

**ST. MARY'S UNIVERSITY COLLEGE  
BUSINESS FACULTY  
DEPARTMENT OF MANAGEMENT**

**FACTORS AFFECTING FLORICULTURE  
EXPORT ACTIVITIES IN LAFTO ROSES**

**BY  
TIGIST MELESE**

**JUNE 2010  
SMUC  
ADDIS ABABA**

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**A SENIOR ESSAY SUBMITTED TO THE  
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## **SUBMISSION APPROVAL SHEET**

This paper has been submitted for examination with my approval as an advisor.

**Name** \_\_\_\_\_

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**Date** \_\_\_\_\_

## **DECLARATION**

I, the undersigned, declare that this senior thesis is my original work, prepared under the guidance of Ato Terefe Feyera.

All sources of materials used for the manuscript have been duly acknowledged.

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Place of Submission: \_\_\_\_\_

Date of Submission: \_\_\_\_\_

# Appendix

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background**

Ethiopia is predominantly an agrarian economy. The long term Ethiopian economic development strategy is based on Agricultural development led industrialization (ADLI). This development strategy revolves around productivity improvement of small-holders: Agricultural and industrialization based on the utilization of domestic raw materials with labor intensive technology.

Agriculture as the main sector of the economy has 50% share in the GDP and 85% share in employment. Agriculture could be the starting point for initiating the structural transformation of the economy, as has been amply demonstrated in the economic policy (Ethiopian Foreign Trade, 2005)

In Ethiopia, there is a great potential for the expansion and diversification of horticulture exports. Ethiopia has a favorable climate, abundant land and labor. The country possesses highly positive characteristics for an export strategy. The country has a potential of 16.5 million hectare of land out of which only 5.6 million hectare is cultivated. Similarly out of the potential of 3.5 million irrigable lands which is suitable for horticulture production only 3% is cultivated (Sisay Habte, 2001: 40).

The country employs a market-oriented policy that aims to attract foreign investment in to the agricultural sector. The floriculture sector was open up for foreign direct investment. In this regard; foreign investors are exempted from customs duties and import tariffs on all capital equipment and up to 15% on spare parts. Furthermore, investment in exports are exempted from income taxes if at least 50% of the out put is indirectly exported for a period of no less than 5 years (EHEDA, 2005: 202).

Presently the country has development strategy for floriculture industry and even for agriculture. The strategy for the floricultural industry of the country is based on the requirements of the world major markets. One of the major problems in this industry is that the Ethiopian constitution declares public ownership of land. But in most competing countries buying and selling of land by individuals is permitted legally. The process and procedure in acquiring land is not well guaranteed and secured in Ethiopia.

However, in line with the dominant export commodities of the nation, now a day the newly introduced export commodities such as floriculture have shown promising results. Thus, the country should give due attention to those products by encouraging their production and export capacity. The main purpose of the study is to assess whether or not the overall activities of floriculture export in Ethiopia private investment are in accordance with the related international market and also to assess the relevance and sufficiency of floriculture export.

## **1.2 Statement of the problem**

In Ethiopia output and export are highly concentrated on agricultural commodities. The sector structure of exports also reveals heavy reliance of the country on raw agricultural products for about 80% of its total export earnings. Manufactured exports that are crucial for a rapid structural transformation of production are negligible and the country is one of the least industrialized countries in the world. (Export Promotion Agency, 2002)

Undiversified structure of the Export sector brings a problem of export instability, which can limit the import capacity of the country, since the country mainly depends on imported goods for industrialization process. This negatively affects the overall activity of the economy, which leads the country to negative trade balance. (EHPEA, 2008)

Floriculture export activities must also be undertaken correctly. Nowadays, most organizations are incurring a huge sum of money, employee salary and wages. However the problem in most organizations is the development and export sector has various constraints that limit the contribution to the national export diversification.

This research paper tries to investigate the problems like High cost of cargo transport, Lack of skilled management, financial problems (loans to finance operational and capital expense requirement), Shortage of water, pricing problem in relation to high season and low season.

### **1.3 Research Questions**

This paper evaluates the structure of floriculture export mechanism in Ethiopia private shareholders. In this connection, the paper also tried to answer the following basic questions.

1. What are the areas covered by floriculture export policy?
2. What method of Floriculture export does Lafto Roses Floriculture export use?
3. What are possible major challenges for the performance of floriculture in Lafto Roses export?
4. What does the export program of Lafto Roses Floriculture private investment look like?

### **1.4 Objective of the study**

#### **1.4.1 General Objectives**

To identify the problems of floriculture sector and suggest solutions, hence contributing to the development of the Ethiopian economy.

#### **1.4.2 Specific objective**

- To examine the relevance of coverage areas covered by floriculture export policy.
- To examine the export method of Ethiopian floriculture exporters.
- To investigate the challenges to the performance of floriculture in Lafto Roses.
- To examine the relevance and appropriateness of the export program of Lafto Roses floriculture Private Investment.

## **1.5 Significance of the study**

This study paper is expected to be as an input material both to the agency and Lafto Roses farm. Apart from this the study paper can serve as stepping stone for further studies related to the study title.

## **1.6 Scope of the study**

This study focuses on floriculture export especially in Ethiopian private shareholders. These are classified in the floriculture export program, manpower and custom sections. The scope of this paper is delimited to one farm which is located in Sebeta district namely Lafto Roses flower farm. This district is selected because this flower farm is not far from Addis Ababa. And then sufficient information has been obtained. The assessment covers the last five years because well data are being collected from flower farms of organizations and agency of floriculture.

## **1.7 Limitation of the study**

Model research papers conducted and availed in our library so far based on quantitative descriptions primarily. Moreover, a methodology of qualitative research implementation itself requires an expertise. As the student researcher is a beginner to a research carrier and to qualitative research in particular undependably this research has got its own limitation starting from its process up to the final out put.

## **1.8 Definition of terms or Operational Definitions**

**Floriculture:-** Cultivation of flowers: the growing of flowers as a crop

**Export:-** Product sold abroad: a product sold and transported to another country.

## **1.9. Research Design and Methodology**

### **1.9.1 Research Design**

Descriptive survey method has been implemented for the study. This design is chosen because of its favorable nature to deserve details ideas to all the organ that have direct or indirect relationship to the stated title. It is fully presented as of basically qualitative research.

### **1.9.2 Types of data collected**

In this study, both primary and secondary source of data were used in this research. Primary data is collected from agencies, employees and management bodies of the companies through interview. Secondary source of data were also used intensively.

### **1.9.3 Instruments (Methods) of data collection**

As instrument of data collection and interview check lists were used. Interview was held with managers of floriculture organization and agency. Data were collected from two individuals from the manager of Lafto Rose and from horticulture agency office using the checklists

### **1.9.4 Method of data Analysis**

For the analysis of the data descriptive qualitative method of analysis has been employed. Information collected from the company official and document retrieved from different sources were narrated and analyzed qualitatively. Attempts were made fully qualitatively. In addition to documents reviewed and presented in the second chapter, documents of

the Company related to the export activity of floriculture in general and that of Lafto Roses particular ware analyzed in the third chapter.

