Toolkit

Start and Improve Your Business

Addis Ababa 7/2004

Published by:
Ethiopian Business Development Services Network (EBDSN)
P.O. Box 11133 Addis Ababa, Ethiopia

In collaboration with:
Ethio-German Micro and Small Enterprises Development Project
Ethio-German TVET Programme

On behalf of:
German Technical Cooperation (GTZ)

Project execution by:
GFA Management GmbH, Germany

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July 2004, Addis Ababa, Ethiopia
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Introduction

This toolkit is published by the Ethiopian Business Development Services Network (EBDSN). Most parts of the toolkit are applicable not only for Ethiopia but also for other developing countries. Only some specific Ethiopian examples are included to illustrate the general part. Other countries may likewise prepare their own examples based on specific situations existing in their socio-economic environment.

Toolkit contents

This toolkit is divided into four major parts. Part 1 provides the necessary skills required for generating possible business ideas, followed by the selection of the one that is most viable. Under this step business start-ups will be guided through logical sequences as indicated in the toolkit. In the process of searching for ‘one viable business idea’, one should think creatively and properly scan the internal and external environments that may positively or negatively affect the establishment of a new business enterprise. Stiff market competition, market saturation, limited technical and managerial skills, limited access to financial services, raw materials, tools/equipment/technology and work premises are some of the critical issues that need the attention of business start-ups.

Part 2 is concerned with information seeking for the sake of analysing factors such as market, supply, infrastructure, material and human and financial resources, legislation and other government support facilities.

The major concern of part 3 is to provide a framework for the business operator as to how to draw action plan for business implementation, prepare business plan, calculate start-up costs, finance the business, determine administrative procedures, secure working premises and infrastructure and development of marketing activities.

Part 4 is devoted to highlighting the need for making follow-up on the implementation of the business by the entrepreneur, followed by the need to consider improving the business after its first year of operation.

Finally, the authors would like to inform readers that this toolkit is mainly prepared as a guide for entrepreneurs with the intention of establishing and improving their own businesses in the micro and small enterprise sector in developing countries. To some extent, however, the toolkit can also be used to establish medium enterprises. In addition, the toolkit is also envisaged to serve existing business people in the MSE sector and those institutions and individuals engaged in the facilitation, training and promotion of the MSE sector.
Start and Improve your Business

This part is divided into four parts: The first part is about choosing the business idea, followed by part two that deals with information seeking concerning the new business idea. Part three highlights the required pre-conditions for setting up of a new business. Finally, part four provides recommendations on how to improve your business.

1. Identification of viable Business Ideas

Before going deeper into business idea generation you need to test yourself as an entrepreneur in terms of your personal characteristics, situations and skills. To help you decide if you are the right kind of person to start a business, think about each of the following factors. Decide for each one of them if it is strength or a weakness for you in running your own business. Now, test yourself with the following:

Checklist 1: Assessment of entrepreneurial characteristics

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Skills:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Practical abilities needed to produce the product, e.g. to start a wood work business you need to be able to measure, cut, nail parts together</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Business management skills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Marketing, costing, record keeping</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Knowledge of your line of business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Market, competitors, suppliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Personal characteristics and situation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Commitment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Willingness to put your business before almost everything else, willingness to work long hours in the business and willingness to risk your own money in the business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Motivation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Are you keen enough to try your own business? Do you want to be your own boss? Do you want to have your own business not because you are unemployed?)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Taking risk (i.e. readiness to take moderate risks that may not be avoided)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Making decisions (i.e. in your own business you are required to make important decisions yourself instead of passing them to someone else.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Family situation (i.e. good if your family supports your business idea.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Financial situation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>§ Do you have personal funds to put into the business? Or are there other reliable sources?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of strengths and weaknesses</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Are your strengths greater than your weaknesses?
The larger the number of strengths you have, the more you can feel comfortable to start your business. In case you have weaknesses with respect to the above entrepreneurial characteristics, be sure that there is room to eliminate or improve them. Do you feel comfortable about starting a business after considering your strengths and weaknesses?

Yes  No

Checklist 2: Factors to strengthen yourself

- Seek help from others (friends, family, other business people);
- Attend short training courses to strengthen areas where you are weak (e.g. training in entrepreneurship, record keeping and business management);
- Observe successful business people;
- Refer to documents on business creation.

Now, do you feel comfortable about starting your own business? Yes  No

If yes, start generating your business ideas as outlined below.

Figure 1: Components of business idea generation

The next step in establishing a new business is to select at least five to ten business ideas through brainstorming. You identify your project ideas, which seem feasible and profitable from your individual point of view. It helps you make a first selection of business ideas and is like pouring all these ideas into a filtering funnel:

- Write down at least ten business ideas based on your observation of what people would like to buy. At this stage, do not worry if these ideas are vague to some extent. This is just a brainstorming stage.
- Make a first selection of three business ideas from your list of possible business ideas. While doing this just think of a funnel that has different sized filters inside where many business ideas can be put in and screened according to their importance. (Funnel model)

With the help of some basic criteria the three most promising business ideas are filtered before each of them is further scrutinised.
Selection of one best business idea

The second stage adds quality to the first stage by adjoining different parameters related to economic judgements (market, skills, technology/equipment, raw material, availability of solvent demand, situations of competitors). After the above-mentioned parameters are evaluated and rated, new business start-ups can go into a finer crosschecking of the key variables (Critical Success Factors) affecting the success or failure of the project idea.

Use the following parameters to come up with one best business idea. For easier decision making, it is possible to score each of the parameters as follows:

Checklist 3: Example for selecting one best business idea

<table>
<thead>
<tr>
<th>Availability of:</th>
<th>Demand</th>
<th>Personnel</th>
<th>Tools/Equipment</th>
<th>Raw material</th>
<th>Total</th>
<th>Competitors</th>
<th>Adjusted total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business ideas</td>
<td>(+)</td>
<td>(+)</td>
<td>(+)</td>
<td>(+)</td>
<td>(-)</td>
<td>=</td>
<td></td>
</tr>
<tr>
<td>1st business idea</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>7</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2nd business idea</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>17</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>3rd business idea</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>14</td>
<td>2</td>
<td>12</td>
</tr>
</tbody>
</table>

Scoring system: 5 - extremely high; 4 - high; 3 - average; 2 - fair; 1 - poor; 0 - absent.

Critical Success Factors (CSF)

After evaluating and rating these factors, go into a finer cross-checking of the key variables affecting the success or failure of the business idea. E.g. not just ‘raw material’ but seasonal availability of raw material, lack of standardisation of raw material, unpredictability of raw material supply.

Attention! CSF implies a critical success factor particular to the identified business, which is very important for the success of that specific business. If that certain factor is missing, is inadequate or is not properly taken into account, it can result in the total failure of the envisaged business idea.

By making comparisons between the scores of the above parameters for each business idea, it is possible to choose one, which is viable. In this example, the second business idea may be the best one.

It is also important to see the following additional parameters in selecting the business idea:

Ease of implementation criteria:

- Whether the business can be started within a short gestation period or reasonable preparatory period (such as three months) or not; and
- The degree to which the entrepreneur can control unforeseen difficulties and commence operations;
- The available financial and human resources.
Risk exposure criteria:

- Whether the product can readily be copied or imitated if found very profitable by others;
- Competitors who have more resources and expertise may effectively retaliate if threatened by the new business;
- The envisaged business may suffer from unforeseen factors such as unavailability of raw materials.

