi-trailers on the other hand decreased from 478 to 353 in the same period.

The road freight fleet composition in 1997/8 is shown in Table 11 below.

Table 11: The Road Fleet Composition

Type of Vehicle Size	1993-94	1994-95	1995-96	1996-97	1997-98	
					Current + New	Total
Dry Cargo						
Trucks						
up to 70 Qt	10,347	11,069	11,492	12,286	12,715+1,267	13,982
Trucks						
71-180 Qt	5,866	8,504	10,713	10,996	10,164+614	10,778
Traitors	1,761	2,505	3,227	3,698	2,791+202	2,993
Truck						
Tractor	515	480	1,286	1,088	907+98	1005
Semi	478	360	971	190	328+25	353
Trailer						
Fuel Tankers						
Tankers	760	1,191	994	1,085	1,184+52	1236
Traitors	276	877	900	856	778+37	815
Semi Traitors	44	7	7	36	19	19

Source : Ernst & Young: Due Diligence report, Bekelcha Transport Enterprise,

The Major Transport Companies and Enterprises

There are 50 private companies in addition to the 3 Government owned enterprises operating in the freight transport services (Bekelcha, Comet, Shebele). The private companies have a total

capacity of approximately 67,000 tones. The state owned enterprises have a capacity of 14,160 tones.

The 40 freight associations have a capacity of about 135,322 tones plus an additional 6,292 of the individual owner-transporters giving a total of 141,614 tones.

Thus the overall road freight capacity is estimated at 222,798 tones.[27]

2.10 Overview of the Ethiopian Automotive Market

Ethiopia is classified as "Torrid" area in general. This necessitates heavy duty packages like heavy duty transmission, suspension system, air filters, under guard kits, high altitude oxygen compensators and proper care should be taken in selecting gear ratios due to steep slops.

In Ethiopia, road transport is the major means of passenger and freight transport. In 2006, Ethiopia had 33,300 km of roads (5,400 km paved and 27,900 unpaved) as against 681 km railways and 18 airports with paved runways. Still a low percentage of the population has access to roads. As a result, Government gives top priority to infrastructure construction, in general, and road construction, in particular.

Ethiopia imports all of its automotive (vehicles and machinery) needs. It does not manufacture automotive. Some companies only assemble and build bodies for buses and dry and wet cargoes on chassis imported cabs.

[27] Due Diligence report on Bekelcha Transport Enterprise. Ernst & Young (2004)

In the past 10 (ten) years, the market for vehicles shows significant improvement and growth. On average, during the last five years (2002-2006), the number of vehicles imported has been increasing by about 27% per annum. With the on-going expansion of road construction and consequent increase in access to roads, the demand for vehicles shall also grow significantly. At present, the total vehicle population reaches around 200,000.

Trade events

For the last three years the international Automotive fair has been the industry's only modern marketing and promotion event. Ed stellar PLC hosted the 4rd International Automotive Fair (IAF 2007) from 17th May 2006, in the Addis Ababa Exhibition Center. A total of 112 local and foreign companies took part in the IAF 2005, which received more than 200,000 visitors. This year, 130 companies from 26 countries have participated, with large numbers of visitors from both Ethiopia and neighboring countries. A range of different products and services from automobile related sectors were on display at the fair.[28]

Another recent good development observed in the automotive industry is the manufacture of Eco-friendly vehicle. A company called Holland car is planning to assemble a new car that uses auto gas, sometimes called Liquefied Petroleum Gas(LPG), instead of benzene.[29]

[28] Sisay A. (2007, May 13) Vehicle assembly needs support. Capital Newspaper. P.8.

[29] Sisay A. (2007, May 13) Eco friendly vehicle coming soon. Capital Newspaper. P.1.

Chapter Three

Data Analysis and Interpretation

The existing theoretical and empirical literatures have shown us that the automotive sector is a major contributor to the economy. Moreover the review indicates that the sector is affected by government regulation, economic trends and financial and managerial capacity of the operators. The industry is also affected by national and global macroeconomic conditions.

This paper tries to examine these conditions by reviewing related national statistical data and analyzing the questionnaire from selected respondents operating in the sector.

3.1 An overview of the automotive industry

Before going to see the details of possible trends of automotive industry, let see the operation and structure of the industry in Ethiopia.