### **1.10 Organization of the paper**

This paper consists of four chapters. The first chapter deal with the introduction of the paper consists of Back ground of the study, Statement of the problem, Objective of the study, Scope, Research Design and Methodology. The second chapter consists of review of related literature both theoretically and empirically. This chapter briefly discusses floriculture export of the country, for international performance with a better look at other competitors' experience which shares relatively some attitude and market access. The third chapter focused on analysis of data and interpretations. Finally, the last chapter presents summary of major finding, conclusions and recommendations.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1 Introduction**

Exporting is an indispensable part of all international business. Whether the company market in one country or is a global marketer. A domestic good or service that is sold (export sale) abroad. Export includes government and non-government goods and services; however they exclude goods and services to the military, diplomatic, and consular institutions abroad. Export does include goods and services that were previously imported.

Export promotion and import substitution strategies of developing countries, export documentation, shipment and getting paid methods and factors affecting export pricing in international marketing will take first part of discussion. Following to these issues about developing floriculture export from Ethiopia will be discussed. Finally, major challenges of floriculture export and others that make export trade a difficult and complex task will also be discussed. (Ibid, 2007)

#### **2.2 Trade and development**

Many researchers agree and expansion of export facilitates economic growth. When the output of nations exportable commodity grow proportionally more than the output of its importable commodity at constant factor prices, then growth tends to lead to a greater than proportionate expansion given by different economists at different times.

Adam Smith's theory of international trade assumes that a previously isolated country about to enter in to the international are possess a surplus productive capacity above the requirements of domestic

consumption. Which trade the country is able to reallocate the given resources as to provide the new effective demand for the output of the surplus resources. Hence, a surplus productive capacity above the requirements of domestic consumption with trade the country is able to reallocate the given resources as to provide the new effective demand for the out of the surplus resources. Hence, a surplus productive capacity suitable for the export market appears as a costless means of acquiring imports and expanding domestic economic activity. (Frank , 2007:60)

### **2.2.1 Trade strategies for development**

The convenient way to approach the complex issues of appropriate trade policies for development is to these specific policies in the context of broader LDU strategy of out only word looking or in ward looking out ward looking policies encourage not only free trade but also free movement of capital workers enterprise and student's multinational enterprises and an open system communication. By contrast in ward looking development policies stress the need for LDCS in envelope their own style of development of manufacturing indigenous technologies appropriate to resource endowment.

According to the in ward looking strategy, greater self reliance can be accomplished only if you can restrict trade the movement of people ad communication and if you keep out multinational enterprises with its wrong product and wrong want stimulation and hence its wrong technology. With in the two broader philosophy approaches, at to development, a lively debate has carried out in the development literature since 1950. This debate continues between free trade economists advocates out ward looking export promotion and the protectionist, who are advocators of in ward oriented import substitution strategy. (Frank, 2007: 120)

### **2.2.2 Export promotion and import substitution strategies**

During 1950' and 1960' most developing nations made a deliberate attempt to industrialize rather than to specialize in the production of primary commodities. Having decided to industrialize, developing nations had to decide between out ward looking development policies, i.e. export promotion industrialization and in ward looking development policies, i.e. import substitution industrialization.

Out ward looking encourages not only free trade but also the free movement of capital, workers, enterprises, students and an open system of communications. Advocates of export promotion (EP) of both primary and manufactured goods site the efficiency and growth benefits of free trade and competition, the importance of substituting large world markets for narrow domestic markets the distorting price and cost effect of protection and tremendous successes of the east Asian export orient economies of south Korea, Singapore and Hong Kong. (Tondoro, 1990:198)

## **2.3 Export Procedures**

### **2.3.1 Export documentation**

A general expectation of exporters is that marketing and selling their goods internationally is more problematic than operating solely in the domestic market. Delivery generally takes longer and payment for the goods can also take more time. Companies need to ensure that prospective customers are of good standing, i.e. reliable payers, and that the payment can be received as quickly as possible. Prompt payment is often more crucial for the smaller firm. A good understanding of the

relevant export documents can also facilitate prompt shipment and payment.

Generally, preparation of documents can be handled routinely but their importance should not be minimized; incomplete or improperly prepared documents lead to delay in shipment. Export documents may seem a rather dry topic for study, but they perform a vital role in the link between the international marketer and the international customer. Some appreciation of what their role and purpose is complements the study of international marketing.

The documents are necessary for the movement of goods, for invoicing the customer, for receiving payment for the goods delivered and to satisfy the regulatory requirement of national governments. In addition to the 'basic' documentation the use of bonds and guarantees has become increasingly common in world trade. (Roger White, 1997:142)

### **2.3.2 Commercial documents**

#### **Commercial invoice**

When sending goods to a buyer the exporter completes a commercial invoice. This is a claim for payment for the goods under the terms of the commercial contract with the buyer. The invoice should include a detailed description of the goods along with unit prices, total weight and terms of payment, as well as packing details and shipping marks. When several packages are being sent in a single consignment the invoice is usually accompanied by a packing list to identify all the items in the shipment. (Robinah Sonko, 2005:50)

### **Pro Forma invoice**

This may be needed in advance if the importer has to get an allocation of foreign exchange or an import license.

### **Customs invoice**

Some countries require a separate customs invoice for imports over a certain value. Its purpose is to allow the authorities to check that no duty liable is being avoided by inaccurate pricing. Use of one may save delays.

### **Certified invoice**

This is simply a commercial invoice, which has a detailed statement as to the value and origin of the goods signed by the exporter.

## **2.3.3 Transport documents**

### **Bill of lading**

The maritime bill of lading has three important elements;

- It acts as evidence that there is a contract between either the exporter or importer and a shipping company to transport the goods by sea
- It is a receipt for goods shipped and provides certain details as to their condition when placed on board
- It is a document of title which means the company named on the document has the right to possess the goods. A transfer of title on the bill acts as a transfer of ownership. This element of a bill is vital to the payment arrangements for the goods.

A clean bill of lading is one, which has no superimposed clause or statement declaring some defect in the condition of the exported goods or the packaging, or some other aspect of the consignment. (Ibid: 62)

A 'received for shipment' bill of lading confirms that the shipping company has the goods in custody for shipment. Due to the dominance of containerized transport, it is common for the goods to be loaded at the factory into a container provided by the shipping company. If the shipment is less than a full container load, it is sent to an inland clearance depot to be packed into a container with other goods for the same destination. The container will be transported by road or rail to the port where the received for shipment bill can be converted into a shipped bill, by an endorsement from the carrier when the goods have been loaded aboard ship. (International trade center, 1979: 48)

### **Railway consignment notes**

These are used for international transport by rail to an overseas destination. They are not documents of title and are not negotiable. Air way bill valuable or urgent, for example, perishable goods are often moved by air freight. This document is used but is non-negotiable.

### **Certificates**

A certificate of origin is sometimes required by the importing country's authorities to prove that the goods originate from a particular country. This may be necessary for the buyer to claim preferential import duty.

Certificates of health, quality or inspection may also be required by the international buyer or the customs authorities.

