

A Brief Review Of Commercial Business Services In Addis Ababa

INTRODUCTION

A number of major players in the field of Small Enterprise Development decided a couple of years ago to come up with recommendations on 'best practices' in SME development. This resulted in the Guidelines for Donor Interventions. The guidelines cover recommendations to non-financial 'Business Development Services' for Small Enterprises. It recommends, amongst others, to look at the existing, commercial, business services before designing an intervention¹. This brief review looks at commercial business services in Addis Ababa.

A often heard first remark is: *'There are no commercial Business Development Services in my country'*. Recent studies in Africa and Asia show that a wide variety of services do exist, but one has to look for it.

This small study investigates if, and what kind, of commercial BDS providers exists in Addis Ababa, Ethiopia. A local consultant² visited 32 small enterprises³. All were asked about what commercial services they use. The consultant was asked to write down everything the owners mentioned, without restrictions. She was also asked to investigate the costs of these services.

As most small enterprises operate partly informal, we envisaged some reluctance to answer freely. For this reason the consultant only visited enterprises of friends, or visited enterprises with friends of her who knew the owner. This turned out to be a successful strategy.

The consultant was aware of the new BDS concept, but she did not see any similar studies.

This study is certainly of the *'quick and dirty'* type and in no way tries to be comprehensive.

The visited enterprises are located in 3 major business areas of Addis Ababa: *Merkato*, one of the biggest markets of Africa with a variety of activities including informal manufacturing, wholesale and retail; *Piassa*, a more retail and service oriented area and *Bole*, a modern business and retail area.

¹) See for more information about Business Development Services for example <http://www.ilo.org/public/english/employment/ent/sed/busdev.htm>

²) The consultant preferred to remain anonymous.

³) No distinction was made between 'micro' 'small' and 'medium' size enterprises.

A BRIEF REVIEW OF BUSINESS SERVICES IN ADDIS ABABA

The services are categorised as follows:

a) Legal Services

The majority of MSE in Ethiopia are informal, in the sense that they have no formal licence. However, they operate within the legal systems of the country.

Legal matters are therefore of concern to these enterprises, especially as legal requirements are often unclear and they change quickly. This makes counselling and delegation of legal matters a potential important service for small enterprises.

There are a number of legal service providers surrounding local courts, for example around Arada, Lideta Court and at Arat kilo¹. Their scale varies from a single woman with a typewriter, that gives typing service for applications and letters to courts, with its appropriate guidance and reference to the law, to a licensed legal counselling and lawyer office.

Even at a lower level, there are individuals that provide hand written application services for micro enterprises around Kebele² courts.

According to the information gathered, most of the enterprises use these services to appeal to government offices, for transfer of ownership, but also when there are disputes between individuals or enterprises.

Our service requires trust between the customers and us, but you do not always find mutual trust. There are people that bring you a TV set and accuse you of replacing a new part with an old one. In this case we need a legal consultant. What we usually do is, we know some legal consultants around Arada. We consult them when we encounter such problems. We pay them in kind. When they have any electrical machine in their home or office damaged. We repair it free of charge³.

The owner of an electrical equipment repair Shop at Piassa (not licensed)

We want to delegate to a liaison officer to deal with all government offices, to pay tax and to renew licences. The application letter to the court is typed with reference to the law by a legal consultancy service found around Merkato. We pay them 20 Birr⁴ for their service.

Owner of a Thread and Dir⁵ Shop at Merkato

b) Secretarial Service

Secretarial services include, amongst others: typing, editing, printing and publishing.

We found a large number of these services in Addis Ababa. It Ranges from simple hand written letters, to typing and computer service. According to the information

¹) Areas in Addis Ababa

²) Kebeles are neighbourhoods and function as the smallest administrative unit.

³) In kind transactions play an important role in these kind of services

⁴) 1 US\$ is around 8.25 Birr officially and 8.8 Birr at the black market. (September 2000)

⁵) Yarn made of cotton, used for making of traditional cloth.

gathered, most businesses use this service when dealing with government offices like the Inland Revenue Office, or for renewal of licences.