Government priority and support criteria:

- Is the envisaged business under government’s list of priorities for promotion of investment and employment generation?
- Is there a possibility of getting government support such as tax exemption or reduction, loan on reduced rate of interest or other supports such as market access, technical or advisory services?

The following format is presented as an example to show you how it is possible to generate one best business idea in a step-by-step way.

Checklist 4: Business idea generation

<table>
<thead>
<tr>
<th>BUSINESS IDEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific example with bakery</td>
</tr>
<tr>
<td><strong>Name of the Business:</strong> ABC Bakery</td>
</tr>
</tbody>
</table>

The business is to provide the following **products**:
- Loaves of bread and bread rolls

**Customers are:**
If your choice is to produce loaves of bread and bread rolls, then the customers could be:
- **General dealers and caterers in Addis Ketema sub-city as well as the majority of people living around Addis Ketema.**

The business will sell in the following way:
- Bread will be delivered to general caterers and customers.
- Other customers will buy from a shop at the bakery.

The business will satisfy the following needs of customers:
- **General dealers need to sell fresh bread to their customers.**
- **Caterers need bread to serve with their meals.**
- **Private customers need a convenient place to buy bread for their households.**

You need to check the rest of the business ideas in a similar way, followed by the selection of the best one.

Test your business idea with a SWOT analysis

You need to know whether the selected business idea is a competitive and profitable venture. One way to test a business idea is to do a SWOT analysis. A SWOT analysis is a technique to identify Strengths, Weaknesses, Opportunities and Threats of enterprises or projects whereby internal and external factors are considered. A SWOT technique can be applied to the functional areas of an enterprise as well as projects, products and services. For the purpose of starting a new business,
the Strength, Weakness, Opportunity and Threat (SWOT analysis) deserve greater attention as it helps you evaluate or decide whether to start the business or not.

- For strengths and weaknesses you look inside your business and your personal situations possibly affecting the business venture;
- For opportunities and threats you look outside your business and try to assess situations outside of your influence but which you can make use of or possibly avoid.

Outcome of the SWOT analysis will enable you to:
- Continue with the selected business idea and make a full feasibility study;
- Make changes to the business idea or;
- Drop the business idea completely.

In order to check the feasibility of your envisaged business idea, you need to make a SWOT analysis in terms of:
- Availability of market;
- Availability of raw materials and other supplies;
- Availability of appropriate equipment/technology;
- Technical skills;
- Organisation and management;
- Financial capacity and availability of appropriate loan facilities;
- Other external factors.

The following overview helps you take all the necessary aspects of the SWOT analysis into consideration:

Checklist 5: Coverage of a SWOT analysis

<table>
<thead>
<tr>
<th>Financial aspects</th>
<th>Physical aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital of owner</td>
<td>Building</td>
</tr>
<tr>
<td>Projected cash flow</td>
<td>Workshop and machinery</td>
</tr>
<tr>
<td>Access to additional resources</td>
<td>Technology/incubator parks</td>
</tr>
<tr>
<td>Investment requirement</td>
<td>Location</td>
</tr>
<tr>
<td>Profitability</td>
<td>Transport facilities</td>
</tr>
<tr>
<td>Risk</td>
<td>Infrastructure and utilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management and operator capabilities</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management competency</td>
<td>Profile of target market</td>
</tr>
<tr>
<td>Age/experience</td>
<td>Competitor's marketing strategy</td>
</tr>
<tr>
<td>Skills availability</td>
<td>Market share</td>
</tr>
<tr>
<td>Technical know-how</td>
<td>Product features/quality</td>
</tr>
<tr>
<td>Management contacts/network</td>
<td>Expanding/contracting/stagnant market</td>
</tr>
<tr>
<td>Salesmanship of owner/staff</td>
<td>Demand/supply situations (past, present, future)</td>
</tr>
<tr>
<td>Personnel management</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Information</th>
<th>Supply of raw materials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is the necessary information available?</td>
<td>Are the sources adequate in terms of quality, quantity and price?</td>
</tr>
<tr>
<td>Is it available in time for decision making and for taking corrective actions?</td>
<td>Are new materials becoming available which would be useful to the enterprise?</td>
</tr>
<tr>
<td></td>
<td>Will they continue to be adequate?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Social environment</th>
<th>Production process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are people accepting the product?</td>
<td>Is the product going to be produced in mass?</td>
</tr>
<tr>
<td>Is there any particular prejudice, likes or dislikes for the product?</td>
<td>Is it labour intensive?</td>
</tr>
<tr>
<td></td>
<td>Is it a job order or continuous operation?</td>
</tr>
</tbody>
</table>

Checklist 6: Steps of SWOT analysis to evaluate your business

- Fill in the SWOT analysis format (see next page);
- Rate the strengths, weaknesses, opportunities and threats as very important or less important;
- Evaluate your business idea;
- Decide if you are going to continue with your business idea.
Now, take the case stated under Checklist 4 and do a SWOT analysis.

Checklist 7: SWOT analysis format

<table>
<thead>
<tr>
<th>ABC Bakery: SWOT analysis</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong> (positive factors to be capitalised)</td>
<td><strong>Weaknesses</strong> (negative factors to be eliminated)</td>
</tr>
<tr>
<td>• Have worked in a bakery for long time as an apprentice (5 points)</td>
<td>• Do not know much about business management (-5 points)</td>
</tr>
<tr>
<td>• Know most of the intended customers in Addis Ketema sub-city (4 points)</td>
<td></td>
</tr>
<tr>
<td>• Will be able to buy supplies on good terms (1 point)</td>
<td></td>
</tr>
<tr>
<td>• Have start-up capital (2 points)</td>
<td></td>
</tr>
<tr>
<td><strong>Opportunities</strong> (to make use of them)</td>
<td><strong>Threats</strong> (to avoid/consider them)</td>
</tr>
<tr>
<td>• Addis Ketema sub-city is a highly populated area and population size is increasing from time to time and so is the demand (4 points)</td>
<td>• One of the bakeries in the nearby location has a good reputation (-4 points)</td>
</tr>
<tr>
<td>• There are not many bakeries in the area, the location is big enough for more bakeries (3 points)</td>
<td></td>
</tr>
<tr>
<td><strong>Total of score</strong> +19 points</td>
<td><strong>Total of score</strong> - 9 points</td>
</tr>
<tr>
<td><strong>Final result</strong> +10 points</td>
<td></td>
</tr>
</tbody>
</table>
2. Information Seeking

You as a new business start-up person should have sufficient information and seek additional information on various factors that are relevant to your intended new business activity. The different types of information required are indicated in the following diagram.

Figure 2: Components of information seeking
2.1 Market Analysis

Market analysis is a key to the success of new businesses or projects. Marketing analysis of the product is all about estimation of demand for the product. You, as an entrepreneur, should assure the quality and standard of your product as well as its effective distribution. You must also devise a correct pricing strategy. The following simplified contents of market research can help you get information and analyse the market.