Blacklist certificate provide evidence that the goods did not originate in, nor were transported via, blacklisted countries. This applies to situations where normal trading relations between two countries have deteriorated due to the political context. This restriction can also apply to any vessel registered in a blacklisted country, or which itself is blacklisted. (Ibid: 92) (Syed Azhar Ibne Hasan, 2001: 170)

## **2.4 Methods of payment**

### **Advance payment**

From the exporter's point of view the best method of payment is to receive the funds in advance. Cash with order (CWO) avoids any risk on orders with new buyers with whom the exporters have little or no knowledge. Payment may even be requested before production begins. In reality this is a rarely used method, as it means a buyer extending credit to the producer, which is a reversal of normal trade practices.

An alternative form of this approach is cash on delivery (COD) whereby the goods are delivered, perhaps by courier or haulier depending on the size of the order, and payment is made before the goods are released. (Syed Azhar Ibne Hasan, 2001: 170)

### **Open account**

While advance payment offers the greatest security to the seller, open account is at the other extreme, providing the least security. In this method, the goods and the appropriate documentation are sent to the buyer, who has agreed to pay within a certain number of days (as specified on the invoice) from the date of the invoice. This is usually a maximum period of 180 days but could be 30, 60 or 90 days. The buyer will remit the money to the exporter by an agreed method. Clearly this method depends on a degree of trust between the buyer and the seller. They will respect each other's business integrity, probably through a lengthy period of trading.

A variation of open account is consignment account, where an exporter supplies and international customer in order that stocks are built up in large enough quantities to cover continual demand. The exporter retains

ownership of the goods until they are sold, or for an agreed period. After which the buyer remits the price to the seller. (Ibid, 184)

### **Bills of exchange**

An exporter can send a bill of exchange for the value of the invoice of goods for export, through the banking system for payment by an overseas buyer on presentation. A bill of exchange is legally defined as 'an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to which it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money, to, or to the order of , a specified person, or to bearer'. The bill is in effect similar to a cheque/check, which is drawn, or an international buyer or even a third party as designated in the export contract, for the sum agreed as settlement. (Ibid, 202)

There are different types of bills of exchange. The sight draft is made out payable on demand when it is first presented to the purchaser. If the bill is to be paid at a fixed date or a determinable future date then it is called a term draft because the buyer is receiving a period of credit. In both cases the buyer indicates an acceptance to pay by writing an acceptance across the face of the bill.

By using a bill of exchange in conjunction with the shipping documents, the exporter is given a greater degree of control over the goods. This is because until the bill is paid or reaccepted by the buyer, the bank will not normally release the shipping documents, so the buyer is unable to take delivery of the goods.

The detailed use of bills of exchange is as follows. The exporter can pass a bill of exchange to a local (domestic) bank. This bank sends the bill to its international branch or to a corresponding bank in the buyer's

country. This bank is known as the collecting bank who then presents the bill to the customer for immediate payment if it is a sight draft or for acceptance if it is a term draft. This procedure is known as clean bill collection because there are no shipping documents required.

An alternative to this method is the documentary collection method of payment. In this case, the shipping documents are sent through the banking system with the bill of exchange including the document of title to the goods (a bill of lading). The international bank then releases the documents on payment or acceptance of the bill of exchange by the international customer.

It is also possible for an exporter to use the banking system for cash against documents (CAD) collection. In this case the shipping documents are sent to the bank, which only release them once the exporter has confirmed that payment has been received.

In addition, the exporter can send all the documentation directly to the international buyer's bank, which is known as direct collection. However, this is a little less secure than using the services of the domestic bank if something goes wrong with the process, for example, if the goods are delayed resulting in the buyer refusing to pay. The domestic bank will be able to assist the exporter with, for example, warehousing and /or reshipment. For the smaller exporter, having another organization on 'your side' may prove invaluable in difficulty circumstances. (Floriculture market, June 8, 2006)

In all methods of payment using a bill of exchange outlined above, a promissory note can be used as an alternative. This is issued by a buyer who promises to pay supplier a certain amount of money within a specified time.

### **Documentary letter of credit**

While the documentary bill collection previously discussed provides some degree of security to the buyer and seller an even more secure method is to conduct the transaction by a documentary letter of credit. This document is sent usually via a domestic bank in the exporter's country, and is the means by which the exporter is paid.

The documents must be correctly completed and presented to a bank by the expiry date of the credit. If the terms of the credit are met, an exporter can receive payment from a domestic bank. The buyer is effectively providing the exporter with immediate payment, in return for a guarantee from a bank that the export documents required to deliver the goods have been completed to the bank's satisfaction.

### **Remitting the money**

Most banks will offer a range of services to help the exporter receive payment from international customers, whether they are dealing on open account terms or using the security provide by documentary services. Most will offer electronic payments, foreign currency accounts, or electronic banking via a PC in the expor4ter office. Facilities such as SWIFT (Society for Worldwide Inter bank Financial Telecommunications) allows leading banks around the world to process billions of electronic payment messages each year.

Individual banks brand their own particular system but essentially the same basic technical service is being offered, for example, the bank of Scotland has TAPS (Transcontinental Automated Payment Serve) which is relevant for remitters wishing to pay low value, high volume repeat payments such as pensions, salaries, magazine subscriptions, and insurance premiums. In the technically complex area of documentary services the bank provides services such as advising, negotiation and

confirming letters of credit, and providing discounting and collection services. In payment services the bank has paper systems via international drafts and electronic system via corporate HOBS, a home banking system for business. (Andrew Mcauley. 2001:.212-221)

## **2.5 Factors affecting export pricing in international marketing**

The important factors affecting international export pricing policy decisions are:-

**Cost of production:** - Mainly refers to the investment cost for production which must usually be planned well in advance using forecasting methods during planning uses before actual production is started which still has fluctuations in values that is actually retrieved from actual production when compared to estimated production in advance.

**Demand:** - Is affected if the market is not studied properly by means of proper marketing research methods and exploration of market survey methods.

**Competition:-** A manufacturing company must be analyzed and always be monitored at finger tips in terms of product, quality, value with respect to core competitors using investigation methods and make comparisons in all forms including packaging methods, export value in Global market quoted as price for the product, etc and try to out beat every competitor coming across with best quality product in least time with tremendous chase to achieve maximum profit and reputation oriented targets in International levels.

**Product differentiation:** - If products are differentiated and they have built up a brand image themselves; Manufacturers are in a position to charge comparatively higher prices. BRAND is very important in every business market for company recognition of its product. But until the BRAND is established very well in international markets, it is safe to keep the cost of product at a medium level which is acceptable and will give profit returns for the firm focusing on selling the product with best quality, But if manufacturers charge higher prices right from the start for BRAND of the product in international markets, then it's risk for the exporter venturing at such markets. Other factors to be taken into consideration for product are packing, labeling, marking, transportation and distribution costs.

**Exchange:** - many exporters try to focus on the value of what amount will be obtained as profits in terms of foreign exchange conversion when they see certain currencies like Pound sterling, Euro, U.S. dollar, etc and blindly try to venture directly into these countries which have these native currencies for overseas exports and suffer. They suffer because always foreign exchange factors can't be considered as a profit oriented items for business, firstly, our products made must be saleable in the international market and for which we have to identify the buyers who will find our products useful for them and try to start negotiation and issue quotation for commodity exchange for foreign exchange with best quality.