Table 12 Gross Domestic Product by Economic Activity At Current Basic Prices ('000 Birr) :

	1994/95 1987	1995/96 1988	1996/97 1989	1997/98 1990	1998/99 1991	1999/00 1992	2000/01 1993	2001/02 1994
Fishing	**256**	**235**	**251**	**261**	**245**	**286**	**450**	**522**
Mining and quarrying	**2,151**	**2,589**	**2,718**	**2,560**	**3,005**	**3,427**	**3,654**	**3,500**
Manufacturing	**624**	**761**	**892**	**1,179**	**1,309**	**1,335**	**1,394**	**1,471**
Electricity	**1,439**	**1,631**	**1,827**	**2,102**	**2,309**	**2,409**	**2,629**	**2,914**
Construction	**4,861**	**5,426**	**5,614**	**5,657**	**6,628**	**7,293**	**7,153**	**6,695**
Trade	**764**	**853**	**883**	**877**	**1,039**	**1,278**	**1,269**	**1,335**
Hotels and Restaurants	**1,958**	**2,154**	**2,229**	**2,464**	**2,687**	**2,711**	**3,504**	**3,610**
Transport and Communications	**475**	**793**	**828**	**831**	**1,001**	**1,169**	**1,221**	**926**
Financial Intermediation	**2,931**	**3,202**	**3,497**	**3,816**	**4,115**	**4,291**	**4,650**	**5,027**
Real Estate and Business	**1,693**	**1,900**	**1,967**	**2,129**	**3,062**	**4,096**	**3,868**	**3,445**
Public Administration and Defense	**955**	**1,063**	**1,167**	**1,238**	**1,351**	**1,477**	**1,637**	**1,875**
Education	**346**	**374**	**433**	**483**	**547**	**572**	**649**	**712**
Health and Social Work	**760**	**862**	**914**	**965**	**1,035**	**1,142**	**1,124**	**1,098**
Other Community & Personal Services	**90**	**107**	**127**	**147**	**159**	**169**	**184**	**199**
Private Households with Employed Persons	**145**	**140**	**157**	**169**	**188**	**208**	**217**	**227**
Total	**46,471**	**52,227**	**53,803**	**51,654**	**55,812**	**62,146**	**63,265**	**59,358**
Contribution of the transport sector	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.02

Source: Adapted from National Bank of Ethiopia, Quarterly Bulletin, Fiscal Year Series, Volume 20.No.4, Fourth Quarter, 2004/2005

As can be seen from the above table, in the year 1994/95 the sector related to the automotive industry, the transport and communication sector accounted for about 1% of the total gross domestic product of the national economy. The sector's contribution increased by one percent in 2001/02. The data

available to this review is only up to year 2001/02. As can be inferred from table 13 the contribution of the transport sector has been 2% consecutively for the seven years from 1995/96 to 2001/02.It is expected that since the industry is growing at an increasing rate, the contribution of the automotive sector is estimated to rise significantly in the coming years.

To analyze the growth of the sector from a different perspective, the value of road motor vehicles imported in to the country for the last 25 years has been analyzed taking the years from 1979/80 to 2004/05.

As indicated in the literature review section of this paper, Ethiopia does not manufacture automotives with the exception of a very small scale of vehicles assembly. All of the motor vehicles operating in the country are imported. As a result, the following statistics of import of motor vehicles will provide a clear picture of the growth of the automotive sector.

Table 13: Value of import of motor vehicles

	Road Motor Vehicles (in '000 Birr)	Increase from previous year	Increase during five years
Period			
1979/80	135,789		
1980/81	165,328	22%	
1981/82	259,372	57%	
1982/83	164,765	-36%	
1983/84	210,621	28%	
1984/85	179,589	-15%	32%
1985/86	287,134	60%	
1986/87	339,324	18%	
1987/88	369,944	9%	
1988/89	279,220	-25%	
1989/90	189,288	-32%	5%
1990/91	249,844	32%	
1991/92	177,203	-29%	
1992/93	402,403	127%	
1993/94	825,890	105%	
1994/95	1,015,951	23%	437%
1995/96	1,393,422	37%	
1996/97	1,117,480	-20%	
1997/98	795,978	-29%	
1998/99	1,390,946	75%	
1999/00	1,548,459	11%	52%
2000/01	1,456,285	-6%	
2001/02	1,437,245	-1%	
2002/03	1,817,630	26%	
2003/04	2,124,501	17%	37%

Source: Adapted from National Bank of Ethiopia, Annual Report, 2003/2004

Table 14 indicates that there has been a significant year by year growth of import of road motor vehicles for the last 25 years.

For some of the years during the last 25 years the year by year growth of value of imports of road motor vehicles exceeded 50% of the previous years (1981, 1985, 1993, 1994, and 1999). Moreover, the growth rate for the years 1993 and 1994 exceeded 100%.

Analyzing the overall growth of import of motor vehicles for every five years interval, from 1980 to 2004, the data indicates that the value of imports increased by 32%, 5%, 437%, 52% and 37% respectively. This clearly indicates that there has been tremendous growth of the automotive industry in the last 25 years.

The growth of the automotive sector can also be analyzed from the employment creation perspective. As the following table indicates, the employment creation of the sector has been gradually increasing though with fluctuation for some years.