Checklist 8: Do market research to learn more about your customers and competitors

<table>
<thead>
<tr>
<th>Method</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talk to potential customers</td>
<td>§ To know what products they want to buy</td>
</tr>
<tr>
<td>Study businesses of your competitors</td>
<td>§ To find the quality and design of their products</td>
</tr>
<tr>
<td>Ask suppliers and business friends</td>
<td>§ To know which goods are selling best</td>
</tr>
<tr>
<td>Read newspapers, catalogues, trade journals</td>
<td>§ To get information and ideas on new products</td>
</tr>
<tr>
<td>and magazines</td>
<td>§ To know what they think of your business idea</td>
</tr>
<tr>
<td></td>
<td>§ To know how they attract customers</td>
</tr>
<tr>
<td></td>
<td>§ To look for possibilities of developing the already existing</td>
</tr>
<tr>
<td></td>
<td>products of competitors to a superior design and quality,</td>
</tr>
<tr>
<td></td>
<td>instead of imitating them as they are.</td>
</tr>
<tr>
<td></td>
<td>§ To know what do they think of competitors’ products.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Checklist 9: Market analysis format

- Description of the product
  What product should I produce? What should be the design, model, appearance and style of the product? What should be the brand name of the product?

- Comparison of the product with its competitors
  Can I produce a product of better quality compared to others? Can I provide warranty for my products? Is the design of my product better than others? Can I use quality raw materials? Can I label my product?

- Location of business
  Can I get proper business location not far from my customers? Can I get proper premises with reasonable rent?

- Major customers
  Who would be my customers: Individuals, households, and government/private/non-government institutions? Urban/rural residents?

- Market share
  Do I have the capacity/possibility of measuring market share? Is there a possibility of getting some market share by competing with similar producers? What would be the possible number of customers per month/year? Is there a possibility to capture more market share in the future? Should the market share be high, do I have the necessary resources/capacity to respond to that market?

- Selling price
  - My pricing strategy: Should I go for profit maximisation in the short-term? Profit optimisation in the long-term? A minimum return on investment?
  - Keeping parity with competition? Fast turnaround and early cash recovery?
Promotional measures
How can I promote my product: Which media channels (local newspapers? signboards? Leaflets and brochures? Exhibition/bazaar participation? Words of mouth?

Marketing strategy
- Selecting target clients: Studying the customer, his/her buying motives and buying behaviour, segmentation of the market using relevant bases, evaluating each of the segments, selecting the appropriate segment as target market.
- Developing the “5P” marketing mix: Product, Price, Place, Promotion and Person
- Provision for the impact of uncontrollable environmental variables.
- Developing the detailed functional plans of marketing: production plan, sales plan and advertising and sales promotion plan.

Sales/demand forecast
(for details on sales forecast see next)

Sales/demand forecasting is required to predict or estimate a future situation. Since the future is unforeseen, no forecast can be 100% correct. Every business needs demand/production/sales forecast for taking decisions. In sales forecast, decisions concerning quantity, type and quality of products should be considered because production needs resources, i.e. finance, raw materials and manpower, which have to be arranged. The following steps are required to make a forecast:

Checklist 10: Forecasting steps

- Determine the objective;
- Select the period of forecast;
- Select the forecasting techniques;
- Collect the information to be used;
- Make the forecast.

As an entrepreneur, you are required to make a study on availability of demand for the product. Demand for the product is manifested by a ‘desire’ backed by ability and willingness to pay. Demand for a product has always reference to price, period of tie and place. The demand for a particular product can also depend on its supply.

Checklist 11: Demand forecasting for micro and small businesses

End-use/user expectation method

Steps:
- List the various users of the product;
- Ascerten the individual likely demand of the product;
- Consolidate the forecast for the demand.
2.2 Supply Analysis

Supply refers to the different types of input you need from others for production.

Production-oriented business owners need to buy:

- Equipment/tools;
- Inputs such as raw material.

Buying equipment/tools

Equipment is all the machinery, tools, workshop fittings and office furniture that your business needs. Old equipment needs to be replaced. You should check regularly to see how well your equipment works - if it still produces as much as it used to and if it still produces the quality you need.

You may need to buy new equipment when it:

- becomes difficult to operate;
- does inferior work;
- breaks down often;
- becomes old.

Checklist 12: Important questions to ask before buying equipment/tools

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>What kind of equipment do I need?</td>
<td></td>
</tr>
<tr>
<td>How much will the equipment cost?</td>
<td></td>
</tr>
<tr>
<td>Can my business afford to buy the equipment?</td>
<td></td>
</tr>
<tr>
<td>Can I buy the equipment second hand?</td>
<td></td>
</tr>
<tr>
<td>Will the increase in profit after I buy the equipment be high enough to pay for the cost of the equipment?</td>
<td></td>
</tr>
<tr>
<td>How much more work does my business get now and in the future?</td>
<td></td>
</tr>
<tr>
<td>How big must the equipment be to do the work I expect (capacity)?</td>
<td></td>
</tr>
<tr>
<td>Maybe you do not need to buy equipment of your own. In that case find out if you can:</td>
<td></td>
</tr>
<tr>
<td>- borrow or rent equipment only when you need it;</td>
<td></td>
</tr>
<tr>
<td>- outsource to another business that has the equipment to do the work for you.</td>
<td></td>
</tr>
<tr>
<td>Is there another new kind of equipment better than existing ones?</td>
<td></td>
</tr>
<tr>
<td>Which equipment is the cheapest to run and easiest to operate?</td>
<td></td>
</tr>
<tr>
<td>Do I need special training to use the equipment? Can I get it? Is the fee affordable?</td>
<td></td>
</tr>
<tr>
<td>How long will the equipment last?</td>
<td></td>
</tr>
<tr>
<td>Does the supplier give a written guarantee?</td>
<td></td>
</tr>
<tr>
<td>Will the supplier install the equipment and service it?</td>
<td></td>
</tr>
<tr>
<td>Can I have it serviced locally?</td>
<td></td>
</tr>
<tr>
<td>Are the spare parts available locally? Is the cost affordable?</td>
<td></td>
</tr>
</tbody>
</table>

Buying raw materials

Raw materials are all the materials and parts that go into the products you make.

Example: Wood and varnish for making furniture.

Buying office and workshop furniture for your business

You have to know what type of furniture you need before the start of the business.

Some of them include:

- Shelves, tables, seating;
- Computer facilities, printers, photocopy machine;
- Telephone, fax, Internet connection.
Checklist 13: Conditions of raw material supply

- Try to use materials that are always available when you need them
- Buy materials from reliable suppliers and make sure the quality is good
- Before you buy raw materials, find out:
  - what different materials you need;
  - what quality your customers need;
  - how responsible is the supplier for the quality of goods or materials;
  - how much raw material you need;
  - how often you need the raw materials;
  - how long it takes to secure raw material from the supplier;
  - affordability of the purchase price.
- Does the supplier grant discounts for bulk purchasing?
- What is the smallest amount that can be purchased?
- Is it possible to make credit purchases? How much can be obtained?
- Terms of delivery: Will the supplier deliver to your business? Do you pay for transport or is the delivery free?
- Does the supplier accept returned goods or materials?

Get information about different suppliers and compare them based on the following offers:

- Lowest price;
- Best credit terms;
- Best terms of delivery;
- Best quality of raw materials.

Institutions involved

- Contact Chamber of Commerce and "Yellow Pages" for list of raw materials, office and workshop equipment suppliers;
- Make visits to the most important commercial centres in town (including importers, if necessary);
- Contact wholesalers and retailers of supplies.

Checklist 14: Steps to follow when you buy

- Find out what your business needs;
- Buy only equipment which is really necessary for your business;
- Get information about different suppliers;
- Contact and choose the best suppliers for your business;
- Place the order;
- Check the goods immediately;
- Check the invoice;
- Pay.