Market characteristics such as demand trends, consumer income levels and importance of the product to the consumer are highly essential for Global markets. Demand is a very important issue. In marketing for the product to be saleable which must be always high to generate profits otherwise business suffers. Also the product of the exporter must be recognized well and must definitely be useful for the consumer, only then

he will be interested in buying the product. Apart from all these, the consumer must have good revenue of income generated from his business so that he can afford comfortably and pay for the product. It is safe to keep an eye on the customer and analyze him many times about his. Usefulness on the above mentioned factors, otherwise business suffers.

**Trade Margins:** - The belt of import and export must always be monitored and deviations must be checked to mark a balance and avoid trade offs in International business transactions.

**Image:** - The quality of the product must be noteworthy, remarkable with no complaints ensuing 100% customer satisfaction and must take care during packaging with a good finish and transportation without any delay either in sea or air.

Government factors namely regulation of margins, floor price, subsidies, and tax concession must be taken into account for export pricing.

After sales service including ensuring supply of spare parts and components after warranty period. (Floriculture market, June 13, 2006)

## **2.6 Current status for export activity of floriculture in Ethiopia**

The introduction of free market economy has attracted private sectors to competitive market economy. The new market economy launched to regional states as a policy by the federal government.

The new competitive market economy encourages private investors to participate in the promotion and development sub-sector. Our country entered the world floriculture market without introduction of necessary

and adequate modern technologies, facilities and manpower. It is hardly to day there was proper and efficient matching of production and marketing activities. Absence of efficient management and supervision, shortfalls made at trial and adaptation stages of species, above all missing the engine role of the private sector together with the aforementioned reasons brought about unsatisfactory results. Even though some experiences gained in the past twenty years, the contribution of the industry to the country's growth has been insignificant when measured from the time series view point of long period elapsed. (Ethiopia customs authority, 1999/2000 yearly reports on export)

Decline both in land dedicated and product on, fluctuation in land productivity were characteristic features of Ethiopian floriculture industry. With regard to developments since 1992, no basic upturn has been circumvented until recently despite changes and policy reform measures taken by the government. Before 1999, there were only two private producers and two long-established state owned enterprises operating in floriculture industry.

Most recently, more number of flower projects is springing up particularly in highland rose production and export investment activities. Rose flower production fillips the booming future prospects of Ethiopia's floriculture industry. But it should be noticed that the country's floriculture industry is still at the nascent stage. (Sisay Habte, 2001: 8-9)

### **2.6.1 Export licensing and procedures**

The opening of a business in Ethiopia requires a compulsory registration prior to holding a business license. However, principle registration takes place only once, regardless of undertaking different commercial activities.

The export trade business that requires registration and licensing by the Federal Ministry of Trade and Industry can be carried out through the formation of different types of business organizations such as sole Trader, Partnership, Share Company, Private Limited Company, Public enterprise and Cooperative societies. (Contract guide 2002: May 2002)

### **Registration procedure**

In the registration process, all of the required documentation and application forms should be signed by the persons who subscribe to the declaration and be submitted to the ministry of trade and industry for verification and approval.

When this is done, the documents are sent to the Ministry of justice for certification and then to the ministry of information for public announcement of the business formation in the national newspapers. Upon the completion of this, the ministry of trade and industry will issue the principal registration certificate. (Ibid, 2002)

### **2.6.2 Export licensing procedure**

Having registered, an application for export license should be submitted to the ministry of trade and industry who in turn issues the export license. The documents required for the issuance of an export license are application in two copies, the principal registration certificate, passport size photograph, an investment permit and residence permit if there is partnership, and memorandum and articles of association or contract of partnership.

The export license covers duration of twelve months, As the end of duration, the license has to be renewed not later than two months into the next fiscal year as is in accordance with Ethiopian Law.

(Ethiopian Horticulture industry eyeing DFC to expand export base, May 2007)

### **Export procedures**

Once an exporting company is legally established, the various procedures that is regularly needs to follow in order to make exports are the following.

Order acknowledgement to the buyer

This involves the production of internal instructions by the exporter on the works, production and preparation of the goods for export order. (Ibid, 2007)

### **Finalization of export contract**

Finalize the export contract stipulating the method of payment for the export consignment, and submit a copy to the respective commercial Bank by any of such methods as hand delivery, fax telex or post. Commercial Banks require six copies of letter of credit, and five copies of advance payment, cash against documents, and consignment note each. (Ibid, 2007)

### **Application to export**

Register the export order with a commercial bank who will in turn issue the export permit for the particular consignment. All sorts of exports except coffee have to be registered with any of the Commercial Banks, only the registration for coffee remains at the National bank of Ethiopia.

### **Registration of export consignment**

Fill in the customs declaration annex form issued by the commercial bank and submit to the international/foreign business department of the bank.

### **Application for quality testing and certification**

When export products are ready, make arrangements for suitable packaging and apply to the quality and standards authority of Ethiopia for quality testing, and acquire the export authorization certificate.

### **2.6.3 Compliance with movement requirements**

#### **Compliance with rules of origin**

Fill in the certificate of origin issued by the Ethiopian or the Dire Dawa Chambers of commerce in order to qualify under the preferential tariff treatments.

#### **Compliance with Tariff schemes**

Fill in the special movement forms or certificates issued by the customs authority. Currently, the special movement certificates include the EURI movement certificate that is required by the European Union countries, and the form a for the generalized system of preferences-GSP form a require by its member countries. (Ethiopia customs authority, 1999/2000, Yearly report)

#### **Insurance of export cargo**

Insure the export cargo and acquire the insurance certificate or policy document issued by an insurance company.

#### **Customs Declaration**

To avoid costly delays, the exporter declares all facts about the export consignment, and all supporting original documents should be forwarded to the customs clearing agents to enable customs formalities and authorization of the dispatch of the export goods. Accordingly, the exporter must hand over the export permit, the copy of the customs declaration annex form, the Ethiopian customs declaration form, the certificate of origin, and the special movement forms/certificates (the

EURI movement certificate and the GSP form A) to the clearing agents.  
(Ibid)

### **Movement of export cargo**

To facilitate the movement of goods, transport document should be acquired from the respective carrier. Although the type of transport documents depends on the mode of transport, the documents should be completed and signed by the carrier or its representatives.

