CHAPTER 2
ECONOMIC DEVELOPMENT AND ACCOUNTING PRACTICES IN ETHIOPIA

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The purpose of this chapter is to provide background information on the study area being investigated. This background information is very important since it provides the reader with valuable information about the study context. The chapter presents the main changes that the Ethiopian business environment has witnessed recently due to national and international influences.

The chapter begins by presenting background information of Ethiopia’s location, size, government, population, language, climate, cities, calendar and currency. The chapter also presents Ethiopia’s economy with a special focus on the industrial sector because it is the main focus of this study. Finally, the chapter discusses the accounting practice and profile of printing industry in Ethiopia.

2.1 General Information

Ethiopia was the only African country beside Liberia that retained its sovereignty as a recognized independent country, and has historical origins as the empire of Ethiopia, founded according to legend by Menlik I, son of King Solomon and Queen Sheba. It is located in the north-eastern part of Africa commonly known as the Horn of Africa (See Figure 2.1 below). Ethiopia is bordered by Djibouti and Somalia in the east, Sudan in the west and south-west; Kenya in the south; and Eritrea in the north and north-east (EMA 2009). Ethiopia map is the 27th largest country around the world map.

Population of Ethiopia was about 90,873,739 people of which 44,735,092 are males and 46,138,647 are females in the year 2011. In terms of the age structure of the population, 46.3 percent of are younger than 15 years of age, 51 percent are between the ages of 15 to 64, and only 2.7 percent are older than 65 years of age. Only 16.3 percent of the population lives in urban areas.
Figure 2.1: Map of Ethiopia

Source: EMA (2009)

Ethiopia is the second most populous country in sub-Saharan Africa (CSA, 2011). The total area of Ethiopia covers approximately 1.14 million square kilometers (423,828 square miles), is the ninth largest country in Africa. It is twice the size of Kenya, of France or of Texas (EMA, 2009).

Ethiopia is one of the oldest sites home of human to scientists. Lucy was discovered in 1974 in northern Ethiopia and lived 3.5 million years ago. It was a milestone in
positioning the country as a premier location for paleo anthropological research. The United Nations Education, Science and Culture Organization (UNESCO) designated the Lower Awash Anthropological site, where Lucy was found as a world heritage. The other is Ardipithecus Ramidos- a 4.4 million year old hominid (EMA, 2009).

Ethiopia is an independent Federal Democratic republic with a president as the head of state and a prime minister as the head of government. The constitution was established in 1994, following the over-throw of the Mengistu military dictatorship in 1991(EMA, 2009). Ethiopia is divided into nine ethnically-based administrative regions and two chartered cities. Its capital city is known as Addis Ababa located in the heart of the country. The nine regions are: Tigray, Afar, Amhara, Oromiya, Southern Nations Nationalities and Peoples Region, Benishangul-Gumuz, Harari, Gambela, and Somali. The two chartered cities are Addis Ababa and Dire Dawa.

Ethnically, the population of Ethiopia is extremely heterogeneous. The country's principal ethnic groups are Oromo (34.5 percent), Amhara (26.9 percent), Somali (6.2 percent), Tigray (6.1 percent), Sidamo (4 percent), Gurage (2.5 percent), Welayta (2.3 percent), Hadiya (1.7 percent), Afar (1.7 percent), Gamo (1.5 percent), Gedo (1.3 percent), and others (11.3 percent). In total, there are more than 77 ethnic groups within the country. Islam is the predominant religion with 45 to 50 percent of the population identifying as Muslim, 35 to 40 percent as Orthodox (a distinct denomination of Christianity), and 12 percent as animist (a term used to delineate a wide range of native African religious belief systems). The remaining 3 to 8 percent are adherents of various other religions (CSA, 2011).

Many languages are spoken by the inhabitants of Ethiopia, including Amharic (32.7%), Orominga (31.6%), Tigrinya (6.1%), Somali (6%), Guaraginga (3.5%),
Sidamigna (3.5%) and others (16.5%). Over 77 different local languages and dialects are spoken. Many of the languages are from the Semetic, Cushtic, and Omotic divisions of the Afro-Asiatic linguistic family. Amharic is the country's only official language and the most widely spoken, while English is the major foreign language taught to Ethiopians in the educational system (CSA, 2011).

Although Ethiopia lies within 15 degrees north of the Equator, due to high altitude, much of the country enjoys moderate temperature and pleasant climate, with average temperature rarely exceeding 20°C (68°F). The sparsely populated lowlands have subtropical and tropical climates. At approximately 850mm (34inches), the average annual rainfall for the whole country is considered to be moderate by global standards. Much of the country is set on a high plateau known as the Ethiopian highlands. Cool temperatures prevail here and the higher peaks have snow in winter. Southern region and the surrounding lowlands of the country enjoy a tropical climate with lots of heat and humidity. The main rainy seasons are from mid June to September and some rain also falls from February and March (EMA, 2009).

Addis Ababa is the largest city of Ethiopia and the seat of the federal government of Ethiopia and lies in the central plateau at an altitude of 2400 meters. Its average temperature is 16°C. Capital city Addis Ababa was founded in 1887. It is a host to the African Unity (AU) and the United Nations Economic Commission for Africa (ECA). Several other international organizations have their head quarters and branch offices in Addis Ababa. It is also the center of commerce and industry. Other important centers of trade and industries in Ethiopia are; Adama, Awassa, Mekelle, Bahir Dar, Dire Dawa, Jimma, Harrar, Gonder, Dessie, Debre Markos and Nekemte. All these towns are connected to Addis Ababa by asphalt and gravel roads and most of them
have good infrastructure facilities, such as first class hotels and airports (Wubshet, 2010).