2.3 Infrastructure Analysis

Infrastructure includes access to roads, transportation services, electric power, water supply, telephone services, storage facilities, production and marketing premises. Availability of transport facilities and electric power play great roles if you are engaged in the manufacturing and construction business sectors. You need to get a good transport facility with affordable fees to transport raw materials as well as your finished goods. If you are using power driven machines/equipment, availability and affordability of electric power will also play determinant role.
In addition to the analysis of infrastructure, you also need to look for a strategic business location to reach potential customers.

Checklist 15: Viability of infrastructure

- What commercial area is the best one for your business?
- How far are you from the competitors?
- Are there shops available at an affordable price?
- Is the shop rent contract reasonable?
- How are infrastructure facilities like electricity, water, telephone, fax connection and public transport?

2.4 Business Management

Business management aims at drawing upon effective organisation and management to achieve the entrepreneur’s objectives. Business management is all about co-ordinating your meagre resources such as materials, financial and human, thereby, undertaking your business activities efficiently and effectively. Having the necessary skills in the areas of marketing, costing your products and services, financial/business planning and record keeping, are very crucial for you to succeed in business. You may have taken some business management courses during your school or college days, or you may not. Which ever the case may be, you need to look for opportunities to strengthen your business management skills continuously. This can be done by completing business management training courses intended for people like yourself. In addition, you as a business starter need to decide upon what form of business organisation you have to choose. The choice may partly be done based on the level of your investment capital as well as the commercial code of the country.

Checklist 16: General aspects of business management

- Do I have the necessary business management skills to start and run a new business?
- What form of business organisation should I register in?
- In case I am going to hire labour, what type of qualification do I need?
- Do I have the capacity to manage my personnel issues?
- What series of pre-operating activities should I perform?
- What pre-operating costs am I able to bear?
- Where shall I get as much information as possible pertaining to regulations, finance and competitors?

Before you start operating your new business, you need to select in which organisational form you should establish your business. The choice of organisational form is important and can make a difference in:

- Cost of starting and registering the business;
- Simplicity of starting the business;
- Financial risk the owner of the business faces;
- Possibility of having partners;
- Way decisions are made in the business;
- Mode of taxation of the business profit.

Qualified personnel: This indicates the analysis of the number and qualifications of the staff you need and labour organisation (production workers, administrative personnel, salespersons) and job description for your staff, labour costs and its availability (survey of labour market using newspapers and contacting the labour and social affairs bureau).
2.5 Financial Analysis

In manufacturing, you need capital for tools and equipment, raw materials stock, goods-in-process, labourers' wage and money to bring the finished goods to the market. However, having money and making profit are two different things. You as a business operator should know how to use money to make more money. You also need to know how you are efficient enough in managing it. Be sure that money is a real problem for you to start and run your business and not only for the sake of having it. There are several cases where lack of money is not a problem by itself, but the result of many other factors behind it. The following diagram is presented to show you the possible causes for lack of finance.

<table>
<thead>
<tr>
<th>Bad shop location, Insufficient labour qualifications</th>
<th>Low material or equipment quality</th>
<th>Rude competition</th>
<th>No incentive for savings</th>
<th>Funds used for private purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>No marketing (advertising, promotion)</td>
<td>Low product quality</td>
<td>Market problems</td>
<td>No savings and own funds</td>
<td></td>
</tr>
<tr>
<td>Insufficient buying power</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management problems</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High rent, water, electricity costs</td>
<td>High transportation costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High production costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No business plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inefficient use of working materials</td>
<td>Labour costs</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Checklist 17: Financial needs of business start-ups

Business enterprises, mainly manufacturing enterprises, need finance for:
- Renting premises/workshops;
- Purchasing/leasing machinery, tools and equipment;
- Purchasing furniture and fixtures;
- Purchasing supplies and covering other pre-operating costs;
- Covering the first six months of the business exercise.

Checklist 18: Loan requirements

With regards to finance, you should give attention to questions such as:
- What is my total capital requirement?
- Do I need a loan? What will be my equity contribution? How much is my additional loan requirement?
- Where do I get a loan fund from? What are the loan conditions?
- What type of security (collateral) am I required to present to lending institutions such as to micro finance institutions and other conventional banks?
- What are the loan terms and conditions, grace period, interest rate, repayment schedule, etc.?
- What is the project feasibility? Is my business feasible enough to generate profit and pay loans back within the specified loan term?
- What is the break-even point?
Total capital refers to initial (investment) capital and working (operating) capital that is required to cover 'take-off' costs of the business. Capital investment is when you buy an asset for the business that has a high value and lasts for a longer period of time. Some businesses can be started with low level of investment while others must invest a lot. It is wise to keep the required investment to a minimum. Working capital is the money you need to pay for purchase of raw materials, production, promotions, wages, rent and salaries before you start selling your products.

Research on financing conditions

Inform yourself on the loan conditions of Ethiopian financial institutions, notably commercial banks and micro finance institutions and:

- Refer to the publication on ‘Loan Conditions of Commercial Banks and Micro Finance Institutions in Ethiopia’, published by EBDSN;
- Contact appropriate financial institutions until your loan request is addressed;
- Identify and contact appropriate government and donor programs that assist businesses;
- Be sure that you have a financial control system that helps you keep accounts in acceptable standards. External auditors should also audit your financial statements. Audited financial statements increase the credibility of your business. Financial institutions, in particular, are interested in looking at your financial statements before they issue loans for your business;
- In case you do not have the necessary skills to keep your accounts in good order, you should either attend short-term training in accounting or try to get assistance from others.

Institutions involved

- Commercial banks and micro finance institutions;
- Governmental institutions with business support programs;
- Donor programs involved in private sector development;
- Accounting consultants;
- Accounting training centres.

2.6 Legislation Analysis

You as a business owner have a legal obligation to adhere to existing laws and regulations. These responsibilities include paying taxes, respecting regulations regarding employees, getting licenses and permits, adhering to lease and contractual agreements. Paying taxes is part of running a business and it applies to every one unless you get short-term preferential treatment from the government. It is, therefore, your responsibility to learn about the legal requirements that concern you as a business person.

a. Commercial Code

The Commercial Code of Ethiopia, a legal document issued in 1960, is a document where business related provisions are declared and 'traders and businesses' are expected to respect it. In the Commercial Code of Ethiopia, you will find provisions referring to:

- Persons carrying out trade;
- Definitions for handicraftsmen, persons and business organisations;
- Persons being regarded as traders;
- Persons capable of carrying out a trade;
- Carrying out a trade by married business persons;
- Right to act as a trader;
- Types of business organisations and legal requirements;
- Commercial registration and business licensing;
• Trade names and trade marks;
• Managers, commercial employees, commercial agents, commercial brokers and commission agents;
• Books and accounts to be kept;
• Commercial travellers and representatives;
• Sale of a business and duties of the seller and the buyer;
• Mortgage and hire of a business;
• Carriage (contract of carriage, carriage by land, carriage by air, carriage by sea, transport titles, bill of lading, ...);
• Insurance (insurance policy, insurance against damages, insurance of objects and persons, insurance against accidents and illness, ...);
• Instruments and banking transactions, bills of exchange, promissory notes, cheques, bank deposits, bank transfers, safes, credit transactions, ...);
• Bankruptcy and schemes of its arrangement and other provisions.

Since it is not possible to provide details of all of the above mentioned as well as the rest of the provisions in this toolkit, it will be advisable to refer to the publication of the commercial code available in the bookshops of Addis Ababa.