(Ibid, 2000)

#### **2.6.4 Incentives for exporters**

Exemptions from customs duties for other taxes levied on imports and granted for raw materials necessary for the production of export goods. In accordance with the proclamation No.249/2001, three duty incentive schemes are available for exporters. They are duty Draw-Back Scheme, voucher Scheme and Bonded manufacturing warehouse scheme. Taxes and duties paid on raw materials are drawn back at the time of export of finished products. The duty draw back scheme applies to all taxes at the time of importation, and those paid on local purchases. (Ethiopia customs authority, 1999/2000, Yearly Reports on export)

#### **Exemption from payment of export customs duties**

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

#### **Income Tax Holiday**

Any income derived from and approved new manufacturing and agro-industry investment or investment made in agriculture shall be exempted from the payment of income tax for the periods depicted in the following table, depending . Upon the area of investment, the volume of export, and the location in which the investment is undertaken. (Ibid, 2000)

Profit tax holiday is granted subject to council of ministers Regulation No.84/2003 issued on the basis of the investment proclamation No. 280/2002 as follows:

Table 1: areas and period of tax exemption

<b>Areas and periods of Tax Exemption</b>		
Conditions for Profit Tax Eligibility	Profit tax exemption	Profit tax exemption for investments made in underdeveloped regions
An investor engaged In a new manufacturing or agro-industry activity:		
If he exports at least 50% of its products, to an investor, as an input for the production of export items	5 years	6 years
If he supplies at least 75% of its products, to an investor, as an input for the production of export items	5	6
If it exports less than 50% of its products	2	3

Source: Ethiopian investment commission

## **2.7 Export pricing policy and procedures**

### **2.7.1 Pricing consideration**

- At what price should the firm sell its product in the foreign market?
- Does the foreign price reflect the product's quality?
- Is the price competitive?
- Should the firm pursue market penetration or market-skimming pricing objectives abroad?
- What type of discount (trade, cash, quantity) and allowances (advertising, trade-off) should the firm offer its foreign customers?
- Should prices differ with market segment?
- What should the firm do about product line pricing?
- What pricing options are available if the firm's costs increase or decrease? Is the demand in the foreign market elastic or inelastic?
- Are the prices going to be viewed by the foreign government as reasonable or exploitative?
- Do the foreign country's dumping laws pose a problem?

As in the domestic market, the price at which a product or service is sold directly determines a firm's revenues. It is essential that a firm's market research include an evaluation of all of the variables that may affect the price range for the product or service. If a firm's price is too high, the product or service will not sell. If the price is too low export activities may not be sufficiently profitable or may create a net loss.

The traditional components for determining proper pricing are costs, market demand and competition, these categories are the same for domestic and foreign sales and must be evaluated in view of the firm's objective in entering the foreign market. An analysis of each component

from an export perspective may result in export prices that are different from domestic prices. (International Trade Center, 1997:10)

### **Pricing summary**

- Determine the objective in the foreign market
- Compute the actual cost of the export product.
- Compute the final consumer price.
- Evaluate market demand and competition.
- Consider modifying the product to reduce the export price.

(Ibid, 1997)

### **2.7.2 Packing and shipping**

If a shipment is for local delivery, cut flowers are left in containers of solution, loaded on delivery trucks, and then delivered to local wholesalers, central distribution points or directly to retail customers. Shipment in water over long distances, such as from California or Florida to Chicago, is not usually done; however, it may be used with certain types of crops.

For long-distance shipment, tied bunches of flowers, generally 10, 20 or 25 stems bound with an elastic band, are removed from their containers and packed dry in large shipping boxes lined with newspapers and with newspaper sheets between the layers of flowers. To prevent bruising of the flowers during shipment, some bunches may be sleeved in paper or plastic prior to packing in boxes. Some larger flowers that might have their petals become tangled (e.g., Fuji mums) may be individually sleeved or have a plastic mesh protector over the flower head. Roses are generally provided a heavier plastic protector to avoid possible thorn punctures of the flowers and upper leaves, and they are packed with chopped ice inside the box, with the roses protected from direct contact with the ice,

to keep them as cool as possible. Protrade competence in international trade, September 1996)

The flower shipping boxes are very strong and offer good protection against possible crushing from the top, bottom and ends. The long sides are inherently softer, such that after packing the flowers, one or two braces will be added. These further strengthen the box, plus they hold the flower stems against shifting during handling and transit. Some special boxes are also used for certain flowers, such as the long and narrow “hamper” for long –stemmed gladiolus. The box design helps in shipping these flowers, which must be kept upright to prevent stem curving in response to gravity. Also, most foliage boxes are usually fully waxed and lined with plastic film to keep the internal humidity near 100%.

Shipping flowers “dry pack” may appear very stressing and detrimental to full flower display longevity, but the partial water loss is not directly harmful if it is not too extreme (high humidity maintained) and the temperature is low enough (flower metabolism slowed). In fact, slightly wilted flowers are less likely to suffer bruising and breakage in transit compared to the crisp, brittle, fully hydrated flowers shipped in water. (Ibid, 1996)

Once packed in boxes, the flowers are pre-cooled before loading onto carriers. The shipment boxes generally have holes at the end sides that can be punched open. If pre-cooling is to be done, care must be used in packing so that these openings are clear of obstructing to allow cool air to circulate thorough the boxes. For approximately one-half hour, cool air is gently forced through the vents to lower the temperature in the boxes. If the boxes are loaded with out pre-cooling, the refrigeration unit of the truck may not be able to properly cooling individual boxes.

Once packed and conditioned, boxes of flowers are loaded onto refrigerated trucks for shipment, either continuing their journey on the truck to another distribution point such as an airport or a wholesaler, or as a direct delivery to a retail florist outlet.

Flowers that are being shipped by air will be delivered to the cargo area of an airline at an airport, unloaded and then loaded into the cargo area of the plane. Once they arrive at their destination airport they will be unloaded to a cargo holding area, reloaded into another truck, and then delivered to a wholesaler or retailer. The expense of air shipments, plus other factors, often makes it less attractive than truck shipments. The main advantage to air transport is its speed. Flowers sent by air can arrive many times faster than those sent by truck. In some instance, such as flowers being sent to the U.S. form Europe or the Far East, air transport is the only logical shipment method.

## **CHAPTER THREE**

### **Data PRESENTATION, ANALYSIS AND INTERPRETATION**

This part of the study concentrates on presentation, analysis and interpretation of the collected data's. Interview was made with different parties including Ethiopian Export Promotion Development and Ethiopian promotion department to obtain over all information about floriculture and the level of the government's effort to promote investment on floriculture. The following points are narrated from their discussions from the internal records.

#### **3.1 Interview Analysis from the cut exporter Lafto Roses**

The general manager of Lafto Roses flower Company was asked to explain who the company is engaged in such activity and when it started on operation. To this end, the manager said that the company chooses to engage in cut flower industries due to the benefit of the factory interms of different perspectives like social, economical and organizations benefits. It is creating employment, opportunity generating foreign currency to the country and generating profit to the company. With these objectives in mind the company started exporting of its product at the end of 2008.

- The manager was also asked the techniques that the company is using to locate international customers and the target countries of the company. In connection to this he explained that the techniques of locating international customers are through agent relationship and direct internet marketing procedure the most dominant targeted countries of the product are mostly Europe countries.

- Concerning the challenges that the company faces in exporting its cut flowers the manager was asked and explained that there are different problems that relate both to internal and international problems that relate to financial capacity and market availability etc.
- The other question asked was whether the government provides adequate incentives and promote the export sector.
- According to him the government renders different incentives to the sector in terms of promoting and broadcasting the industry role both to the national and organizational benefit and providing different financial and capital incentives to the participants
- In addition to the challenges it is facing the major problems of the company according to the manager are related with problems in cargo delayments, availability of profitable markets and shortage of foreign currency to import different inputs that serve for the productivity of the Factory.