Table 1: Cost of secretarial services

Type of service	Charge per page (in Birr)
Hand writing	2. (With the reference of the law)
Typing	3
Computer	5
Photocopy	0.3-0.5

Source: based on the response of the interviews (1US\$ is approximately 8.25 Birr)

Government offices often request photocopies. This service is provided at most secretarial firms, stationeries and photo-shop's. Other secretarial services include printing of receipts, scanning of photos, designing and producing advertising posters, menus ... and the like.

We give computer services like word processing (5 Birr/ page), editing (3.50 Birr/ page), publishing of receipts/ vouchers and advertisement posters. We have many customers ranging from students to enterprise owners.

Owner of a Secretarial service at Piassa

c) Training

If you drive through the city, you can see a large number of advertisements for training, like typing or computer training. The supply of workers with such educations seems to outnumber the demand. This might be why the interviewed entrepreneurs showed a preference for already educated workers.

Besides, the apprentice system plays a much more important role than formal training. One special case was the owner of a metal workshop:

When I entered in business, I realised that the need to have some training for myself. So I took two trainings for 6 months. One is a technical training at Productive Improvement centre for three months at a fee of 1100 Birr. And the other is management training for 3 months by an NGO for 900 Birr.

Owner of a metal workshop at Piassa

A few others, younger in age, explained that they also realized that, to be more competitive and successful, they need some training like purchasing, marketing, and accounting.

An owner of a travel agent and a guesthouse explained that he would be interested in cooking courses for some of his employees. Courses exist but they are too extensive and expensive. Ethiopian airlines trained some of the workers of his travel agent.

d) Brokers ¹

Economic markets in developing countries are often imperfect or not well developed. According to many, this is especially true for market information. The system of brokers seems to overcome this lack of market information in a remarkable and perhaps quite effective way. The system of brokers is not always considered fully legal and a part of the brokers do have a disputable reputation.

The broker system may be a very useful entry for intervention. If brokers would have access to more useful information, like informal training courses, new government regulations, or new service providers than they could spread this information in a very effective way. An association of brokers, or a broker information centre could play this role.

There are many types of brokers in Addis Ababa: brokers of unskilled labour, of houses or rooms, of machine and furniture, brokers that operate as sales agents, brokers in cattle and sheep, brokers of used cloth or even of legal services.

Brokers of unskilled labour,

(waitress for a cafeteria, bar lady, cleaner and bed maker for a hotel, guards)

A well-known place to find these brokers is around Piassa in front of the Ethiopian Light and Power Authority. One can observe a number of unemployed women and men standing there together with the brokers. These brokers have the information where (at which enterprise) a job is available for a waitress, a cleaner or a guard. While the supply of these employees is huge, the job opportunities are very limited. For the service of such brokers, 10 Birr is paid by the employee who wants a job, while the enterprise owner also pays some money. This Service is also provided at Merkato.

Brokers of skilled labour

There are also a few licensed labour brokers. A magazine advertised for MAGFA business center, which is a licensed labour broker.

Transportation brokers

Transportation brokers operate around Merkato, where countryside traders are selling and purchasing different items for which they require transportation. The brokers contact the traders and, when they have enough loads to fill a truck (the load can be for more than one trader), they will inform the driver of the truck. Such brokers have

¹ A broker is someone who brings demand and supply together for a certain fee, without being involved in the transaction itself. In Addis Ababa it are often unemployed boys and young man who try to make a living this way.

the information where to find a truck that goes to a specific region like Tigray, Sidamo or Gojam. For their service these brokers expect to be paid 2 Birr per quintal from the traders.

Brokers of assets like houses, cars, and machines.

There is a number of this kind of brokers in the town. The contacted use their services for renting working places, purchasing second hand machines...etc.

Brokers of commodities

Scarcity of some commodities creates an opportunity for 'short-term' brokers. For example, one small retail shop owner told me: When there is scarcity of tea powder in the market, some brokers ask me if I need some packets of thee. I took some. But usually this people do not provide original products. They could provide fake commodities like new tea, mixed with used and dried tea.