The following briefings on some of the issues, however, are presented for your reference. They are taken from the commercial code of 1960, proclamation no. 67/1997 of the commercial registration and business licensing and regulation no. 14/1997 on business registration and licensing. Reference to other relevant documents is also being made.

b. Identification of legal forms of business organisations

This refers to the determination of what form of business organisation you are going to register your business in. The Commercial Code of Ethiopia defines a business organisation as follows: “A Business organisation is any association arising out of a partnership agreement.” According to this definition there are eight forms of business organisations:

• Ordinary partnership;
• Joint venture;
• General partnership;
• Limited partnership;
• Share company;
• Private limited company;
• Sole proprietorship;
• Co-operative.

Partnership is where two or more persons who intend to join together make contributions for the purpose of carrying out activities of an economic nature and of participating in the profits and losses arising out thereof, if any. According to the Commercial Code of Ethiopia, contributions in partnership are possible in the following conditions.

• Each person shall make a contribution, which may be in money, debts, other property or skill;
• Property or the use of property may form a contribution;
• Unless otherwise agreed, contributions shall be equal and of the nature and extent required for carrying out the purposes of the partnership.

Joint venture is an agreement between partners on terms mutually agreed and is subject to the general principles of law relating to partnerships stated above.

General partnership consists of partners who are personally, jointly, severally and fully liable between themselves and to the partnership firm’s undertakings. This means that each partner is responsible for and must assume the consequences of the actions of the other partner(s). All members share the management of the business. The death or withdrawal of a general partner, or the expiration of the term of the general partnership, will dissolve the partnership. Continuation of the partnership following such events may be dealt with, however, in the partnership agreement. Since a partnership is generally a “voluntary” association, any general partner who no longer desires to be associated with the partnership may withdraw and force dissolution. Dissolution of a partnership, as a general rule, requires the winding up of its affairs and a liquidation of the partnership’s assets.
Limited partnership: Some members are general partners who control and manage the business and may be entitled to a greater share of the profits, while other partners are limited and contribute only capital. Limited partners take no part in control or management and are liable for debts to a specified extent only. A legal document, outlining specific requirements, must be drawn up for a limited partnership.

Company limited by share is a company whose capital is fixed in advance and divided into share and whose liabilities are met only by the assets of the company. The members shall be liable only to the extent of their share holding. Formation of a share company shall be by a public memorandum - memorandum of association, which consists of:

- Names, nationality and address of the members, the number of shares which they have subscribed, provided that a member may not subscribe to less than one share;
- Name of the company;
- Head office and the branches, if any;
- Business purpose of the company;
- Amount of capital subscribed and paid up;
- Par value, number, form and classes of shares;
- Value of contributions in kind, their objects, the price at which they are accepted, the designation of the shareholder and the number of shares allocated to him by way of exchange;
- Manner of distributing profits;
- Number of directors and their power.

For more information on forms of business organisations and their establishment, refer to the Commercial Code of Ethiopia (1960).

Sole proprietorship: This is the simplest way to set up a business. A sole proprietor is fully responsible for all debts and obligations related to his or her business. A creditor with a claim against a sole proprietor has a right against all of his or her assets, whether business or personal. This is known as unlimited liability. If the proprietor chooses to carry on a business under a name other than his/her own, he/she must register with the concerned local authorities. The name registration, or renewal of registration, will be valid for a certain period of time. A sole proprietorship is the cheapest and easiest form of business where most of the MSEs prefer to register their business in. Under a sole proprietorship, the entrepreneur is the owner as well as the manager of the business.

The sole proprietorship terminates by law upon the death of the sole proprietor, with very few exceptions. Estate planning documents for the sole proprietor may grant the heirs of the sole proprietor the right to continue the business.

Co-operatives: This is where people associate on a voluntary basis to promote their economic interests, whereby resources are pooled together and used. People with financial constraints, especially, tend to form co-operatives to benefit from joint efforts and external support facilities.

A co-operative business structure provides:

- Democratic control based on one member one vote;
- Open and voluntary membership;
- Patronage dividends.

Each form of business stated above has its own advantages and disadvantages. You can make your choice based on the following factors:

- Ease of registration;
- Number of owners;
- Financial responsibility of owners;
- Degree of freedom in decision making; and
- Mode of tax payment.

For more details, refer to checklists 19 and 20 presented in part I of the toolkit.
Checklist 19: Forms of business organisation

1. Partnership
   - Two or more persons are owners;
   - some owners may be active in management, others only as financiers;
   - partner's rights and duties defined by partnership agreement;
   - unlimited personal liability for business debts;
   - termination upon death of one of the partners.

   **Advantage:**
   Simple procedures and less costly, good way of finding start-up capital and good if the business
   needs skills and experience which you do not have, business risk is shared among all the
   partners.

   **Disadvantage:**
   If one partner has made an agreement on behalf of the partnership, the agreement is normally
   binding to the other partners.

2. Private Limited Company
   **Meaning:** A limited company is a company owned by two or more owners but not more than 50.

   **Advantage:**
   Smaller risk to each shareholder (you are not responsible for the debt of the business).

   **Disadvantage:**
   Quite complicated and expensive to form.

3. Single/sole Proprietorship
   - One person is sole owner;
   - relative freedom from government control;
   - unlimited personal liability for business debt;
   - termination upon death of owner;
   - owner is mostly the entrepreneur and general manager.

   **Advantage:**
   Easy and cheap form to start a business.

   **Disadvantage:**
   Most risky option (you as the owner are personally responsible for all the debts of the
   business.)

4. Co-operative
   **Meaning:** A co-operative organisation is a voluntary association of persons who associate on a
   voluntary basis for the promotion of economic interests. The co-operative form of organisation
   is different from the profit making forms of business organisations. The main objective of a co-
   operative is organising and rendering services to its members.

   **Advantage:**
   Members enjoy equal voting rights, pooling of resources - scattered resources are pooled
   together and used, government support and relaxed regulations.

   **Disadvantage:**
   High risk of failure if its leaders are not sufficiently accountable and transparent to their
   members; susceptible to political agendas.

Which form of business should I establish?

You should consider varieties of conditions before deciding which form of business to establish.
Assistance of others may be needed to select and register your business. But make the
selection by yourself and try to understand why you should select that form and what
consequences it will have in the future.
Checklist 20: Basis for which form of business to select

- **Ease of registration requirement and simplicity of the process**
  - Registration of limited company is relatively complicated.

- **Cost of starting the business**
  - Sole partnership and co-operative forms involve low cost;
  - Limited company involves high cost.

- **Number of owners**
  - Sole proprietorship - only one owner;
  - Partnership - at least two owners;
  - Private limited companies - at least two owners and not more than 50;
  - Share company - 5 or more share holders;
  - Co-operative - at least 10 members.

- **Financial responsibility of the owners**
  - Sole proprietorship - unlimited personal liability by the owner for all debts;
  - Partnership - unlimited personal liability by the owners for all debts;
  - Limited company - no personal liability by the shareholders for the debts;
  - Co-operative - no personal liability by the members for the debts.

- **Decision making in the business**
  - Sole proprietorship - all decisions are made by the owner;
  - Partnership - decisions are made jointly by all owners, unless agreed otherwise;
  - Limited company - shareholders appoint board of directors who in turn can appoint managers to run the business;
  - Co-operative - every member has one vote, a management committee is often appointed.

- **Mode of taxation**
  - Sole proprietorship - the owner is taxed for business profits;
  - Partnership - the owners are taxed individually for their share of business profits;
  - Limited company - the company pays tax for business profit;
  - Co-operative - the co-operative may pay tax for business profit or be made exempt for a period of time.