Ethiopia has its own time system and the Ethiopian calendar is seven to eight years behind the Gregorian calendar. It uses the Julian calendar which consists of 12 months of 30 days each and a 13th month of five days (or six days in a leap year) constituting the short 13th month of Pagume. In Greek Pagume means "Additional". The Ethiopian New Year commences on the 10th or 11th of September every year. Business hours vary according to the nature of the business. Normally government office and most other office hours are 8:00 a.m. to 12:30 p.m. and 1:30 P.m. to 5:30 p.m. from Monday through Thursday. Working hours on Friday are 8:30Am to 11:30Am and 1:30pm to 5:30pm. The country is three hours ahead of Greenwich Mean Time. Ethiopians calculate time in a manner similar to that of many equatorial countries in units of 12 hours. This means that the day time 06.00, in fact is midday and vice versa, the night time 06.00 in midnight (EMA, 2009).

The local currency is the Ethiopian birr\(^2\), 1 Birr is divided into 100 cents. Notes are issued in denominations of 1, 5, 10, 50, and 100 birr. There are five different coins: 1, 5, 10, 25, and 50 cents. The Birr is very stable and there is no significant difference between the official rate and black market rate for a currency converter (NBE, 2011).

**2.2 Ethiopia’s Economy**

Ethiopia will still be among the fastest growing non-oil producing economies in Africa. It has a vision of becoming a middle income country in the coming one and

\(^2\) Ethiopian Birr (ETB) is the legal currency of Ethiopia, ETB 1 = USD 0.056 (approximate as of June 2012).
half decades after implementing three successive five year development plans. At the end of the implementation of the growth and transformation plan (GTP) the aim is to achieve millennium development goals (MDGs). The main development objective is to eradicate extreme poverty in a relatively short period of time by implementing broad based development policies to enhance growth. As a result, the overall economic performance between 2003/04-2010/11 measured by growth in real GDP, have registered an average annual growth rate of 11.4% (MoFED, 2011) (Figure 2.2). During 2010/11, real GDP growth rate was 11.4 percent moderately higher than the previous year’s growth of 10.4 percent. This robust economic growth, which is broad based, placed Ethiopia among the top performing African and other developing Asian countries. Accordingly, Ethiopia’s real per capita GDP rose to USD 392 from USD 377 a year earlier.

**Figure 2.2: GDP Growth Rate Comparison**

![GDP Growth Rate Comparison](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>2003/04</td>
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<tr>
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<td>10.4</td>
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<tr>
<td>2010/11</td>
<td>11.4</td>
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*Source: MoFED*

*Note: Ethiopia’s fiscal year runs from July 8 through July 7.*
The resilience of the Ethiopian economy is projected to continue through 2011/12 and show 11.0 percent growth compared to 5.5 percent for Sub-Saharan Africa and 4.4 percent for the entire world.

**Figure 2.3: Sectoral Growth Rate**

![Sectoral Growth Rate Chart]

Source: MoFED

Regarding sectoral development, agriculture grew by 9 percent, industry 15 percent and services 12.5 percent (Figure 2.3). Consequently, agriculture and allied activities accounted for 41 percent of GDP, industry 13.4 and services 45.6 percent. Similarly, agriculture contributed 4.7, industry 1.5 and service 5.3 percentage points to the 11.4 percent real GDP growth in 2010/11. Although, the share of agriculture in GDP tended to decline over time, it still remains the largest employer, the main source of foreign exchange, and supplier of raw materials and market to domestic industries. The growth in agricultural outputs was largely attributed to improved productivity aided by favorable weather condition and conducive economic policy. Cultivated land expanded by 4.6 percent and reached 12 million hectares in 2010/11. Production is
estimated to have increased by about 8.8 percent while productivity rose from 15.7 quintal/hectare in 2004/05 to 16.3 quintal/hectare in 2010/11. Cereal production accounted for about 87.7 percent of the total production estimated for 2010/11.

Meanwhile, the 15 percent annual growth in industry was largely due to expansion in electricity and water subsectors. Within the industry, the construction and manufacturing sub-sectors have registered 12.8 and 12.1 percent growth rate respectively. Accordingly, the real GDP share from construction and manufacturing averaged 5.8 percent and 4.9 percent, respectively. The 12.5 percent growth in services sector which has gained momentum in recent years was attributed to growth in financial sector, real estate, hotel and tourism sectors (MoFED, 2011).

While the Ethiopian economy registered impressive double digit economic growth during the last 5 years, it has begun witnessing some inflationary pressure. The country level annualized moving average general inflation at the close of the fiscal year 2010/11 hiked up to 18.1 percent, about 15.3 percentage point higher than annual average rate recorded in 2009/10. This was largely attributed to the surge in the price indices of food components which contributed 14.1 percentage points to the total annual change in headline inflation. The food inflation has increased to 15.7 percent from -5.4 percent position in June 2010 registering a 21.1 percentage point increase on account of higher food prices, and the non-food inflation rates surged to 21.8% from 18.2% in June 2010 in the international market, domestic supply side constraints and reserve money growth largely due to higher national financial activity. Annual average core inflation rate also slightly increased to 21.8 percent from 18.2 percent in June 2010, owing to higher commodity prices, mainly fuel prices in the international market (NBE, 2011).
During 2010/11, the total government resources, including grants depicted a 29.2 percent surge to Birr 85.6 billion due to improved tax administration and continued economic growth. Out of the total government resources, Birr 69.1 billion was collected from domestic sources, while the remaining amount Birr 16.5 billion was from the grant component. Yet, share of GDP to the total domestic revenue collection remained modest at 13.5 percent from 14.1 percent in 2009/10, which was quite low compared to other similar developing countries indicating the need for increased tax effort. The overall government expenditure policy of the country is to allocate more resources to build economic and social infrastructure and provide basic services with the aim of eradicating poverty and achieving rapid economic development. The government also aimed to spend more resources on education, health, water supply, agriculture, food security and infrastructure in the form of capital expenditure while attempting to contain increases in recurrent expenditures. In addition the government aimed to transfer an increased amount of block grant to regional governments (MoFED, 2011). Accordingly, general government expenditure also registered a 31.5 percent annual increase to reach total spending amounted to Birr 93.8 billion, as poverty related expenditure tended to play a significant role. Out of total government expenditure during 2010/11, 66% of recurrent and capital budget was spent for basic services (education, health, agriculture, water and road). On the other hand, capital expenditure accounted for 57% of total government spending in 2010/11.