Brokers that operate as sales agents for enterprises-

This type of broker is found in most business lines. They operate on their own initiatives and their payment varies. They are usually paid on a commission basis. The study encountered brokers of wheat flour for bakeries or building material brokers.

Brokers provide us with their service both as sales agent as well as, as market assessment agents. We use two brokers. When we need materials from the whole sellers they will inform us where it is available and where it is cheapest. They also inform us when to purchase. For this they will be paid up to 5% of the purchase. They also bring customers to our shop. For this they will be paid up to 2 % of the total sales.

Building material retail shop a at Merkato

e) Foreign Exchange Service (the 'Black market')

In Ethiopia, the government tries to limit the use of foreign exchange for imports. For this, they established an auction system, where formal, licensed importers may bid for foreign exchange. Importers also have to comply with the strict import regulations. Most enterprises have no access to this auction or do not want to be restricted in their imports. They use the informal system.

According to the information gathered, there is a large number of FE buyers in Addis Ababa, ranging from small shops to big jewellery shops, liquor shops, and boutiques. A few large money traders control the market that seems quite efficient with low transaction costs. Well-known places to change are Adarash, "American Gibi" in Merkato and the Teklehimanot area. The supply ranges from a hundred up to millions of US\$. Most of the customers are import enterprises (e.g. Turkey, Greek, Dubai traders that import items like cloths, gold, electronics and furniture), that have no

access to the formal system, but also contraband traders working at the border and smuggling electronics and other goods.

During this survey, the difference between the official rate of 1 US\$ for 8.24 Birr and the Black market of 8.70 Birr was 0.46 cents. The difference between selling and buying US dollars was in the order of 0.10 Birr or less.

My laundry requires washing chemicals. We usually purchase the chemicals from importers in AA, but if a friend or someone we know intends to go to Europe, we will ask him to bring us some. But to order you need enough foreign exchange. So what we do is, we purchase F.E. at the black-market rate from individuals that come and ask me to purchase their dollars at the laundry and through friends. I will purchase the rest from the black market.

A Laundry at Bole

A conclusion from the 'Black Market' findings is that restrictive government policy may not turn out to be as restrictive as one might think. There is a huge economy that is, in some aspects, working very effective and that exists outside the 'official economy'.

f) Fax, Email, Internet and Telephone

Fax

The Telecommunication Corporation is the main provider of fax services. There are also some private providers around Kazanches, Piassa, Bole, and in some hotels.

The Telecommunication Corporation at its branches provides fax receiving (charge Birr 1.5 per page) and sending services (the charge varies according to the destination. (to Europe for example it costs Birr 46 per page). A private providers in Bole, on the other hand, charges 56 Birr per page for a fax to Sweden.

Internet and Email

There is only one Internet provider in Ethiopia. It has a very long waiting list.

Some enterprises started recently to provide Internet and Email services. It is possible to send emails in some Internet cafeteria at Bole road, at some computer accessory importers, and in hotels like the Sheraton. The charge for surfing varies from one Birr per minute at the cafeteria to 36 Birr per period at the Sheraton. The providers are normally not on line and quite often, it is not possible to get connection.

We had to submit a document for the foreign exchange auction within 2 days. For this we needed information from Sweden. Our fax didn't operate so we used the email. It required 10 minutes to load the document. We paid 126 Birr at the Sheraton. We couldn't use the internet cafeteria at Bole due to power interruption.

An import organization at Bole

Telephone

Because there are not enough telephone lines in Addis Ababa, it is common to see private telephone service providers. They are located in small shops, groceries, stationeries, cafeterias or, for example, tyre repair shops.

For a call in town, they charge 0.75 Birr for one period (3 minutes). It varies from 2 Birr to more than 5, for a call outside Addis Ababa. If you are a good customer, then the shop gives free service when you are called from outside. Here again the social ties have an advantage.