### **3.1.1 Interview analysis from the Horticulture Agency**

The horticulture agency director was asked about the contribution of Ethiopian government to enhance the economic sector according to him the government helps different contributions like free tax material import preparing a targeted policies and strategies that promote the economic sector this implies that the economic sector has a positive acceptance by the government.

The other question of the research is targets to identify the main problems that are associated with the export market based on the director's response of the director the main problems are cargo delayment lack of market integration with foreign customers and the related ones this indicates the economic sector needs to promote advertisement internationally to get its potential customer.

Quotation related to the contribution of the sector to economic sector was also asked to the director. The director response cut flower industry is a cash crop export product that generates a high amount of foreign currency next to coffee in the country this implies that the sector may be a dominant export item and needs a special attention both by the government and producers.

The director of was also asked concerning to the relationship of over sea buyers and the director says the oversea customers mainly conceres on the quality product and color attractiveness of the flowers based on the over sea customer relation ship has depend on the stated concept which implies the industry needs to produce quality and color attractive flowers.

According to the Agency director the floriculture export policy includes the financial, economical and social consideration on the perspectives of environmental protection, foreign currency generation and export promotion strategies.

The other question for the director is that the relationship of the agency with financial institution according to the director the agency has smooth relationship with different financial institutions which implies the existed problem is lack of capital with in the institutions not the relationship.

What is the factor to the key success of the industry is also another question for the director. Based on his response the elements for the key success of the industry are governmental policies and strategies, natural climatic condition of the country and the effectiveness of the factories employees and management bodies which implies this the economic sector have a favorable condition to invest in the country.

The other question for the director is the existence of potential man power and capital according to the respondent idea the sector have well potential man power and capital which implies the factory did not have great problem in the man power an capital.

## **3.2 Analysis of secondary document**

### **3.2.1. Lafto Roses Flower Farm Land Holding and its acquisition process**

This study is conducted at Lafto Roses flower Farm which is located near Sebeta town 26 km away from Addis Ababa. Even though a number of inputs are used in the production of flower in this farm, land and labor are selected based on the principle of the most limiting resource, given provided that other factors are assumed constant. The farm leased and rented about 10.3 hectare of land from government and farmers. About 7 hectare of land is by now operational to produce different varieties of rose and few other species of flower under greenhouse. The rest is still under construction. Most of the unskilled workers are from the near by Sebeta town and rural villages. Lafto Roses produces the cut – flowers only for export market.

The land acquisition of previously under government holding was based on lease with annual lease charge of Birr 135 per hectare for the lease-holding period of 30 years.

The rest three hectares of land of Lafto Roses farm was acquired directly from the farmers on the five years contract basis with a little more than the prevailing rental rate of the local land.

### **3.3.2. Production and Export Profile of the Farm**

Lafto roses Flower farm started exporting of its products at the end of 2008. Since only promotional and small-scale marketing had been done during the first three months (Nov., 2008 Dec., 2008 and Jan., 2009), the data about its production, export volume, land used and labor user was collected for the months from Feb., 2008-May, 2009

Lafto Roses produces only few variety of rose with limited human and physical capital along with in experienced workers that makes it less competitive compared to most Kenyan flower exporters.

The major marketing strategy of Lafto Roses is diversification of market destinations and shift from auction centers to wholesalers and supermarket owners. During the last two years, great achievement is being scored in diversifying market destinations as indicated in table 2 below.

Table 2 Market destinations of Lafto Roses flower farm in 2008-2009

Year	Netherlands	Germany	Israel	Russia	UK	Others
2008	43%	38%	12%	-	2%	5%
2009	33%	23%	21%	11%	5%	7%

Source documents of the factory

In the year 2008, the sale was much concentrated in the Netherlands and Germany auction markets. But in the year 2009, the farm was able to diversify its sales to some more countries.

### **3.2.3 The Effect of change in Exchange Rates**

In Lafto Roses the major flower sales through Germany and the Netherlands auction centers involve three currencies from sale to transfer of net revenue to the company. These are Euro, USD and Ethiopian Birr. A change in exchange rates relationship among these currencies affects the amount of sales value in Birr terms. At the end of the whole transaction, and thus the company faces high risk in this regard.

Table 3 Exchange Rate of Euro and birr in USD

Currency	2008 USD	2009 USD
Euro	1,2812	1,2922
Birr	0.1153	0.1149

Source: National Bank of Ethiopia Report, 2009

As it is clearly seen on table 3.6 Euro is appreciating against USD over the Production period of Lafto Roses which benefited the farm. The depreciating trend of Ethiopian Birr against USD is also improving the benefit from sales in European currency.

### **3.2.4. Marketing Strategy and Selling Method**

Lafto Roses uses mainly direct selling method through auction centers and supermarkets. Some part of its product is sold to European wholesalers. The selling price at auction center is relatively cheaper than the supermarkets offer. But they both demand high quality flowers and

constant supply at a particular date. In addition, wholesales and supermarket owners demand wide ranges of products as well.

### **3.3.5 The Role of development Bank of Ethiopia to the cut flowers exporting sector**

The contribution of the development of Ethiopia to the cut flower production sub sector through its loan provision has been said preparedly about the natural end mental of Ethiopia with sub suitable agro-clement and water resources for the development flower production however natural substitute is not sufficient for the adequate modern technologies is very importunate for boosting the sector.

Most recently more numbers of flower product is springing particularly in Rose production investment and Export activities. The development part of Ethiopia has also allocated a substantial amount finance or investor who would be engaged in the sector for export and can apply loans for up to 70% of their investment since most of them have Owen capital equerry deficiency to meet relativity huge investment required in modern production per post harvests handling techniques. The bank also provides loans for the expansion purpose with the debit equity ration requirement of 60-40. Hence, the development bank of Ethiopia play major role in the cut flower production to grow with quality and have the competitiveness in the international trade

The development bank of Ethiopia benefited from the sector since the cut flower production is un exported earnings as result, better requirement achievement can be made.

### **3.3 Problems of Export of Lafto Roses**

Export success in floriculture export industry is highly dependent on the quality cost and, supply of the flowers. Flowers are supplied to the European market from Africa, South America, Asia and Europe. This reminds that there is a high competition in flower export industry, which makes constant supply of quality flowers a necessity. Several factors are important for the supply of quality flower from Ethiopia to the European market continuously and there are several problems encountered so far.

#### **3.3.1 INTERNAL PROBLEMS**

The main factors for the production of quality flower are choosing the land (when choosing the land when we need to consider the soil type slope of the land temperature altitude, labor availability and proximity to airport), capital equipment and supply of chemicals.

#### **3.3.2 INTRA INDUSTRY PROBLEMS**

The main intra-industry problem of the Lafto Roses is lack of finance. The flower export industry is a very expensive industry which requires a minimum of 10,000 USD for the implementation of a farm in one hectare with all the necessary facilities and the necessary man power.