The monetary policy pursued during 2010/11 aimed at containing inflationary pressure while at the same time maintaining high economic growth. In this regard, during this period, the growth in broad money supply and its components have remained high compared with the nominal GDP growth. At the end of 2010/11 broad money rose to Birr 145.3 billion, showing an increase of 39.6% compared to the level
of the previous year. Overall, the increase in reserve money may have exacerbated the inflationary pressure that was mainly caused by the rises in international prices of food and non-food items (fuel, fertilizer, construction materials, etc). Net foreign assets of the country that stood at Birr 55.5 billion as of July 7, 2011, showed a huge upward movement of 27.6 billion Birr (98.9%) from the level of Birr 27.9 billion at the end of the previous year. This is the result of a significant increase in foreign asset holding of both the National Bank and Commercial Banks of Ethiopia whose foreign asset holdings increased by 106.7% and 88.6%, respectively. On the other hand, domestic credit increased by 28.6% dominantly due to a surge of 51.1% in claims on other sectors (NBE, 2011). As for interest rate, the National Bank of Ethiopia (NBE) continued to set the minimum interest rate on saving and time deposits while leaving lending rates to be freely determined by banks. The minimum interest rate on deposits rate was set at 5 percent while lending rate ranged between 7.5 and 16.25 percent.

With regard to external sector developments, the review fiscal year revealed the export sector witnessed a robust growth, a surge in services and private transfers and slightly narrowing current account deficit. During 2009/10 fiscal year, it has recorded 2.00313 billion USD. Export proceeds reached USD 2.8 billion in 2010/11, indicating a substantial growth of 37.1 percent, due to higher earnings from all major export items except oilseeds. Hence, the ratio of exports to GDP increased to about 10 percent compared to 6.7 percent in 2009/10. The export receipts covered about 33 percent of the import bill during 2010/11 in contrast to 24 percent in 2009/10. The export mix is still limited to few primary agricultural products, raw materials and some minerals. Nevertheless, there have been some efforts to diversifying exports during the past decade by including flowers and promoting high yielding products like oil seeds and pulses. As a result, the share of coffee has declined to around 35% over
the period 2000/01-2010/11, from its high share of about 57% during the 90s. Meanwhile, total import bill with marginal decline of 0.8 percent stood at USD 8.3 billion. This was attributed to the slowdown in import items like raw materials (13.5 percent), capital goods (4.5 percent) and consumer goods (8.8 percent). Import bills of other commodities particularly fuel, however, tended to increase. The share of imports in total GDP marginally rose to 29.6 percent from 27.8 percent a year ago (NBE, 2011).

Regarding exchange rate developments, a total of 284 trades valued at 90.2 million USD were carried out. The fiscal year 2010/11 revealed the fast depreciation of Birr against USD mainly due to the impact of NBE’s intervention in September 2010 which led to a one-go devaluation of the Birr by twenty percent. The aim of the devaluation of the Birr was to enhance the country’s international competitiveness. Accordingly, in 2010/11 the Birr depreciated by 25.0 percent against USD in the official inter-bank market and 20.8 percent in the parallel market as compared to its level in the preceding year. This resulted in the narrowing of the premium between the official and parallel exchange rates, which stood at Birr 16.1178 and Birr 16.5292 per USD respectively. NBE continued to focus on maintaining exchange rate stability of the Birr through periodic monitoring of exchange rate developments and participating in the interbank foreign exchange market. Money market in the country remains shallow and narrow. Treasury bills market is the only active primary market in the Ethiopian financial market although the sale of corporate bonds is gradually looming large (NBE, 2011).

All in all, the review period 2010/11 was a year of success in maintaining sustainable economic growth, despite some hiccups regarding inflationary pressure. Looking
ahead, the Ethiopian economy is projected to grow by about 11 percent (lower case scenario) in 2011/12 as macroeconomic conditions are envisaged to continue improving. Therefore, coordinated and prudent monetary and fiscal policies will continue during the fiscal year 2011/12. To this end, developments in reserve money will be closely monitored. Attention will also be given to improving the country’s international competitiveness and building international reserves by using appropriate exchange rate policy and other export enhancing mechanisms (NBE, 2011). In summary, it can be said that the overall performance of the economy was globally positive for the year, while that of the Ethiopian economy had a good performance which enhanced the performance of the financial sector in general.

2.3 Industry in Ethiopia

Industry has become the real hope and driver for the development in Ethiopia. It represents the cornerstone for the economic and social development considering the role that it can play in strengthening and multiplying the capabilities and potentials of the entire national economy. Moreover, the role of industry in realizing the added value also contributes significantly into the development and improvement of the living conditions of the people. The major industrial centers in Ethiopia are found in the capital city of Ethiopia, Addis Ababa. Most of the manufacturing work is linked to the processing of agricultural products. Industry in Ethiopia contributes about 13.4% of Ethiopian GDP (MoFED, 2011). The percentage of micro and small enterprises contributes about 89.3% of the total industrial establishments and the percentage of medium scale and large enterprises contributes about 10.7%, depending on the number of workers per establishment for the definition of micro, small, medium and large enterprises (MoTI, 2011).
The working definition of Micro, Small, Medium and Large enterprises based on capital in Ethiopia is: **Micro Enterprises** are those business enterprises with a paid up capital of not exceeding Birr 100,000 ($6,000) for industry and Birr 50,000 ($3,000) for service, and excluding high tech consultancy firms and other high-tech establishments. **Small Enterprises** are those business enterprises with a paid up capital above Birr 100,000 ($6,000) and not exceeding Birr 1.5 million ($90,000) for industry and above Birr 50,000 ($3,000) and not exceeding Birr 500,000 ($30,000) for service, and excluding high tech consultancy firms and other high-tech establishments. **Large and medium enterprises**, by default, are those with more than Birr 1.5 million ($90,000) for industry and more than Birr 500,000 ($30,000) for service in paid-up capital (MoTI, 2011).