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c. Commercial registration and business licensing

After selecting one of the above forms of business organisations, the next procedure is to register your business with the concerned authorities. The concerned authorities are:

- Ministry of Trade and Industry;
- Regional Bureaux of Trade and Industry; and
- The Office of Acts and Documents Registration.

Registration of each of the above business forms may have different requirements and registering offices.

Commercial registers

According to the Ethiopian Proclamation No. 67/1997 on Commercial Registration and Business Licensing, there are three commercial registers.

- Central commercial register administered by the Ministry of Trade and Industry;
- Commercial register, registered by the Ministry of Trade and Industry, in which is registered any person engaged in those commercial activities for which the Ministry issues licensees;
- Commercial register, administered by each relevant Regional Bureau.

The registration conditions are documented in annex 7.
Schedules and forms for commercial registration and business licensing

Based on Regulation No. 14/1997 for Commercial Registration and Business Licensing in two cities - Addis Ababa and Dire Dawa - the different standardised forms are presented for your reference in the annexes 8 to 11. The formats and their contents presented in this toolkit are selected on the basis of providing valuable information, which are relevant to new business start-ups in the construction sector. Therefore, there are cases where one could not find the full contents of each of the schedules and forms stated in the Federal Negarit Gazeta, issued by the Council of Ministers of the Federal Democratic Republic of Ethiopia, Regulations No. 14/1997. Therefore, it is advisable to consult the regulation for the details. With the exception of the schedule of fees for commercial registration and business licensing presented below, the registration forms are annexed to the toolkit.

Fees for commercial registration and business licensing

<table>
<thead>
<tr>
<th>Reason for payment</th>
<th>Amount of fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>For application form (per copy)</td>
<td>Birr 2.00</td>
</tr>
<tr>
<td>For registration:</td>
<td></td>
</tr>
<tr>
<td>1. Principal registration: (based on the subscribed or authorised capital)</td>
<td></td>
</tr>
<tr>
<td>(a) up to Birr 5,000</td>
<td>Birr 5.00</td>
</tr>
<tr>
<td>(b) for each additional Birr 1,000 or part of thereof</td>
<td>Birr 1.00 provided that, however, that the total fee shall not exceed Birr 100.00</td>
</tr>
<tr>
<td>2. Summary registration</td>
<td>Birr 10.00</td>
</tr>
<tr>
<td>For registration of trade name</td>
<td>Pursuant to No. 2.1. (a) and (b)</td>
</tr>
<tr>
<td>For copy of certificate or registration (per page)</td>
<td>Birr 2.00</td>
</tr>
<tr>
<td>For alteration of commercial registration, additional registration, cancellation or an extract from any entry in the commercial registry or for a certificate of no entry</td>
<td>Birr 50.00</td>
</tr>
<tr>
<td>For alteration, modification or cancellation of trade name registration</td>
<td>Birr 50.00</td>
</tr>
<tr>
<td>For issuance or renewal of business license (based on the subscribed or authorised capital)</td>
<td></td>
</tr>
<tr>
<td>1. up to Birr 10,000</td>
<td>Birr 25.00</td>
</tr>
<tr>
<td>2. for each additional Birr 10,000</td>
<td>Birr 10.00, provided, however, that the total fee shall not exceed Birr 200.00</td>
</tr>
<tr>
<td>For a substitute business license or certificate for commercial restoration</td>
<td>Birr 50.00</td>
</tr>
<tr>
<td>For temporary business license or for expansion and upgrading permit</td>
<td>Birr 200.00</td>
</tr>
<tr>
<td>For registration and issuance of business license upon transfer of business</td>
<td>Pursuant to No. 2 or 5 and 7, as appropriate.</td>
</tr>
</tbody>
</table>
Application forms for business registration

In annexes 6 to 9, you will find formats for applications to be submitted by a sole business person, business organisations and application for a trade name registration business license. Note that there are some variations in the contents of the application forms for sole businessperson and business organisation. Therefore, it is advisable to refer to the relevant legal publication in addition to the annexes.

d. Taxation procedures

According to the Ethiopian Income Tax Proclamation No. 286/2002, “Business” or “Trade” shall mean any industrial, commercial professional or vocational activity or any other activity recognised as trade by the Commercial Code of Ethiopia and carried out by any person for profit.

Types of taxes and their conditions

The different types of taxes, their meaning, rates and conditions, as provided by the Federal Inland Revenue Authority (FIRA), are presented below.

1. Value Added Tax (VAT) is a sales tax based on the increase in value or price of product at each stage in its manufacture and distribution. The cost of the tax is added to the final price and is eventually paid by the consumer.

   The rate and impose of VAT:
   - The rate of VAT is 15% of the value for every taxable transaction by a registered person, all imported goods other than an exempt import and an import of services;
   - The export of taxable goods or services to the extent provided in regulations for zero tax rate are:
     - The export of goods or services to the extent provided in the regulation;
     - The rendering of transportation or other services directly connected with international transport of goods or passengers, as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights;
     - The supply of gold to the National Bank of Ethiopia; and
     - A supply by a registered person to another registered person in a single transaction of substantially all of the assets of a taxable activity or an independent functioning part of a taxable activity as a going concern, provided a notice in writing, signed by the transferor and transferee, is furnished to the authority within 21 days after the supply takes place and such notice includes the details of the supply.

2. Excise Tax is imposed and payable on selected goods, such as, luxury goods and basic goods which are demand inelastic. In addition, it is believed that imposing the tax on goods that are hazardous to health and which are cause to social problems will reduce the consumption thereof. Excise tax shall be paid on goods mentioned under the schedule of ‘Excise Tax Proclamation No. 307/2002’. (a) when imported and (b) when produced locally at the rate prescribed in the schedule. Computation of excise tax is applied (a) in the case of goods produced locally, production cost and (b) in the case of imported goods, cost, insurance and freight /C.I.F./. Payment of excise tax for locally produced goods is by the producer and for imported goods by the importer. Time of payment of excise tax for imported goods is at the time of clearing the goods from the customs area, and for locally produced goods it is not later than 30 days from the date of production.

3. Turnover Tax is an equalisation tax imposed on persons not registered for value-added tax to fulfil their obligations and also to enhance fairness in commercial relations and to complete the coverage of the tax system. Administrative feasibility considerations limit the registration of persons under the value-added tax to those with annual transactions to the total value exceeding 500,000 Birr.
Rate of turnover tax is 2% on goods sold locally and 10% on others. For further details refer to 'Turnover Tax Proclamation No. 308/2002'.

4. Income Tax. Income taxable under the Ethiopian 'Income Tax Proclamation No. 286/2002' shall include, but not be limited to:
   (a) Income from employment;
   (b) Income from business activities;
   (c) Income derived by an entertainer, musician, or sports person from his personal activities;
   (d) Income from entrepreneurial activities carried out by a non-resident through a permanent establishment in Ethiopia;
   (e) Income from movable property attributable to a permanent establishment in Ethiopia;
   (f) Income from immovable property and appurtenances thereto, income from livestock and inventory in agriculture and forestry, and income from usufruct and other rights deriving from immovable property that is situated in Ethiopia;
   (g) Income from the alienation of property referred to in (e);
   (h) Dividends distributed by a resident company;
   (i) Profit shares paid by a resident registered partnership;
   (j) Interest paid by the national, a regional or local Government or a resident of Ethiopia, or paid by a non-resident through a permanent establishment that he maintains in Ethiopia;
   (k) License fees including lease payments, and royalties paid by a resident or paid by a non-resident through a permanent establishment that he maintains in Ethiopia.