Table 14: Number of Employments by industrial group- Public and Private 2000/2001(1993 E.F.Y) - 2004/2005(1997 E.F.Y)

INDUSTRIAL GROUP	NUMBER OF EMPLOYEES				
	2000/01	2001/02	2002/03	2003/04	2004/05
Manufacture of motor vehicles	1,060	1,082	1,019	1,130	1,232
Manufacture of bodies for motor vehicles. . . .					
Manufacture of parts and accessories for motor	987	1,009	946	1,029	1,148
Vehicles and their engines.	73	73	73	101	84

Source: Central statistical agency, Report on Large and medium scale manufacturing and Electricity Industries Survey

As discussed above, the manufacture of motor vehicles in Ethiopia is limited to assembly, manufacture of bodies of vehicles and small scale manufacture of parts and accessories. However, there is also growth in this section of the automotive

industry. Table 15 indicates that the number of employees engaged in the manufacture of motor vehicles bodies and accessories increased from 1,060 in year 2000/ 2001 to 1,232 in year 2004/05. This overall increase in number of employees engaged in the sector by more than 16% implies the growing trend in the manufacturing section of the automotive industry.

3.2 Factors affecting the automotive market in Ethiopia

a) Government Regulation

Entry to the Ethiopian automotive import market is open for all domestic investors interested in the business and plan to penetrate the automotive market. Regarding the type of vehicles that can be imported to the country, there is only one government regulation which prohibits dealers from selling to government organization before being tested for 5 years in Ethiopian market. Otherwise the private sector or the majority of the public is free to choose any brand they want to purchase.

Using the advantage of the free entry, the Korean cars are aggressively in passenger car market and Chinese are aggressively marketing their trucks of heavy duty class.

The government is also under final stage of completing the study to introduce a regulation to ban importation of used cars which are older than 5 years from the recent year of production. This measure will help the country in reducing foreign currency expenditure for spare parts and also to protect the environment from pollution. Currently we are in an era where the world is thinking about electric, hydrogen or hybrid cars in order to

reduce the dependency on oil and also to reduce environment pollution. Ethiopia should follow the move at least by preventing from being dumping ground for older cars of Europe and Middle Eastern countries.

As indicated in the literature review section of this paper, some positive development is observed by the recently established car assembly plant, which produces Eco-Friendly cars.

The motor Vehicle certification system is easy as long as one fulfills the regulation of Transport Authority. The inspection system is not developed and is below the standard compared to international practices. This is one of the major reasons why the rate of traffic accident in Ethiopia is high by the world standard.

Nowadays the inspection system is getting tougher and it is being sub contracted to dealer companies. However, the inspections system needs to be properly followed and controlled routinely. Otherwise since the level of public awareness is low, deployment of motor vehicle which are not road worthy will cause damage to resources and human lives.

b) Price of fuel

The domestic sales of new motor vehicles are showing an increasing trend recently due to the effect of fuel price. Since the new motor vehicles are better in fuel efficiency, the public test/habit is shifting towards purchase of new cars than used cars especially in passenger vehicles class.

c) Increase in household income

Previously most of the passenger cars were second hand cars which served for more than 10 years. Since recently brand new, latest version and luxury class cars are being seen. Even a kind competition on style and comfort of car that one is driving is observed in the upper & affluent class of the society.

d) End user preference

Ethiopian customer did not have a profound test and preference attributed to the customs policy of the country and lack of choice. As a result the market was supply driven and influenced by broker/mouth advertisement. In recent years end users are getting access and information and the market is changing to be demand driven. End users are having their own criteria of selection from price to style and/or dependability. In older days only the resale value and availability of spare parts were the major decisions criteria.

e) Other factors affecting the automotive market

The following are among other factors affecting the market of the automotives sector.

- Fluctuating demand (seasonality of the demand)
- Tough terrain (road condition)
- Lack of capacity in repair and maintenance
- Lack of foreign currency for importation
- Lack of adequate bank finance

- Unpredictable macro economic policy matters.

3.3 Analysis of truck market

Although it may not reflect the total demand for automotives, it is assumed that trucks imported annually is the major part to the demand of the Ethiopian Automotive Market. To this effect, utmost efforts have been made to consolidate, analyze and determine supply of brand new trucks as well as project the demand from the available data and information.

The demand for trucks is mainly influenced and adversely or positively affected by the following factors:

- Prevailing political and economical climate
- Income (purchasing power)
- Price and running costs
- Quality of after-sales support (parts & workshop)
- Availability of secondary (used vehicles) market
- Resale value
- Promotion and advertisement
- Design, brand name, country of manufacturing and technology of manufacturing
- Interchangeability of spare parts and
- Ease of maintenance and cost of maintenance.
- Reliability of the product

Moreover, in forecasting the sales of Trucks in Ethiopia for the near future, the following facts are taken into consideration[30]:

[30] UD Sales Business Plan. Nyala Motors.(2007, January). Addis Ababa

- Separate and joint aggressive and extensive promotional activities of local agents and manufacturers
- Continuity of trucks' good performances
- Continuity of effective and efficient after-sales support services
- Purchasing power of consumers
- Peace and political stability
- Steady exchange rate
- Increase in investment
- Continual of bank financing for truck purchases
- Increase in road construction, which is one of the major focus areas of Government and continuation of the duty free import privilege package in construction machineries and trucks.
- Government development policy that is geared towards Agriculture Development-Led Industrialization
- Price of trucks

In Ethiopia, the majority of vehicles imported are Japanese make, particularly Toyota, Nissan, Isuzu and Mitsubishi. During the last five years, Japanese vehicles import accounted for around 78% of the total vehicles imported. Among these, used vehicles accounted for about 85%.[31] Interview with the target respondents revealed that the main reasons of domination of the market by Japanese vehicles are:

[31] Arrived after analyzing the data from ASEKUDA's import statistics data, Federal Customs Authority.