However, there are other working definitions that use the number of workers as well-a micro-enterprise is one with fewer than 5 employees; a small enterprise is one with 6-30; and large and medium enterprises are those with more than 30 employees. The vast majority of Ethiopia’s firms are micro and small enterprise. According to the 2011 survey, 1.3 million persons were engaged in the micro enterprise manufacturing sector, 94.2% of whom were own-account workers. 98,000 persons were also employed in small manufacturing enterprises. Only 186,000 persons were employed in medium scale and large manufacturing enterprises (CSA, 2011). The micro and small enterprises of the Ethiopian economy is mainly a sector of self-employment, 55% of the micro enterprises in manufacturing activities produced food and beverages, 23% textiles and garments, 85% of the business in the small scale manufacturing sector are grain mills. The total number of large and medium scale manufacturing firms reported was 2172. More than 40% of the manufacturing firms
were located in Addis Ababa followed by Oromiya with almost 21% and S.N.N.P with 13% of the firms.

The number of manufacturing firms by industrial classification in the same year also varied from one group to another. More than 26% of the manufacturing firms fell in the category of food products and beverages followed by non-metallic mineral products with more than 22% and the furniture industry with almost 13%. Thus formalized medium and large scale firms absorb only a very small share of the annual increase in the Ethiopian work force, and the majority of new entrants to the labor market are forced to engage in own-account work.

Thus, the government of Ethiopia gave attention to the promotion and development of Medium and Small Enterprises (MSEs), especially for women as a strategy for poverty reduction and increasingly for employment creation (Rahel and Issac, 2010). The issuance of the first national MSEs development and promotion strategy in 1997; formulation of women policy in 1998; the establishment of the Federal MSEs development agency and the issuance of Ethiopia’s industrial development strategy in 2003 aim to promote MSEs development in general and empower women in particular by facilitating conditions to have access to resources and to participate in economic activities (Rahel and Issac, 2010). Rahel and Issac (2010) have shown that the role of MSEs in employment and income generation is widely recognized, especially for women, and has become a major playing field for policy makers and donors with dual objectives of enhancing growth and alleviating poverty.

The Federal Micro and Small Enterprise Development Agency and international development agencies confirm that micro and small firms rarely ever grow into a medium-sized firm, reflecting a lack of entrepreneurial and managerial capability.
When micro firm entrepreneurs are successful, they are not developed and expand their respective core activity rather than preferring to diversify in to new activities. It is not clear to what extent this is a strategy to remain below the radar of public authorities (MoTI, 2011). Due to low labor productivity, even by the standards of Sub-Saharan Africa, medium and large scale firms in Ethiopia are barely developed. Many large enterprises are still state owned enterprises (SOEs)\(^3\) going back to the socialist Derg regime. The current government created the Ethiopian Privatization Agency and privatized 287 SOEs between 1997 and January 2009 (MoTI, 2009). The government wants to privatize many more firms, but the process so far has been slow, not least because privatization has often been linked to restrictive conditions, e.g. that the new owners refrain from dismissing personnel.

2.4 Accounting in Ethiopia

Accounting is a product of its environment, and a particular environment is unique to its time and locality (Perera, 1980, p.44). The differences in culture and business environment between developed and developing countries are so vast that no one set of standards can be useful to developed and developing countries. Thus, the financial accounting systems and disclosure practices differ from one country to another and even from one period to the other within the same country (Chand, 2005). However, Prather-Kinsey (2006) argues that the accounting practices of developing countries have been shaped by Western countries accounting systems. For example, Sri Lanka, Pakistan, Ghana, Vietnam, and Cambodia modeled their accounting practices around the British systems.

\(^3\) SOEs are wholly government-owned, for-profit organizations in Ethiopia that operate as per Public Enterprise Proclamation No. 25/1992.
In regards to foreign influence on the development of accounting, Ethiopia possesses a unique heritage. It has never been colonized, and one of the oldest independent countries in the world - at least 2,000 years old, and has historical origins as the empire of Ethiopia, founded according to legend by Menlik I, son of King Solomon and Queen Sheba. However, Ethiopia was open to the influences of different countries’ educations systems and practices. The development of accounting practice in Ethiopia has largely been influenced by the practice in the Britain and USA (Kinfu, 1990). Public accounting practices in Ethiopia were first introduced by British experts and the first Ethiopian professional accountants obtained certifications from British accountancy bodies. These trends continue to the present day.

To help understand the development of the accounting profession in Ethiopia, it is important to understand the political and economic environment within which accounting has developed. I examine the development of accounting practices in Ethiopia through three eras: Pre-1974, 1974 to 1991, and 1991 to present. Before 1974, Ethiopia was a developing market economy. 1974 through to 1991, the country shifted to a command economy. In 1991, the current government took power; the country pursued a market oriented development strategy and implemented policies that began the shift from a state controlled to a free market economy. The history of accounting development in Ethiopia parallels the economic and political history of the country. These three periods will now be examined from a political and economic perspective accompanying the major accounting directives issued during this time. In the next subsection the brief historical review of accounting practices in the three chronological periods are described.
Pre-1974

During this period, Ethiopia was governed under a feudal monarchy for the majority of its modern history. Kinfu (1990) argues that the keeping of records in various forms might have existed in ancient Ethiopia as early as the 3rd century A.D. during the Axumite Kingdom of ancient Ethiopia. According to Kinfu, the keeping of formal records of government activities started in the 1900s when Emperor Menelik established Finance and Gauda (meaning treasury) Ministry which was to keep records of the king’s treasury.