5. Business profit tax
   a) Taxable business income of bodies is taxable at the rate of 30%
   b) Taxable business income of other taxpayers shall be taxed in accordance with the following expenses:

Deductible expenses

   a) In the determination of business income subject to tax in Ethiopia, deductions shall be allowed for expenses incurred for the purpose of earning, securing, and maintaining that business income to the extent that the expenses can be proven by the taxpayer and subject to the limitations specified by the 'Income Tax Proclamation No. 286/2002'.
   b) In the determination of taxable business income, the owner of the business assets may deduct depreciation of business assets. The following two categories of business assets shall be depreciated according to a pooling system at the following rates:
      (i) Computers, information systems, software products and data storage equipment: Twenty-five percent (25%);
      ii) All other business assets: Twenty percent (20%).

Non-deductible expenses

The following expenses shall not be deductible:

   - The cost of the acquisition, improvement, renewal and reconstruction of business assets that are depreciated pursuant to Article 23 of this Proclamation;
   - An increase of the share of capital of a company or the basic capital of a registered partnership;
   - Voluntary pension or provident fund contributions over and above 15% of the monthly salary of the employee.
• Declared dividends and paid-out profit shares;
• Interest in excess of the rate used between the National Bank of Ethiopia and the commercial banks increased by two (2) percentage points;
• Damages covered by insurance policy;
• Punitive damages and penalties;
• The creation or increase of reserves, provisions and other special-purpose funds unless otherwise allowed by this Proclamation;
• Income Tax paid on Schedule C income and recoverable value-added Tax;
• Representation expenses over and above 10% of the salary of the employee;
• Personal consumption expenses;
• Expenditures exceeding the limits set forth by this Proclamation or Regulations issued hereunder;
• Entertainment expenses;
• Donations or gifts.

e. Customs procedures

Information gathering in relation to the Ethiopian customs and duty procedures is of equal importance to that of business registration and taxation. Customs and duties are concerned with the import and export of goods. The concerned authority for controlling the import and export of goods is the Ethiopian Customs Authority (ECuA). The ECuA is responsible for collecting duties, taxes and other charges levied in relation to imports and exports according to government laws, regulations and directives. It also controls and prevents illegal trades that are detrimental to social well-being and economic development.

Ethiopian Customs Declaration (ECUD) form

The Ethiopian customs declaration is the only declaration form that is issued for all customs procedures. The ECUD consists of a primary sheet, and where necessary one or more continuation sheets depending on the number of items to be declared.

The information required to fill in the ECUD primary sheet (taken from the web page of the Ministry of Revenue) is presented below.

• Name exporter/consignor and assigned number;
• Name of importer/consignee and assigned number;
• Declarant/agent and assigned number;
• Clearance office;
• Manifest number;
• Way bill number;
• Frontier office/port of exit;
• Date of arrival/departure;
• Total items;
• Total packages;
• Voyage/flight/vehicle/rail registration number;
• Country of consignment;
• Country of origin;
• Port of loading/discharging;
• Country of final destination;
• Account holder/prepayment number;
• Mode of transport;
• Name, vehicle owner/driver/organisation;
• Nationality of transporter;
• Declarant reference;
• Guarantee number;
• Guarantee amount;
• Terms of payment;
• Item number;
• Goods description;
• Marks and numbers/container number;
• Currency, rate of exchange customs value;
• Valuation method/ruling;
• Gross and net weight (kg);
• Warehouse code/name;
• Bank/branch reference;
• Commodity code;
• Agreement code;
• Insurance;
• Type of package;
• Estimated period in warehouse/transit;
• Invoice value;
• Revenue information such as tax type, tax base code, base value, duty and tax due, attached documents code, bank permit number, invoice number, other charges.
f. Tender and bid procedures

It is a common practice in the business environment that organisations require work done for them, or are supplied with goods/services in bulk. In such cases, it would be of great help to familiarise yourself with the existing tender guides and bid procedures. The following paragraphs are presented to provide you with information on the existing tender and bidding practices in Ethiopia. In addition to the information available in this toolkit, it would also be wise to read newspapers such as the Ethiopian Herald and Addis Zemen to learn how organisations advertise tenders and bids.

What is a tender?
Tender is a means by which an organisation invites suppliers to submit competitive offers for prices to render their services. There are different types of tenders:

1. **Open tendering**
Public bodies should prepare the documents and follow the steps required for open tendering provided for in articles 22 – 51 of the procurement manual of the Ministry of Finance (MoF). The following steps should be followed when procuring under alternative methods of procurement, except where specifically provided for.

   **Procedures for open tendering**
   The public body should firstly assess its need or demand for the goods or services to be purchased. The need or demand for the goods or services to be purchased should be requested and approved by the authorising unit within the public body. It should also reflect the interests of all concerned units in the public body. After the need assessment is undertaken, the public body should prepare bidding documents. These documents should include the following:
   - An invitation to tender;
   - Instructions to bidders;
   - Specifications and detailed descriptions of the goods and services to be purchased;
   - Draft of basic terms and conditions of contracts;
   - Standard forms for tenders, including the quality and price schedules.

2. **Two-stage tendering**:

   **First stage:**
   - Solicitation documents shall call upon suppliers, initial tenders containing their proposals without a tender price;
   - The solicitation documents may solicit a proposal relating to the technical, quality or other characteristics of the goods, construction or services as well as to contractual terms and conditions of supply, and, where relevant, the professional and technical competence and qualifications of the suppliers;
   - The public body may, in the first stage, engage in negotiations with any supplier or contractor whose tender has not been rejected pursuant to articles 12 and 13 of the procurement manual of MoF concerning any aspect of its tender.

   **Second stage:**
   - Public bodies shall invite suppliers whose tenders have not been rejected to submit final tenders with prices with respect to a single set of specifications;
   - Public bodies may delete or modify any aspect, originally set forth in the solicitation documents, of the technical or quality characteristics of the goods, construction or services to be procured, and any criterion originally set forth in those documents for evaluating and comparing tenders and for ascertaining the successful tender, and may add new characteristics or criteria that conform with this directive;
   - Any such deletion, modification or addition shall be communicated to suppliers or contractors in the invitation to submit final tenders;
A supplier not wishing to submit a final tender may withdraw from the tendering proceedings without forfeiting any tender security that the supplier may have been required to provide;

The final tenders shall be evaluated and compared in order to ascertain the successful tender as defined in article 45 of procurement manual of the MoF.

3. Restricted tendering

When public bodies engage in restricted tendering on the grounds referred to in article 16(a) of the procurement manual of the MoF, it shall solicit tenders from all suppliers from whom the goods, construction or services to be procured are available;

When the public body engages in restricted tendering on the grounds referred to in article 16(b) of the procurement manual of the MoF, it shall select suppliers from whom to solicit tenders in a non-discriminatory manner and it shall select a minimum of 3 suppliers from the approved suppliers list. For details on Tender procedures you may refer to the booklet of EBDSN entitled "Marketing Strategies".

Checklist 21: Check your legal responsibilities

1. Business registration
   - Identify concerned institution for a license/work permit;
   - Check procedures required to secure a license;
   - Check how much time it takes to secure a license;
   - Check how much it costs to secure a license;
   - Check how much the annual license fee you should pay;
   - Check when you should renew your license.