- Ease of maintenance
- Effective workshops,
- Resale Values
- Availability of spare parts
- The interchangeability of spare parts

3.3.1 Truck Import statistics

Federal Customs Authority, a governmental institution, controls the import of vehicles and machineries in Ethiopia. For its effective administration and control, the authority developed software called ASECUDA. ASEKUDA classified the type of vehicles on the bases of Harmonic Codes (HS), imported year, brand name, Exporting country and imported quantity.

For the purpose of this paper, 5 years data (2002-2006) for the import statistics of light and medium trucks, dump trucks, heavy duty trucks and other trucks (Low-bed, High-bed, Truck tractors, etc) is selected. As a result, the are indicated as follows.[32]

[32] Federal Customs Authority. (2006). ASEKUDA's import statistics data.

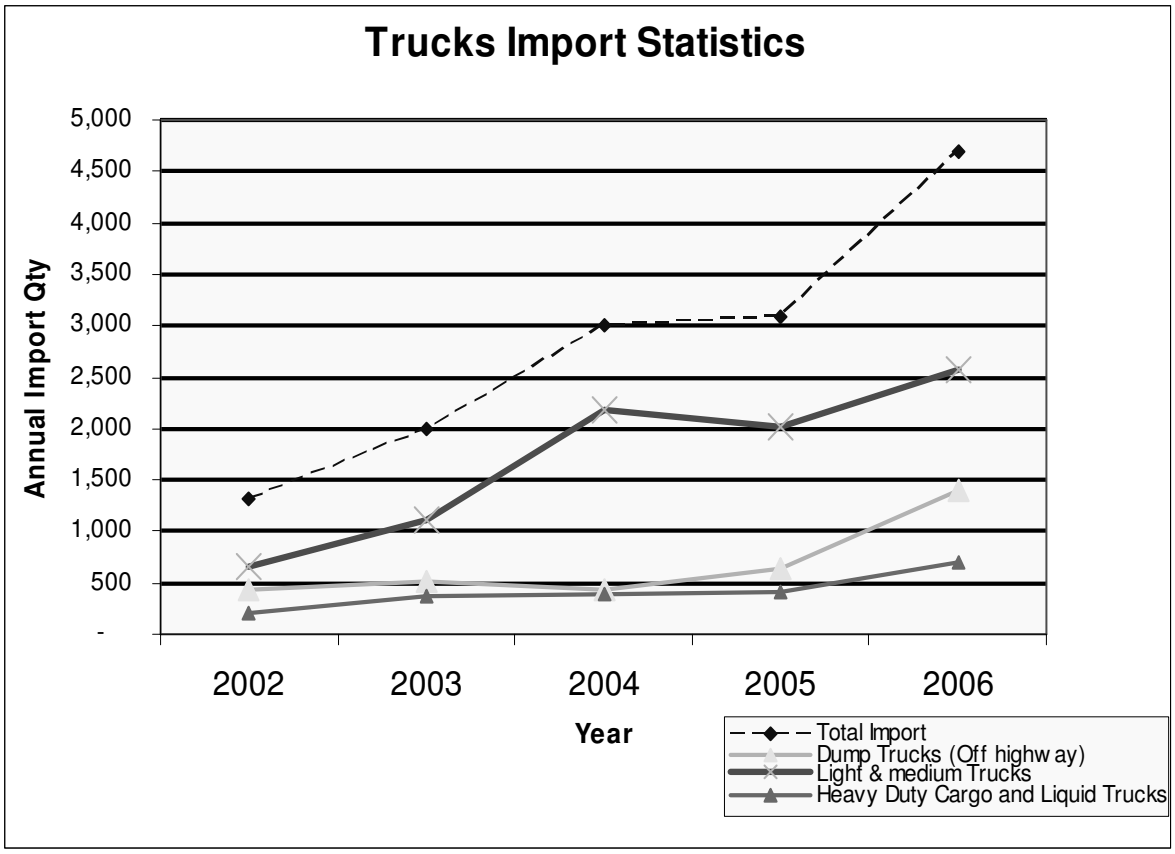
Table 15: Quantity of dump trucks, Light & Medium trucks, and Heavy trucks import

No.	Description	Years					Total	Average
		2002	2003	2004	2005	2006		
1.	Dump Trucks (Off highway)	435	505	434	639	1,407	3,420	684
2.	Light & medium Trucks	655	1,113	2,179	2,023	2,564	8,534	1,707
3.	Heavy Duty Cargo Trucks	201	376	383	408	695	2,063	413
4.	Other Trucks	20	12	7	19	22	80	16
Total		1,311	2,006	3,003	3,089	4,688	14,097	2,819

Source: Adapted from Federal Customs Authority, ASEKUDA's import statistics data

For illustration purpose the trend of import of trucks during the last five years is shown graphically below

Figure 1: Truck Import Statistics



The volume of import of trucks generally shows increasing trend from year 2002 to 2006. But in 2005, due to the instability of the country following the national election, the import of vehicles decreased compared to previous periods.