Constant supervision and management of a farm is important for the production of good quality flowers. There is lack of management and sectoral supervision for the Lafto Roses. The back track of the sectoral supervision is due to shortage of personnel such as Technical supervisors, Green house supervisors and chief post scout, etc.

The other problem of Lafto Roses associated with the operational industries that there is limited resource commitment for the research

and development. There are so many farms with organized research and development division. Research and development is very important for the flower growers.

Modern harvesting and production and post harvest handling technologies are a must for the supply of fresh quality flowers constantly. The lack of these technologies in the Lafto Roses is also one of the intra-industry problems of the export industry.

### **3.4 Policy Induced Problems**

Internal policy related constraints have also played their part for the low development of the export sector. It has been two decades since the flower industry had been introduced and it is just recently that the flower industry is gaining attention. There was a strong anti-export bias in the incentive structure of the trade policy in the derg regime. The direct taxation and over valued exchange rate acted as disincentive to the product of tradable product, Thus trade policies encouraged imports while discouraging exports.

But after the fall of the derg regime there was a complete change towards the policy of trade. The trade policy is more of outward oriented and based on expansion of the trade base i.e. tradable commodities. Many private investors are joining the flower export industry which was impossible in the previous regime.

Even though the existing trade policy is very different from the previous focusing on improving export earning there is a problem of regularity and implementation procedure impediments.

### **3.5 EXTERNAL PROBLEMS**

Since the major customers for the primary commodities of underdeveloped countries are the industrially developed countries, the performance of the export sector of less development countries is affected in part by factors beyond their control (World Bank, 1972).

One of such factors which refer to the demand side problem to the primary exports from the developing countries is export price. Price of export is an external factor affecting the value and volume exports of a country. Attractive price for the export of commodities would encourage products to increase in volume or supply to the world market.

The major flower exporting nations to the world market are Netherlands, Colombia, Ecuador, Kenya and Spain. Flowers are marketed in the international market through direct sales and auction sales. Direct sales are undertaken through negotiation between the farm and a wholesale importer

In Europe the auction sale is undertaken once in a month in Dutch where all the exporters and importers meet to negotiate in the price of sale of flowers.

African Countries have been more inclined to sell via the auction system. Since the Lafto Roses exporter cover much less than a percent of the world demand their power in price negotiation is negligible. They are forced to export by the auction price.

Major flower sales days in Europe are new year, valentines day, Easter, May 1<sup>st</sup> Mother's day, Graduation season (June), All saints day (Now) and Christmas.

### **3.6 Main Problems of the Cut Flower Industry in Lafto Roses**

#### **A. Government and Infrastructure**

While the government of Ethiopia is working to make it self attractive to foreign as well as local investors, the efforts are not consistent. On a basic level, road infrastructure is poor beyond the capital of Addis Ababa, making travel and transportation with the country challenging at best. On a policy level, agriculture credit for flower production is inaccessible to small-holders. There is a sever lack of agriculture sector planning in relation to the flower industry, which means policy analyses does not touch the sector.

Most of the flower farmers are found a little bit away from the main high ways. Due to absent of all weather roads that lead from the farms to the main asphalt they face challenges of transportation. Lafto roses flower farm, a flowers, top flower and Ethio-plants complain about problems they face especially during the rainy seasons.

#### **B. shortage of capital and poor banking systems**

Successful establishment of a viable cut flower operation requires a high initial capital flow and commitment for a number of years before returns are realistic. In recent times, rulings by the Australian Tax Office have required growers to demonstrate more clear the last time for a particular crop to become viable. Ethiopia as one of the poorest nations around the globe and it is obvious that lack of capital is one of the main problems that hinder the growth of the economy as a

whole. Particularly for Lafto Roses like the newly introduced once like cut flower they are capital intensive and need a huge amount of money for the start of the business.

### **C. Cargo bottlenecks.**

Currently, there is no contingency plan to handle the risks of insufficient cargo freight capacity, nor a master plan to assure that high volumes of cut flowers can be exported on a daily basis as well as during peak holiday periods. The airport in Addis Ababa suffers from inefficient infrastructure, shipments can be delayed by bureaucratic export paperwork and cold storage facilities at the airport are insufficient if flights are cancelled.

Air transport is vital in flower exportation. Flowers are easily perishable products that need the fastest transport possible to reach to their destinations.

Ethiopian air lines has only one cargo plane that gives series for exporting flowers. Delay during transportation decrease the quality of flowers and brings disappointment of customers that distribute flowers in Europe and the Middle East.

Other than the above mentioned problems a lot of miscellaneous problems like the customs authority old-ways of transportation, shortage of suppliers of different materials used in the production and building of the green house, shortage of land etc are also problems that can be mentioned as difficulties in the sector.

### **D. Shortage of chemicals and fertilizers.**

Flower industries use the state of art of the modern agricultural technology using chemicals and fertilizers is one and mandatory for producing qualitative and competitive products in the world

market. Lafto Roses say that there is only one company called Azrom that supplies chemicals and fertilizers for the flower farms however it cannot satisfy the demand of all the farms. They have asked for other supplier companies to supply them with specific chemicals and fertilizers they need but they could not supply with the right time and quality.

### **E. Flower packaging problems.**

The less quality of the packages available here decrease the overall quality of flowers to be exported. Moreover, their weight also affects the transportation cost of the exported flowers that minimizes the competitiveness abroad where others use the lightest possible packages that minimizes transport costs and increase price competitiveness. In addition to this the shortage of the packages and their expensive price is one which hinders the development of the industry by decreasing the competitiveness of the products.

## **3.7 Current Constraints Facing Lafto Roses Floriculture Exports**

Over the past five years considerable progress has been made in creating an enabling environment to facilitate horticulture sector export expansion with the government, the private sector, and, particularly the recently formed Ethiopia Horticulture Producers and Exporters Association (EHPEA) and the Ethio-Horti Share Company (EHSC), as well as donors each playing a major role. Nevertheless, substantial, technical, institutional and marketing constraints still remain here under.

- Lack of modern technology in production and marketing system.

- Inadequate cold chain infrastructure and post-harvesting handling practices:
- Shortage of skilled and competent manpower, and training.
- Cost and availability of agrochemical inputs.
- Low level of research and development.
- Lack of suitable packaging.
- Limited air freight availability and cost; weak entrepreneurial skills; availability of finance.
- Logistical and infrastructure constraints.
- Lack of access to planting materials.
- Limited technical and marketing expertise and knowledge; compliance with regulatory and trade regulations, access to market information; and a lack of critical export mass [EHPEA, 2005].

### **3.8 Responsibility of the Ethiopian Export Promotion Department**

It is accountable to the Ministry of Trade and Industry and has a board of Directors designated from the public and private sectors.

Based on interview exchange and EEPD's documentation and internal records EEPD Serves as:-

- Promote Ethiopian exports on international markets;
- Provide professional support (hands-on technical assistance) and training to exporters in line with the country's strategy;
- Create strong networks among support institutions, service providers and exporting companies;
- Provide subcontracting and other joint venture arrangements;
- Assist exporters in organization of and participation in regional

and international trade fairs and exhibitions;

- Conduct supply studies and assist exporters in product development and adaptation;
- Conduct market research, identification and development of new export markets;
- Collect, analyze and disseminate trade related information to the business community and provide inquiry reply and consultancy services;
- Link up Ethiopian exporters with foreign buyers;
- Encourage the existence of coordinated and efficient working arrangements among producers, exporters and service providers.