It was mentioned that some individuals rent out mobile telephones for a specified time. This can be for someone who has a business opportunity that he or she knows will only last for a short period. It could also be used to impress business partners.

g) Advertising

Most of the entrepreneurs said that they did not use advertisement services. Some used signboards, and a few others used advertisement papers like *Atrefe*, *Yet Legza* or *Negade*.

We use an advertisement magazine known as *Eitam*. The magazine is for business advertisement purpose only and is issued every fifteen days. We pay 12 Birr for advertising in one issue.

Laundry at Bole

Atrefe (Amharic for ‘make a profit’) is a bi-weekly advertisement magazine, issued in 6300 copies and it is circulated to entrepreneurs for free. In the July issue there were for example 38 advertisements.

Another magazine is *Yet Legza* (‘where should I buy’). It is a quarterly publication. There are also papers that advertise in sections of its papers, like the government Herald, or the Chamber of commerce’s magazine: *Addis Business*.

A computer shop at *Piassa* used street boys to distribute leaflets announcing the opening of a new computer service centre.

h) Car rental service

According to several of the interviewed entrepreneurs, some entrepreneurs rent cars, for example to impress clients or for smuggling contraband items. One well-known place for such services is in *Piassa* at the Habte Georgis Bridge. This is a place where many types of cars (Land Cruiser to Toyota- DX) can be rented. Most have number plate code 2 (private cars) and others have code 3 (licensed rental cars).

When I'm asked to go to the county side or outside AA, I usually rent a car from Habte Georgis bridge for two or three days. We pay 200 to 300 Birr per day for the car. I drive myself and also pay for the fuel.

Owner of a car repair service (at Piassa)

Interestingly enough, there are some enterprises, especially small retail shops, which use donkeys to transport bulky commodities from wholesalers at Merkato. According to the owner of a retail shop, they pay 5 Birr per quintal from Merkato to Piassa including the rider.

i) Liaison service

There are also people that can take care of all relations with government organization on behalf of the enterprise – like renewal of licenses, annual tax payment, tariff payment and reliving of imported commodities or change ownership status of newly purchased fixed assets. Such service providers are usually retired workers of government organizations or persons with a good personal acquaintance to government officials. Some have their own office and are licensed, while others are not.

j) Taxi-boys

A completely different kind of service that businesses pay for are Taxi-boys.

In the taxi and minibus business, the fierce competition has created a need for some order and understanding. In a taxi and minibus station (main starting and ending points) there are normally boys that keep order, so that all taxis will be served according to their order of arrival. These “Tera Askebari” boys work at both small as well as at mini-bus taxi stations. They are recognized by the Taxi Drivers Association and are paid by the drivers from 0.10 Birr for small taxies to 1 Birr for a minibus. According to one taxi driver, there are 21 boys working at just one station (departure point).

k) Organised Security

At Merkato there are boys that have organised themselves in a night guard organisation. In the day time they may load and unload goods or protect shops from informal trades that come too close to the shop. The shop owners pay them.

1) Renting storage

Many shops lack sufficient working and storage space. Others have no premises and sell on the street. Both need a place to store their goods at night. For them there are places where you can rent a storage place at night.

We sell used cloths at *Kolfe* on an open space. Our main customers are rural traders. We are normally not able to sell all we have. It is also not possible to transport all goods to our home every day. There are people that rent us night accommodation space. They have their own guards and transport service from the selling place to the storage and back the next morning. This service is not only used by our type of small entrepreneurs, but also by those who have a shop, but not enough space for their goods. These people arrange, or display their goods in a stall in the open space adjacent to their shop. The payment is according to the size we use. For example: we pay 3 Birr per week for the rented space, 3 Birr per week for the transporters and 5 Birr per week for the guards

Used cloth trader at Kolfe

CONCLUSION

This small study, where only 32 entrepreneurs were visited, shows that small entrepreneurs in Addis Ababa pay for many types of commercial services, in case or in kind. Some of these services could be an entrance point for donor interventions. Other markets seem very well developed and need no intervention. Again, this is a 'quick and dirty' type research with the only purpose to show that many commercial services for small enterprises exist and are being used.

For further questions please feel free to contact me.

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