By 2006, the import of all types of trucks showed very sharp increase. This was because of the stability of the country followed by extreme interest of investors in the construction sector.

According to the statistics, the annual growth rate of dump trucks, Light & Medium trucks, and Heavy trucks are 23%, 17% and 20% per annum respectively. The total imported vehicles in

Ethiopia showed an average growth rate of 10.2% annually for the past five years.

The best prospects for automotive industry are freight transport companies who are working on import export goods transportation on Djibouti– Addis or Sudan– Addis Corridor and inter city commodity transportation activities.

In Ethiopia the Key suppliers of commercial trucks with respective make of trucks are AMCE (IVECO), ElG (SCANIA), EBG (VOLVO), ORBIS (MERCEDES), Nyala Motors (Nissan Diesel), National Motors (ISUZU), Ethio Nippon (MITSUBISHI) and HAGBES (DAEWOO).

Majority of the imports are from Japan and EU countries. Italy from EU countries takes the major share for heavy duty trucks while Japan is for light and medium trucks.

3.3.2 Analysis of Truck Market competition

The competition between different makes is tough. The competition considers many factors including price, dependability and performance, after sales service support, resale value and good will.

As stated above IVECO is the leading market share holder in the heavy duty class followed by SCANIA. Whereas in the light and medium truck class, ISUZU is the dominant player in the market. Though IVECO and ISUZU has high market share, from the time to time they are loosing markets to other brands.
Recently the Chinese makes also entering the market aggressively and it is expected that they will seize good market share in the

near future provided that their performance is proven to be good. These situation worries most established dealers who have been the players in the market.

3.4 *Analysis of results of questionnaires*

Table 16: Analysis of results of questionnaire

1	The development level of the automotive industry compared with other African countries is low.	62.5%
2	The future prospect of the automotive industry is very good.	62.5%
3	The basic determining factor for automotive buyers purchasing decision is performance and maintainability.	75%
4	The measures taken by the government for the development of the sector is good.	75%
5	The major factors which have significant impact in boosting the demand for automotive are drought, war and good harvest.	87.5%
6	The competition level of automotive dealers compared with other sectors is average.	50%
7	The impact of the existing road condition on the automotive industry is negative.	100%
8	The overall performance of the automotive industry is good.	50%
9	Light duty class of trucks are sold in big quantity	100%
10	The sales ratio of heavy-duty trucks against medium duty trucks is high.	100%
11	Supplies transportation is the most popular usage	75%

	of the heavy- duty class of trucks.	
12	The future trend is also shows supplies transportation	87.5%
13	Fleet owners are the target market for truck sales now and in the future.	100%
14	Engine power is the main competing point of trucks.	75%
15	The future trend of customers' preference in choosing their preferred brand is performance and maintainability.	62.5%
16	The drivers capacity is poor and it impacts the automotive industry	100%
17	The low level of purchasing power in the country impacts the automotive industry.	75%
18	The reservation of the import, wholesale and distribution, and transport sectors for domestic investors has negative impact on the development of the sector.	87.5%
19	The market Potential of the automotive industry for the future is very good.	75%
20	The brand, which hold the big market share from heavy dump trucks by vehicle type and source of country is Nissan Diesel, Japan	100%
21	The brand, which holds the big market share from heavy cargo transport trucks by vehicle type and source of country is IVECO, EU.	100%
22	The brand, which holds the big market share from Medium cargo transport trucks by vehicle type and source of country is ISUZU, JAPAN.	100%
23	The brand, which holds the big market share from light cargo transport trucks by vehicle type and source of country is ISUZU, JAPAN.	100%

24	The permission of entry of foreigners to the transport sector benefits the development of the sector through, knowledge transfer, capital transfer, and technology transfer.	100%
25	To remain being competitive in the automotive sector, price competitiveness, customer satisfaction and good after sales service support are crucial	87.5%
26	The measures the government should take for the development of the sector is to improve the regulatory environment and bureaucratic systems.	50%
27	The profitability of the sector compared to other sectors in the country is good	75%
28	The problems observed with respect to spare parts supply to vehicles are quality, price and availability.	87.5%
29	There are no adequate, competent maintenance facilities in the country for periodic maintenance of vehicles.	100%
30	The existing maintenance facilities are not acknowledged/ approved by vendors/ manufacturers.	75%
31	Unlike the practice in most of the countries in the rest of world, the lack of regulation of banning the import of old used vehicles to the country impacted the operation in the sector negatively.	100%
32	The level of service provided by the Transport Authority as a regulatory body is poor	100%

3.4.1 Positive prospects of the Ethiopian Automotive industry

The majority of the respondents (62%) are of the opinion that the Ethiopian automotive industry has very good prospects. The trend of the automotive sales during the past 25 years also supports this assumption since it shows a total increase in annual import of vehicles by more than 1600% in the last 25 years.[33]

Among the various reasons indicated for the positive future trends of the sector, profitability of the automotive and related transport sectors is sited as one of the factors. 75% of the respondents of the questionnaire indicated that the profitability of the sector compared to other sectors in the country is good. However, to remain competitive in the sector, the majority of the respondents (87.5%) indicated that price, competitiveness, customer satisfaction and good after sales service support are crucial.