Evolution of modern institutionalized financial system in Ethiopia started in 1905 with establishment of the first bank name Bank of Abyssinia (Belay, 1987, p.69). This Bank introduced banking services for the first time in Ethiopian financial accounting systems history. The bank of Abyssinia was established as a branch of the Bank of Egypt, which was in turn administered under the British financial accounting system. As a result, British accounting terminology and financial reporting requirements were used, and personnel training further strengthened this trend (Kinfu, 1990).

Kinfu (1990, p.193) have stated that commission of trade inspectors was established by government regulation in 1917 to undertake monitoring of trade and customs in the country. The inspectors were required to report their negative and positive findings in relation to:

- Income raised and amounts expended on maintenance (consumption needs);
- Employees who did little work, but have much expended on their maintenance (consumption needs);
- Those who worked hard and brought much income with little expenditure on their maintenance;
• The period of service of an employee and the type of service he rendered;
• Ways and means of minimizing cost by folding (combining) jobs to be performed by few employees;
• Suggestions for improving departments whose expenditures were too high relative to the income they generated;
• Existence of proper and sufficient top executive authorization for all types of expenditures; and
• Observing that surplus (more that necessary) employees were placed in market places and check-points.

Kinfu also highlights the contributions of consultants during the construction of the Ethio-Djibouti railway in the 1890s and of the legal, military, and foreign affairs advisers in the 1930s. He then relates the subsequent developments of accounting from 1934 to the early-1970s to the Anglo-American legal and financial advisors to Emperor Haile Silassie I (1928-1974). The first substantial development during this period was the issuance of Ministry of Finance directives in 1942 (Kinfu, 1990). This was followed by the formation of the Audit Commission by Proclamation No. 69/1944 (Government of Ethiopia 1944), to examine and control of accounts of the Ministry of Finance and was directly accountable to the Prime Minister (OFAG, 2008). This marks the start of today’s Office of the Auditor General of Ethiopia (OFAG), which, amongst other duties, monitors and regulates the accounting and auditing profession in the country (Mihret, 2010).

Another development in the country in 1940s was the start of public accounting. Price Waterhouse, Peat and Co. were the first British public accounting firms to open public practice in Ethiopia and their influence over the accounting practice in Ethiopia
through auditing and financial advisory services (Kinfu, 1990). The establishment of Ethiopian Highway Authority (1951) and Ethiopian Airlines (1945) and reorganization of Ethiopian Telecommunications (1952) and Ethiopian Electric Light and Power Authority (1948) as state-owned enterprises led to involvement of foreign companies as partners, financiers or consultants to the Ethiopian state-owned enterprises. This helped to strengthen the internal control systems of the Ethiopian state owned enterprises (Kinfu, 1990). As a consequence of the growth of the demand for trained manpower in accounting and auditing, the Addis Ababa College of Commerce (1943), the College of Business at Addis Ababa University (1963) and Asmara University (1969) were opened. These institutions have played essential role in the development of the accounting profession in the country (Kinfu, 1990).

In 1960 the Commercial Code of Ethiopia was proclaimed (Government of Ethiopia, 1960). This code contains accounting and external auditing provisions, which still serve as the legal basis for financial reporting and external audit of companies (Kinfu, Negash and Meresa, 1981; World Bank, 2007). The Commercial Code makes directors of companies responsible for preparation of financial statements, including consolidated financial statements for group companies, and for ensuring that an audit of the financial statements is conducted (World Bank, 2007). The other development in 1960s was the formation of the Office of the Auditor General (OAG) in 1961 by Proclamation 199/1961(Government of Ethiopia, 1961). This proclamation accorded the OAG greater authority than was provided in the 1944 proclamation when the office was established as an audit commission (Argaw, 2000; Kinfu, 1990).

The developments in the legal, educational, commercial climate in Ethiopia until the early 1970s have created conducive environment for the development of the accounting profession in the country (Jones and Kinfu, 1971). In 1973, the Ethiopian
Professional Association of Accountants and Auditors (EPAAA) were established as an indigenous professional accounting association with the state as an initiator (Kinfu, 1990; Mihret, James and Mula, 2009). However, this association has not made significant progress as it did not develop the capacity to control entry into professional practice (Mihret, James and Mula, 2009). As a result, professional accountants certified by recognized professional associations of other countries are licensed for public accounting practice in Ethiopia. The Association of Chartered Certified Accountants (ACCA), a UK-based professional accountancy body operates actively in the Ethiopian market. As a result, almost all of the accountants in public practice are members of this association (World Bank, 2007).

1974 - 1991

Before the Revolution in 1974, Ethiopia was a society dominated by Feudal Landlords with very little in the way of industrialization. The Ethiopian military controlled state power in 1974 and their subsequent proclaimed a centrally planned economic policy, which was followed by a nationalization of virtually all private enterprises and replaced them by state-owned enterprises. During this period, private enterprise was not in favor; as it, abolished feudal, bourgeoisie and petty bourgeoisie classes.

International public accounting firms that have been operating in Ethiopia, i.e. British accounting firms like Price Waterhouse Peat and Co and Mann Judd and Co., closed their branches in Ethiopia following these changes (Woldegiorgis, 1992; Kinfu, 2005). The development of accounting appears to have been held back during this period (Argaw, 2000; Kinfu, 2005). On the other hand, an important landmark in the history of accounting and auditing was the establishment of the Audit Services Corporation (ASC) by proclamation No. 126 of 1977 to render audit services to
production, distribution and service giving organizations of which the government is the owner or majority shareholder (Gelaneh, 2011). In 1987, internal audit appeared as a separate function when the Auditor General was given the mandate to monitor and regulate internal auditing in government offices and public enterprises (Argaw, 2000). This proclamation also gave the Auditor General the authority to issue minimum requirements for recruitment of internal auditors, provide training to internal auditors, and require reports on internal audit of government organizations (Mihret, James and Mula, 2009).