Understanding the availability of such services from the exporters' point of view, this study also tries to identify sources of information provider for the benefit of cut flower exporting firms. However, the public sector has had little experience in the provision of export promotion services.

# **CHAPTER FOUR**

## **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **4.1 Summary**

According to the general manager of Lafto Rose Flower Company. The company chooses to engage in this business sector due to its value in terms of social economical and organizational benefits the respondent also raise his idea on the problems that relate to both internal and international problems which are dominantly lack of capital and market inavailability.

The horticulture agency also responds on different concepts of the sector economy. The major terms are enhancing and promoting the economic sector by the investment bereau of the government of Ethiopia. A part from this cut flower industry is a cash crop targeted agriculture that generated a high amount of foreign exchange next to coffee in the country.

Financial institutions have a critical role for the effectiveness of the economic sector. But, according to the major idea of the respondents financial sector have their own problems on delayment and amount of finance.

The cut flower farm dominant customer market place is Netherland which amount the 43% in 2008.

There are different problems that relate to both internal and external condition. The dominant internal problems are capital equipment supply

of chemicals labor availability and the external ones are lack of technological advancement lack of management and sectoral supervision and shortage of favorable and to farm the product apart from this price of products infrastructure shortage of capital and poor banking system cargo bottle necks shortage of chemicals fertilizer and flower packaging problems are the dominant external problems.

## **4.1. Conclusion**

Ethiopia is becoming a potential country in both developing and exporting of flowers. The study discovered that the shortage of capital is the biggest hindrance for local investors to start the business hence limited number of investors does participate even though it is known that the blooming industry is profitable.

Infrastructure is the other obstacle for the growth of the industry; especially the inadequate provisions of telecommunications and lack of access to roads are the major obstacles for the expansion of the business.

Bureaucratic procedures of the government; showing a slight improvement is still a constraint for investors to engage in business.

Naturally, flowers are easily perishable products; the ups and downs in transporting the flowers from the farming spot to the airport then from the cold rooms to the cargo plane negatively affect the quality and competence of the product in the international market.

Most of the investors already engaged in the business tend to be foreigners. Even though FDI is an advisable investment strategy, the leaking out of the profit abroad on the contrary hinders the development of the industry by reinvesting in the country. The country do not benefit entirely from the profit obtained from the sector as the money is not employed for further development activities in the country.

The less amount of capital accumulation with limited number of investors makes the business uneasy start.

Access to infrastructures especially in the telecommunications and road sectors are the major obstacles for the expansion of the business.

Problem of transportation; naturally flowers are easily perishable, transporting the flowers from the farming spot to the airport then from the cold rooms to the plane takes time negatively affecting the quality and competence of the product in the international market.

## **4.2 Recommendations**

For countries like Ethiopia it is not easy to transform their economy from subsistence agrarian economy to the production and export of products. The problem particularly will be at its climax when countries produce and export products like cut-flower in the sophisticated and highly competitive dynamic world market.

Therefore, measures should be taken cautiously to enhance its development and expansion for the increment of its contribution to the overall economy. Policy makers and concerned bodies must contribute for the wellbeing of the sector.

By improving the bureaucratic chains to attract investment is one and actual must be a top priority of government policy.

Even though investors are attracted easily access to capital is another problem. Especially government banks have difficulties and longer processes to give loans for investors (private banks are much for better than government banks though we can not say they are good.) Therefore government should facilitate ways by which investors can get accesses to capital.

Provision of different structures for the sector is also a vital measure that should be taken seriously. As mentions in the conclusion the failure of coordinated transport system result in low quality of flower products, hence is making them uncompetitive in the world market. So improving infrastructures as possible as contributes a great deal for the development of the industry as a whole.

In line with this shortage of telecommunications services around the farms of the flower is one of the problems discovered in this study. The shortage of telecommunication services hinders producers not to have the updated information via either by the telephone itself or using the internet. So government should urge concerned bodies or institutions for the provision of consistent telecommunication services particularly for the cut flower sector.

Air transport and cut flower export are strongly related therefore providing cargo air planes for an exclusive transportation of these products is mandatory. Government should facilitate negotiations and dialogues between exporters and the Ethiopian Air Lines officials.

Generally, Ethiopia has the probability of becoming cut flower hot spot in East Africa as Kenya was in the last decades. This is because of enormous economical and environmental advantages that Ethiopia has. However, to realize this hypothesis the determination of government bodies and concerned institutions should exert their utmost effort is the most important and mandatory recommendation of this short study.

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APPENDIX A

**St. Mary's University College**  
**Faculty of Business**  
**Department of Management**

Interview questions for Cut flower Exporter (Lafto Roses)

This study is conducted as a partial fulfillment for the requirement of Bachelor of Arts Degree in Management. It is entitled "Factors Affecting Floriculture Export Activities in Lafto Roses"

I assure you that your responses will be used only for academic purpose. Thank you in advance for your cooperation.

1. Why do you choose to engage in the cut flower exporting business?
2. Since when have you been exporting flowers?
3. In acquiring the export license what requirements and procedures have you followed up?
4. In locating international customers, what techniques do you employ?
5. Which countries are your company's targets?
6. What challenges do you face in exporting cut-flowers?
7. In your opinion, how do you see the government incentive plans to promote the export sector?
8. Describe finding of support you get from the Ethiopian export promotion Agency?
9. What role do banks play in your exporting business?
10. What problems do you have with current sources and product?
11. What kinds of ingredients are required to design a successful floriculture industry in Ethiopia?
12. What marketing and distribution channels should be used to reach customers?
13. Is there any comment or points that should have been raised?

APPENDIX B

**St. Mary's University College**

**Faculty of Business**

**Department of Management**

Interview questions for Horticulture Agency to Floriculture Department.

This study is conducted as a partial fulfillment for the requirement of Bachelor of Arts Degree in Management. It is entitled "Factors Affecting Floriculture Export Activities in Lafto Roses"

I assure you that your responses will be used only for academic purpose.

Thank you in advance for your cooperation.

13. Would you explain some of the major activities of your company?
14. How do you evaluate the efforts of government in enhancing and promoting to this sector in economic development?
15. Describe briefly the procedures an Ethiopian cut-flower exporter needs to follow for effective customs clearance?
16. What are the major problems faced by cut flower exporters in fulfilling customs formalities?
17. What are the major problems/constraints associated with the export market of cut flower?
18. How do you evaluate the export of cut flower in generating foreign exchange?
19. How do you find the relationship of your company with their over seas buyers?
20. What are mechanisms used by your organization to acquire goods market information?
21. How do you evaluate the relationship of your company with banks and other financial institutions?
22. What are the key success factors in export of cut flower in your opinion?
23. How do you see the organization of cut flower exporters in terms of skilled manpower, capital and other activities?
24. Is there any comment or points that should have been raised?