Government's policy for the development of the sector is also supposed to be among the major factors positively affecting the sector. 75% of the respondents think that the measures taken by the government for the development of the sector is good. The present government, through construction of national road network by assigning a significant portion of the annual capital budget is playing a significant role in the development of the sector.

[33] National Bank of Ethiopia. (2004/5). Annual report. Addis Ababa: National Bank of Ethiopia.

From the total Federal budget of Birr 43.9 billion approved for the year 2007/08, the budget allocated to ERA is Birr 8.8 billion.[34]

Supplies transportation is supposed to be the most popular usage of heavy duty trucks by 75% of the respondents. Drought, war and good harvest are sited to be among the main reasons boosting performance of the transport sector by 87.5% of the respondents. It may look surprising that adverse conditions like drought and was could increase the operations of a sector. However, the volume of food aid during the past drought and resulting famine periods in the country have induced the transport sector's operation to rise due to increased need for transportation of food and medicine from ports to mainland and from the major warehouses to the needy regions.

In analyzing detail causes for the positive prospects of the industry, 75% of the respondents indicate that the basic determining factor for automotive buyers' purchasing decisions is performance and maintainability of the vehicles. Moreover 75% of the respondents specifically indicated that engine power is the main competing point of trucks. Ethiopia is a country where vehicles of more than twenty years of age are common on the roads. Due to this longtime practice, durability and maintainability of vehicles is highly rated in the buyers' decision making process.

As indicated previously in this section of the paper, heavy and light duty trucks account for the majority of the automotive

[34] (2007, July 8). Parliament Endorses Annual Budget. Ethiopian Herald. P1.

sector's operation in the country. In this connection, the respondents' opinion with respect to sales of trucks is analyzed. Accordingly, all of the respondents are of the opinion that the brand, which holds big market share from heavy cargo transport trucks, is IVECO, from EU. Moreover, ISUZU from Japan is rated as the big market share holder of medium cargo transport trucks by all the respondents. All of the respondents again suppose that Nissan Diesel from Japan sales the majority of heavy dump trucks in the country. With respect to sales of light cargo transport trucks, ISUZU from Japan is again rated to be the Number one seller.

However the respondents' replies with respect to multidimensional problems that the automotive and transport sectors are facing are also analyzed and presented in the following section of the paper.

3.4.2 Negative prospects of the Ethiopian Automotive industry

The current level of development of the automotive industry of Ethiopia is rated to be low by 62.5% of the respondents. Among the various factors affecting the current level of the sector, all of the respondents replied that the impact of the existing road condition on the automotive industry is negative. Moreover 75% of the respondents indicated that the low level of purchasing power in the country impacted the automotive industry negatively.

In Ethiopia operation in the transport sector is reserved for domestic investors.[35] About 88% of the respondents replied that the reservation has negative impact on the prospect of the sector. All of the respondents are of the opinion that permission of entry of foreigners to the transport sector benefits the development of the sector through knowledge transfer, capital transfer, and technology transfer.

The problems observed with respect to spare parts supply to the vehicles regarding quality, price and availability are felt considerable by 87.5% of the respondents. Moreover, all the respondents indicated that there are no adequate, competent maintenance facilities in the country for periodic maintenance of vehicles. In this regard, 75% of the respondents claim that the existing maintenance facilities in the country are not approved/ acknowledged by vendors and/ or manufacturers.

Unlike the practice in most of countries throughout the world, there are no regulations banning import of old vehicles in Ethiopia. Absence of such a regulation is thought to have negatively affected the automotive industry by all of the respondents.

Regarding the activities of the regulatory organ, the Transport Authority, all of the respondents replied that the service given by the authority is at its low level.

[35] Council of Ministers Regulation No. 84/2003.

Chapter Four

Conclusion and Recommendations

4.1 Conclusion

Assessing whether the development level of the automotive industry is low or good is a contentious point since the point of consideration differs from person to person. However, in general we can conclude that the development level is low in comparison to other developing countries.

Ethiopia, being a trucking country, the potential is high but not exploited properly. There are various factors which contribute for the hindrance of the sector's development. The main points are government regulation including tax, inconsistent production output which is affected by rain, shortage of road access, lack of foreign currency and finance for the purchase of trucks.