There is a limited achievement in the development of accounting professional associations; due to the development of accounting which was directly or indirectly constrained at this time (Kinfu, 2005). The Ethiopian Professional Association of Accountants and Auditors (EPAAA) stayed dormant because of an unfavorable political environment (Gelaneh, 2011). During this period professionals could not succeed in their careers unless they were associated with the Workers Party of Ethiopia (WPE). Despite the existence of a military government, during this episode, the development of accounting in Ethiopia was not exploited by the accounting profession possibly for two reasons. First, the professions do not seem to have actively lobbied those in power to utilize the situation. Second, the Ethiopia military government of this period had a communist ideology which arguably does not appreciate the role of Western-styled accounting in a society (Mihret, James and Mula, 2009).

The greater emphasis of the Ethiopian government on internal audit compared to external audit could be in line with this notion of accounting’s role in a planned economy. In a planned economy, accounting serves as a central planning tool as contrasted with its accountability and value-adding roles in Western corporate
governance mechanisms (Hao, 1999). Arguably, Ethiopia’s strengths today in internal audit built upon the foundations laid down in the communist years. In accounting terms, the communist period in Ethiopia cannot be regarded as a total negative. Every historical period must be examined dialectically in terms of its thesis and anti-thesis. Following the fall of the former USSR in late 1980s, the military government of Ethiopia was weakened and a group of armed fronts who had been confronting the military regime through armed insurrection throughout the communist years overthrew the military regime. Thus, the Ethiopian Peoples’ Revolutionary Democratic Front (EPRDF), the current government took power by overthrowing the communist party in 1991.

**Post 1991**

Post 1991, Ethiopia shifted from command economy to a free-market economy. The current government of Ethiopia has adopted a new economic policy and privatized a number of state-owned enterprises and granted enhanced management autonomy to the remaining state-owned enterprises by Public Enterprises Proclamation No. 25/1992 (Government of Ethiopia, 1992). During this period, the Ethiopian government has been undertaking financial reforms in the financial reporting and internal audit areas in the public sector (Peterson, 2001). As part of its economic policy reforms, the government has been working to improve the financial reporting infrastructure of the country and to facilitate investment decisions via enhanced platform for risk assessment and reduced corporate failure. The Ethiopian government has also been providing enhanced support to the development of internal audit since 1994 (Teklegiorgis, 2000). In 1994, the Prime Minister set up a task force that forwarded recommendations to improve internal audit in government offices. Consequently, the Ministry of Finance and Economic Development (MoFED) has
been mandated to develop a manual for internal audit in government organizations (Mihret, James and Mula, 2009).

In Ethiopia, the Reports on Observance of Standards and Codes (ROSC) Accounting and Auditing review was conducted from September to November 2007 in consultation with the Ministry of Finance and Economic Development, Ministry of Capacity Building, Ministry of Trade and Industry, Ministry of Justice, Office of the Federal Auditor General, Federal Inland Revenue Authority, National Bank of Ethiopia, Addis Ababa Chamber of Commerce and Sectoral Association, Addis Ababa University, Ethiopian Civil Service College, Ethiopian Professional Association of Accountants and Auditors, Ethiopia Branch Office of Association of Chartered Certified Accountants, audit firms, banks, insurance companies, state-owned enterprises, nongovernmental organizations, accountants, lawyers, and academics. According to ROSC, there is no specific set of accounting regulations in Ethiopia and therefore accounting practices vary across institutions (World Bank, 2007).

According to Alemayehu (2009), the National Bank of Ethiopia (NBE) has required the banks to prepare their financial statements in accordance to International Financial Reporting Standards (IFRS). Even though IFRS is required for a certain type of institution, Ethiopia lacks resources to implement IFRS properly. Ethiopia currently does not have an authoritative body for accounting which can guide and dictate the implementation of IFRS. Nevertheless, Ethiopia has expressed an initiative to integrate Ethiopia’s financial statements with international standards and therefore Ethiopia is in Stage II of the IFRS adoption.
Following a change of government in 1991, EPAAA has gained a more active status than in prior periods. At present, the association has three categories of members: two classes of practicing and non-practicing. The practicing member category contains authorized auditors and authorized accountants. Authorized auditors are those having certificates as a chartered or certified accountant and memberships with recognized international accounting bodies. Currently auditors are mostly members of the UK based Association of Chartered Certified Accountants (ACCA) (World Bank, 2007) and some are members of the AICPA. The second is authorized accountants, who provide accounting services as independent firm; whereas membership as a practicing auditor also requires auditing experience. Membership as an authorized accountant requires university/college accounting education plus practical experience in the field. These requirements should be met to obtain practicing licenses from the Office of the Federal Auditor General (Mihret, James and Mula, 2009). It could be noted that the post-1991 period brought about some favorable conditions for the development of accounting and auditing in the country that could be exploited by aspiring professional associations. However, there are two main issues undermining the position of EPAAA as it is mentioned by World Bank (2007). The first one is EPAAA does not have legal backing in the country’s laws and the second one is EPAAA is not a member of the IFAC (World Bank, 2007).

In sum, Ethiopia is presently undertaking various initiatives based on recommendations by a World Bank and IMF study including revising the Commercial Code 1960 and the other relevant laws and regulations, enacting financial reporting law, establishing a National Accountants and Auditors Board, setting its own accounting standards, mandating International Standards on Auditing (ISA) for all auditors, establishing a strong accountancy professional body, establishing a local
professional and technical accountancy qualification, enhancing the capacity of all regulators to enable them to effectively discharge their responsibilities and to handle IFRS related issues in the regulation, conducting awareness campaigns and related programs (World Bank, 2007). The Ethiopian Government accepted the policy recommendations of the ROSC study and has begun the implementation process (NSC, 2010). A National Steering Committee was established to coordinate the financial reporting and auditing reforms and develop a country action plan. A technical committee established by the National Steering Committee has produced a draft document on the ‘Organization structure and scope of activities of the National Accounting and Auditing Board of Ethiopia’ (NSC, 2010). It is expected that the above initiatives will be implemented in the next few years.