The contribution of the sector for the national economy and its employment creation is big compared with the investment outlay to the sector. Therefore, much more emphasis, encouragement and support should be availed for the sector. Moreover, upgrading the capacity of local dealers in maintenance and servicing of automotive and driving capacity of drivers is important. In this regard the effort done by Shell Ethiopia to train drivers of fuel trucks in safety measures will help to reduce unnecessary wastages of resources.

However, when we see the Ethiopian business firms, most of them are operating in an environment where small scale, individual and family owned businesses are dominant and the objective of the businesses is short run profit. In addition to the absence of required finance to invest in automotive industry, the tradition and culture of the society being risk averter is also an obstacle that needs to be addressed properly.

In Ethiopia praiseworthy efforts are currently being made by the government to upgrade the road coverage and expand road network. However, the regulatory body is short of giving adequate and efficient services. The low level of service is clearly seen in procedures of importation and registration of new automotive and to get renewal of annual circulation permits and licenses.

One of the impacts of lack of efficient working regulations is the number of traffic accidents occurring every year which cause the loss of lives and resources. As indicated earlier, the country does not have regulations towards the importation of old vehicles. Moreover the annual vehicle inspection practices are poor compared to international standards. As a result of this Ethiopia is one of the countries where the rate of traffic accident is high.

Furthermore, all the respondents in this research survey have a common understanding and belief that the automotive industry is currently at low level of development, although the contribution to the national economy is significant. Moreover, all of the respondents believe that the future prospect is very good. To support this, the government should give due attention in improving the regulations and also to set some supportive measures like capacity building work and financial arrangements.

Nevertheless, major decision to improve and enhance the operation of the automotive sector lies in the hands of the Transport Authority, which is believed to be staffed with under-qualified personnel.

The status of the road condition impacts on the operational costs as it affects average speed consumption of fuel, tires and vehicle maintenance costs. The road condition especially on Djibouti side of the Addis Ababa-Djibouti road is a threat to the profitability of the automotive industry.

This freight imbalance will continue to threaten the profitability of the industry given the concentration of freight business on this route.

Due to insignificant efforts to develop the skill and technical capability of the staff of transport authority, their capacity to issue appropriate regulations and monitor their implementation is sluggish. Moreover, the staff efficiency is low. As evidenced in the research, the level of service given by transport authority as a regulatory body is poor. Therefore, it requires to hire qualified and skilled manpower and to develop the capacity of current employees to effectively regulate the automotive sector.

All of the respondents to the questionnaire regarding the reservation of the automotive industry to domestic investors indicated that the regulation negatively affects the development of the sector. It is believed that entry of foreign investors will bring positive impact by promoting fair and healthy competition in the automotive sector and for provision of quality services with greater efficiency.

4.2 Recommendations

Providing adequate Support for the automotive industry's development could be one of the ways to increase the growth of the national economy since its contribution to the national economy is significant. However, it is difficult to imagine shortly how Ethiopia's automotive industry can grow and become the engine of overall national growth while the majority of the businesses in the sector are managed by non professional owner – managers.

What should the Ethiopian government and investors engaged on the sector do to encourage the growth of the automotive industry and promote economic development?

- The government should enhance the capacity of the public sector particularly the monitoring authority, the Transport Authority.

- The Transport authority shall introduce and follow up the implementation of appropriate regulations to public and private enterprises engaged in the sector. Moreover, the authority should facilitate the smooth information flow within and outside the industry to help investors make an informed decision.

- The government should reconsider the excise and customs duty amounts levied on imported automotives, which is currently high by the world standard.

- Create awareness to the business community to understand the economies of scale and advocate the advantages of being big business firms. With the entrance of foreign investors, the business community will have wide options and better efficient services.

- The government action of joining COMESSA is an opportunity; however, unless the automotive sector develops to the level of other COMESSA member countries, the country will lose competitive advantage in utilizing the trade opportunities created by the economic zone.

- The level of development of the sector should be improved at least to the level of other African countries such as Algeria, Egypt, Nigeria and South Africa.

- The importation, wholesale and distribution of automotives and accessories, which is reserved for domestic investors should be open to foreign investors.

- The unfavorable Government regulation with respect to high customs duties should be reduced and the cumbersome bureaucracy in licensing processes should be improved.

- Sufficient foreign currency should be allocated for importation of automotive as a necessity for the economic development.

- The road infrastructure development activity should be enhanced.

- Efforts should be exerted to build capacity and solve the lack of capable trained man power in the sector. Moreover, the industry should be supported with incentives in promoting local manufacturing of automotive.

- Efforts should be exerted to avail and source raw materials locally and a promotional works should be done to change the public bias against locally assembled products favoring imported automotives.

- Adequate bank finance should be availed for the purchase of automotives and for investors who are engaging in the automotive industry.

- It may take years to introduce competitive environment and efficiency in services considered from the current low level of development of the automotive sector. However, encouraging actions should be taken like introducing incentives and supportive regulations to investors engaged in the sector. Moreover, measures like banning importation of old second hand trucks, strict technical annual inspection, reducing the customs and excise duties. After all, it is hardly possible to achieve a sustainable economic growth without having an efficient and robust automotive industry/transport system.