2.5 Printing Industry Profile

The printing industry is comprised of firms engaged in printing as well as firms which perform services for the printing trade, such as plate making and bookbinding. The industry also includes firms engaged in publishing newspapers, books, and periodicals, regardless of whether or not they do their own printing (SIC, 1987). The objective of this section is to introduce the historical background information; and products, operations and technology of the Ethiopian printing industry.

2.5.1 Historical background

The printing industry, the 5th largest of the global manufacturing industries, is considered a major communications tool serving several sectors of the economy, including national agencies, local government, the private sector, financial institutions, publishers, distribution services and manufacturing industries. Its customers range from major institutions to small businesses (Manila, 2011). Since the
researcher has done research in Ethiopia, it is more important to know about the printing history in the country.

In ancient times, Ethiopians had been printing on erected stones, tombs, cave walls, stelaes and other objects. As Ethiopia is endowed with its own alphabets, Ethiopian Scribes were writing with quills and ink on “Brana” (a paper made of dried animal skin). This method was costly both in terms of time and effort. So the number of copies for distribution was very limited. As a result, quite a number of people were forced to live under the dark veil of illiteracy and ignorance without enjoying the sweet taste of literature and the freedom to acquire knowledge and undertake researches.

However, with the introduction of printing press to Ethiopia, a large volume of newspapers, magazines, books and other related materials were reproduced. This in turn, brought the rapid expansion of modern education and civilization among the people of Ethiopia. The first modern printing press in Ethiopia is believed to have been established during the reign of Emperor Theodros by the Religious Missionaries of Europe in 1863 and the name of the printing press was known as “Atse Theodros Printing Service”. In due course, different printing presses were set up in Massawa, Keren, and Harar by the religious missionaries (Berhana selam, 2009).

The first government printing press in Addis Ababa was established in 1906 during the reign of Emperor Menelik II around Arada. The Emperor established the printing press primarily to print the newspaper called “Aemero” (intelligence). Secondly the printing press was geared for the production of receipts, vouchers, registration books, cards, writing pads and other materials for official use. The printing plant had three names: “Ye Ethiopia Matema”, “Ye Mengist Matema”, and Merha Tibeb”. The name
“Merha Tibeb” was obtained from the name given to the first manually operated machine made in France (Berhanana selam, 2009).

“Aemero” was founded by an Armenian business man named A.E. Kavadian in 1902. It was launched weekly in Amharic. The earliest issues were written by hand and had circulation of only 24 copies a week. But a few months later, a copy machine was obtained and the circulation rose to 200 copies. The Emperor was very happy with the publication and promised to buy a new printing machine from Europe. But “Aemero” stopped publication in 1903 and the machine did not arrive until 1906. On due course of time, “Aemero” resumed publication in the late 1914, but again stopped in 1916 because its editor was pro-German and it became out of publication with the orders of the Ethiopian government since Ethiopia was not in good terms with Germany (Berhanana selam, 2009).

Emperor Minilik, who is the founder of modern Ethiopia, played a significant role in establishing diplomatic relations with European states. This helped many foreigners to establish printing presses in the capital city, Addis Ababa. The starting of Minilik II School, first in the country had its share of increasing the literates among the people to enjoy the printed word. Haile Selassie I evinced interest in the establishment of a printing press as well as the publication of newspapers and educational materials.

The first commercial printing press was founded in Addis Ababa in 1913 by M. Desvages, a French businessman. The press printed books and newspapers. The newspaper printed by this press was named as “Yetor Wore” (War News) between the years 1914 and 1918. Moreover, a journal entitled” “Goha Tsebah” (Dawn), edited by Herey Wolde Selassie was also printed in this press in 1917. The educational and other developments of this pre-war period were accompanied by a significant
expansion of printing presses, and printed literature in general (Berhanana selam, 2009).

By the eve of the Italian war there were thus seven printing presses in Addis Ababa: the Government press, which Emperor Menilek had founded in 1910; the press of "Le Courrier d'Ethiopie", which had been set up in 1913; the Emperor's "Berhanena Salam" (Light and Peace) press, established in 1923; three presses dating from 1926, namely, the "Goha-Tsebah" or "Dawn" printing press, the "Hermis" printing press, which printed "L'Ethiopie Commerciale", the "Louc" printing press, founded by an Armenian, H. Bagdassarian; and the "Artistic Printing Press", founded in 1934 by two other Armenians, E. and G. Dierrahian (Berhanana selam, 2009).

Bole Printing Enterprise was also established in 1955 by an individual named Petros Aslania who was an Ethiopian national by law and an Armenian by birth. He had started printing in his residential house which was located around Ras Mekonnen Dildiy with manpower not more than 4 employees. He had used a single hand driven machine and its capacity was limited only to printing of different Envelopes and Cinema Posters (Berhanana Selam, 2009).

Until 1990’s running the print media in general was the responsibility and function of the government. The landmark event in the history of print media in Ethiopia began after the Ethiopian Peoples’ Revolutionary Democratic Front (EPRDF) came to power in May 1991. EPRDF soon declared the adoption of the 1948 Universal Declaration of Human Rights in its’ Charter, and freedom of the press and speech. The Censor Department of the Ministry of Information was abolished and hopes for democratization and freedom of expression emerged again. For the first time in Ethiopia’s long history, the private sector became involved in the print media field.
with confidence. Though the printing industry has a short history in Ethiopia, it has played quite a significant role in shaping the modern educational, social, economic, cultural, and political situations of the country. It has contributed much to the propagation of education, religion, national economy and governmental orders and regulations.

The printing industry is one of the largest and most geographically diverse manufacturing industries in Ethiopia. Currently the commercial printing industry in Ethiopia includes around 600 companies. The majority of commercial printers are small businesses that operate one production plant, employ fewer than 30 people, and have annual revenue under Birr 1.5 million ($90,000). Only about 174 medium and large scaled printing companies in Ethiopia, that employ more than 30 people, and have annual revenue above Birr 1.5 million ($90,000). Among the total 174 medium and large scaled printing companies 170 are private owned businesses but the remaining 4 are publicly held companies, Berhan and Selam, Artistic, Commerce, and Bole printing (CSA, 2011).