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Annex 1: Questionnaire

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The main objective of this study is to examine level of development of the automotive industry and its contribution to the national economy in general. This questionnaire is to secure relevant data to the study which is believed to come up with valuable recommendation for problem observed. Therefore, your valuable support in responding to the question raised is of paramount importance to the success of the study.

Hence I earnestly request you to fill the questionnaire carefully. The quality and quantity of information you provide determines the ultimate reliability of the study. Thank you in advance for your relentless cooperation. This questionnaire has no any intension except for academic purposes. And its confidentiality is maintained intact.

Questionnaire

1. How do you rate the development of the automotive industry compared with other African countries?
   a) High b) Medium c) Low

2. How do you see the future prospect of the automotive industry?
   a) V. good b) good c) poor

3. What is basic determining factor for automotive buyers purchasing decision?
   a) Price.
   b) Performance, and maintainability
   c) Fuel consumption

4. How do you see are the measures taken by the government for the development of the sector
   a) V. good b) good c) poor

5. What are the major factors which have significant impact in boosting the demand for automotive?
   a) Drought
   b) War
   c) Good harvest
   d) All

6. How do you see the competition level of automotive dealers compared with other sectors?
   a) High b) average c) low

7. What is the impact of the existing road condition on the automotive industry?
   a) Positive
   b) Negative
   c) None

8. How do you see the overall performance of the automotive industry?
   a) V. good b) good c) poor

9. Which class of truck is sold in big quantity?
   a) Heavy duty b) Medium class c) Light- duty class

10. How is the sales ratio in heavy duty against medium duty tracks?
   a) High b) equal c) Low

11. From heavy- duty trucks segment, which type of usage is most popular now?

   a) Supplies transportation
   b) Construction
   c) Government offices

12. How about the future trend?

   a) Supplies transportation
   b) Construction
   c) Government offices

13. What is the target market for truck sales now and in the future?

   a) Fleet owners
   b) Construction firms
   c) Government

14. What is the main competing point of trucks?
   a) Engine power b) Wheel base c) GVW

15. What is the trend of customers' preference in choosing their preferred brand in the future?

a) Fuel consumption
b) Price
c) Performance and maintainability

16. How is the drivers capacity and their impact an automotive industry?

a) V. good b) good c) poor

17. How is the impact of the level of purchasing power in the country on the automotive industry?

a) Positive
b) Negative
c) None

18. The import, whole sale and distribution, and transport sectors are reserved for domestic investors. What impact will this have on the development of the sector?

a) Positive b) Negative c) None

19. How do you see the market Potential of the automotive industry for the future

a) Very Good
b) Good
c) Poor

20. Which brands hold the big market share from heavy duty dump trucks by vehicle type and source of country?

a) Nissan Diesel, Japan
b) Mitsubishi, Japan
c) Daewoo, Korea
d) IVECO,EU

21. Which brands hold the big market share from heavy cargo transport trucks by vehicle type and source of country?
    a) IVECO, EU,
    b) SCANIA, EU
    c) VOLVO, EU
    d) MERCEDES,EU

22. Which brands hold the big market share from Medium cargo transport trucks by vehicle type and source of country.

    a) ISUZU, JAPAN
    b) MITUSBISHI, JAPAN
    c) IVECO, EU
    d) Nissan Diesel, Japan

23. Which brands hold the big market share from light cargo transport trucks by vehicle type and source of country?

    a) ISUZU, JAPAN
    b) EICHER, India
    c) TATA, India
    d) Hyundai, Korea

24. If entry of foreigners to the transport sector is permitted, what, in your opinion, will be the benefit to the development of the sector?

    a) Knowledge transfer
    b) Capital transfer
    c) Technology transfer
    d) All

25. In your opinion what should one do to remain competitive in the transport/ automotive sector?

    a) Price competitiveness
    b) Customer satisfaction
    c) Good after sales service support
    d) All

26. What measures should the government do for the development of the sector?

a) Facilitate access to financing
b) More focus on road construction/ rehabilitation
c) Technical assistance to investors/operators in the sector
d) Improve the regulatory environment and bureaucratic systems

27. How do you rate the profitability of the sector compared to other sectors in the country?

a) Very good
b) Average
c) Poor

28. What are the problems with respect to spare parts to vehicles?

a) Quality
b) Price
c) Availability
d) All

29. Do you think there are adequate competent maintenance facilities in the country for periodic maintenance of vehicles?

a) Yes
b) No
c) Can't say

30. Are the existing maintenance facilities acknowledged/ approved by vendors/ manufacturers?

a) Yes
b) No
c) Can't say

31. Unlike the practice in most of the countries in the rest of world, there is no regulation of banning the import

of old used vehicles to the country. What impact do you think this has created to the operation in the sector?

a) Positive
b) Negative
c) Can't say

32. How do you rate the level of service given by the transport authority as a regulatory body?

a) Very good
b) Good
c) Poor

------- End ------------

Thank you for taking your precious time and completing the form.