2.5.2 Products, Operations and Technology

Firms in the printing industry produce a wide array of printed products as well as materials used in the printing process. Some of the products produced within the industry include:

(1) Publication printing: books, pamphlets, newspaper, periodicals, magazines, journals;

(2) Commercial printing: business and office forms, brochures, posters, envelopes, promotions/advertising materials, calendars, calling cards, greeting cards;

(3) Security printing: documentary stamps, postal stamps, bank forms and passbooks, legal tender, examination booklets;
(4) Office supply printing: continuous forms for computer printers, invoices, receipts, and other business forms;

(5) Special printing: packaging: folding cartons, boxes, containers;

(6) Software-related services: pre-printing services, such as typesetting, color separations, electronic stripping, image manipulations, and graphic illustrations.

(7) Other services: plate making services, book repairing and book binding.

The printing processes are distinguished by the method of image transfer and by the general type of image carrier employed. Depending upon the process, the printed image is transferred to the substrate either directly or indirectly. In direct printing the image is transferred directly from the image carrier to the substrate. In indirect, or offset, printing, the image is first transferred from the image carrier to the blanket cylinder and then to the substrate (Kirk-Othmer, 1982).

Each printing process can be divided into three major steps: prepress, press, and post press. Prepress operations encompass that series of steps during which the idea for a printed image is converted into an image carrier such as a plate, cylinder, or screen. Prepress operations include composition and typesetting, graphic arts photography, image assembly, and image carrier preparation. Press refers to actual printing operations, ink is applied to the plate and the image is transferred to the substrate. Post press primarily involves the assembly of printed materials and consists of binding and finishing operations. Companies that provide all three services first prepare the material for printing in the prepress department, then produce the pages on the pressroom floor, and finally trim, bind, or otherwise ready the material for distribution in the post press department (EPA, 1994).
Within each process, a variety of chemicals are used, depending on the types of operation involved. Prepress operations typically involve photo processing chemicals and solutions. Inks and cleaning solvents are the major types of chemicals used during press operations. Depending on the finishing work required, post press operations can use large amounts of adhesives. This is especially true where the production of books and directories is involved. Of all the chemicals used in a typical printing plant, inks and organic cleaning solvents are the categories used in the largest quantities. Many of the chemicals used in the printing industry are potential hazards to human health and the environment (Kirk-Othmer, 1982).

A typical commercial printer has different presses and binding equipment available to work on various types of jobs. The main printing process used is offset lithography, using either individual sheets or continuous rolls of paper (Web presses). Sheet fed presses print up to 16 pages of letter-sized product at a time, at speeds up to 15,000 impressions per hour. Web presses print 32 pages at a time at speeds over 40,000 impressions per hour, and are usually used for production runs of more than 50,000 copies. Presses usually print in one, two, four, or six colors; some presses can print eight. Digital presses are increasing in use, especially for print runs less than 5,000 pieces. Digital technology is also becoming the norm in pre-media services and design (First Research, 2009).

Paper is the biggest individual manufacturing cost, often amounting to 25 percent of revenues. Printing papers are often coated, and are bought in sheets or rolls from distributors. Printing enterprises generally don’t keep large inventories of paper as requirements change from job to job. Instead, they rely on distributors to provide the many varieties and grades. Inks, films, plates, and cleaning solvents are other major
material costs. The solvents used to clean inks off the presses can be a major air pollution quality problem (First Research, 2009).

Major press manufacturers in Ethiopia include Mega, Artistic, Bole, Berhan and selam, United and Commercial printing presses for conventional and digital presses. Printing technology is evolving rapidly. Virtually all prepress work is now done with computers. Digital presses are still expensive and used mainly for special types of work, but the movement to an all-digital printing environment is occurring rapidly.

The products of printing firms pass through various processing stages based on a variety of factors, including the substrate used (e.g., paper, plastic, metal, ceramic, etc.), the length and speed of the print run, the required print image quality, and the end product produced. Major processing stages include: Computer, Camera, Printing, Platin, and Binding. However, not all products undergo through all the processing stages. Books, newspapers, magazines, commercial papers (posters, calendars, wedding cards, greeting and condolence cards), stickers and note books based on the nature and number of copies of the products, pass through the following four sequential processing stages:-Computer, Camera, Printing, and Binding. Each processing stage is considered as a cost center. Camera cost center composed of Montage and Plate maker machines. Printing cost center composed of machines like GTO, Cord, Speed master, Web and the like. Binding cost center composed of Cutter and Stitching machines.

Vouchers such as receipt vouchers, payment vouchers, and store issue vouchers etc., which are serially numbered for control purpose pass through the following five sequential processing stages: - Computer, Camera, Printing, Platin, and Binding. Each
processing stage is considered as a cost center. Rubber stamp is processed only through two processing stages: - Computer and Camera.

2.6 Chapter Summary

This chapter has provided a brief overview about Ethiopia’s location, demographics, government and economy with a special focus on the industrial sector. The chapter has also detailed the state of accounting and profile of printing industry in Ethiopia. Ethiopia is located in the north-eastern part of Africa commonly known as the Horn of Africa. For the past six years, the economy has enjoyed strong growth, largely owing to government-led development policies with an emphasis on public investment, commercialization of agriculture, and non-farm private sector investments. Ethiopia has, therefore, taken many steps toward improving local industrial production to compete in the international markets. The significant changes in Ethiopian business environment have brought about the need to change prevailing accounting practices to facilitate competing internationally. Thus, several major changes in regulative institutions and laws have assisted in the development of contemporary financial and management accounting in Ethiopia as a whole. The printing industry is one of the largest and most geographically diverse manufacturing industries in Ethiopia. At present there are about 170 private owned and 4 publicly held printing companies in Ethiopia, that employ more than 30 employees, or annual revenue above 1.5 million ($90,000).