2. Taxes
   - What type(s) of taxes you are required to pay? (e.g. value added tax, income tax, profit tax, turnover tax, sales and excise tax);
   - What are the tax rates for each tax category?
   - Which organisations are responsible for tax collection?
   - What penalties are involved for untimely/missing tax payments?

3. Tenders
   - Check existing tender procedures;
   - Check existing legal conditions for tender participation;
   - Identify potential sources of tenders.

2.7 Business support facilities

You as a business owner have a legal obligation to adhere to existing laws and regulations. These responsibilities include paying taxes, respecting regulations regarding employees, getting licenses and permits, adhering to lease and contractual agreements. Paying taxes is part of running a business and it applies to every one unless you get short-term preferential treatment from the government. It is, therefore, your responsibility to learn about the legal requirements that concern you as a business person.

a. Policy framework and strategy

Currently, there are various government support facilities being provided by national and bilateral programmes. The Federal Micro and Small Enterprises Development Agency (FeMSEDA) and the Regional Micro and Small Enterprises Development Agencies (ReMSEDA) are mainly established to promote the sector. The majority of the regions in Ethiopia have their own agencies. The agencies operate within the framework of the Micro and
Small Enterprises Development Strategy outlined by the government. The elements of the support framework are:

- Creation of an enabling legal environment;
- Streamlining regulatory conditions;
- Other specific support areas/programs like:
  - access to finance;
  - incentive schemes;
  - encouraging partnerships;
  - training in entrepreneurship, skills and management;
  - access to appropriate technology;
  - access to market;
  - access to physical structure.

The following table provides information on some of the roles of the Federal and Regional Micro and Small Enterprise Development Agencies.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Support Activities</th>
</tr>
</thead>
</table>
| FeMSEDA | • Assist, encourage and support the Regional Agencies;  
          • Provision of entrepreneurship training (CEFE, Basic Business Skills (BBS), Start Your Business (SYB), Improve Your Business (IYB));  
          • Technical skill training (bamboo craft, woodwork, metal work, tailoring, pottery);  
          • Dissemination of developed prototypes and information;  
          • Consultancy, facilitation, marketing, technology database. |
| ReMSEDAs| • Provision of extension services in the areas of human resources development, information and consultancy, facilitation, technical and marketing services at regional, zonal and Woreda level. |

Technical and Vocational Education and Training (TVET) Programme

One of the different government support facilities available to enhance the performance of the construction sector is the Technical, Vocational, Education and Training (TVET) Programme. The Ministry of Education issued a strategy for the establishment of TVET centres and outlined guidelines for implementation. The strategy provides ample opportunity for students attending first cycle, 10+1 and 10+2 classes. In addition, the necessary attention has also been given to citizens that could not go through the formal school system. They have the opportunity to get basic vocational training through non-formal TVET programmes (for a list of TVET centres, please refer to annexes 1-4).

Access to finance

In Ethiopia currently there are three commercial and development banks: Construction and Business Bank (CBB), Commercial Bank of Ethiopia (CBE) and Development Bank of Ethiopia (DBE). Each bank has its own loan conditions and target clients. Lending policies such as interest rates, loan terms or repayment time and loan size may vary from one bank to the other. From the private sector, there are about six banks working more or less with similar procedures.

However, it has been considered by many that these banks are not fully responding to the needs of the micro and small enterprise operators, particularly for new business start-ups, as they are not their ultimate target clients.

Absence of working capital is one of the major problems for new business start-ups. The government of Ethiopia, through the National Bank of Ethiopia, created a conducive policy environment for the establishment of Micro Finance Institutions (MFIs) that serve rural farmers and urban entrepreneurs. Currently there are 23 MFIs operating in most parts of the country. Those MFIs established by regional governments have mainly targeted rural parts of the country, where the majority of the people reside.
Access to Premises

Access to physical infrastructure refers to work premises that micro and small enterprise owners need for their business undertakings. New business start-ups, in particular, suffer from lack of working premises. Taking this problem into consideration, the federal as well as regional governments are taking positive measures to making work premises available for entrepreneurs. The ReMSEDAs play a great role in facilitating access to work premises and can be contacted in order to give you advice and link with the municipalities.

Job opportunities through government projects

Government has wide range of development activities that can create job opportunities for existing and new business start-ups through sub-contracting and other similar arrangements. For instance, the following are some construction projects undertaken by the government:

- Construction of residential quarters such as condominiums;
- Construction of roads;
- Construction of schools, colleges, health facilities;
- Maintenance of publicly owned buildings.

Operators in the micro and small enterprise sector can get job orders as far as they have the necessary skill to carry out the jobs properly. Such contracts may need more capacity in terms of labour, working capital, tools and equipment. In such cases, it would be necessary to join hands with similar group of people with the required skills and create linkage with micro finance institutions to solve the problem of working capital. In addition, it would be necessary to get sufficient information on bid and tender procedures, contractual agreements, standards and quality and related administrative issues to win job orders.

b. Vocational training centres

and training programmes offered by the Government and the private sector

Government training centres

Technical schools and Skill Development Centres (SDCs) provide various types of training courses under the TVET programme. Some of the courses for lower-level trainees in the construction sector are:

- Basic training in construction technology;
- Handicraft training;
- Basic training in industrial technology;
- Business education.

Training courses for middle-level trainees in the construction sector include:

- Construction (building construction, road construction, woodwork, drafting, surveying);
- Industrial Technology (electricity, electronics, auto mechanics, general mechanics, machine technology);
- Entrepreneurship;
- Bookkeeping/accounting and secretarial services (secretarial, office management, bookkeeping/accounting, information technology);
- Business education (purchasing and supply management, market research and salesmanship).

The purpose of the above training programmes are:

- Creation of new businesses individually or in groups;
- Creation of employment opportunities in existing organisations;
- Enhancing skills and tendencies for improving traditional technology and providing quality services.

There are a number of technical schools, SDCs and other publicly owned institutions in Ethiopia that provide training in the areas of construction and industrial technology.
Government TVET Centres

The publicly owned TVET centres are mainly engaged in providing training to regular students under the 10+1, 10+2 and 10+3 TVET programme of the Ministry of Education. For adult business start-ups that cannot attend the regular TVET programmes may contact the private and non-for-profit TVET centres. It is also necessary to find out if the regular government TVET programmes could also be accessed in extension or summer classes.

The Centre of Competence for Construction (CCC) offers six-week courses in construction and building trades. The (CCC) is supported by Centre for International Migration (CIM) and Senior Expert Service (SES) through long and short-term experts for special assistance.

Currently the centre provides vocational training in:

- Plumbing and sanitary installation;
- Electrical house installation;
- Road and pavement construction, including sewerage system;
- Plastering and tiling of walls and floors;
- Gypsum decoration;
- Masonry work (brick, hollow blocks and natural stones);
- Painting (external and internal).

Private TVET Centres

Though their number is limited, there are private technical and vocational training institutions that provide paid training services as per the government TVET strategy. Information concerning types of courses offered, fees for the courses, duration of courses and similar issues are important. Their list can be accessed from licensing organisations such as the Bureau of Trade, Industry and Tourism and Bureau of Education.

Non-Governmental Organisation programmes

Some non-governmental organisations engaged in the promotion of the Micro and Small Enterprise operators provide training support as per the government TVET strategy. Some of them have training centres of their own whilst others sponsor training courses at other institutions. The current trend of sponsorship shows that training should be accessed on the basis of cost sharing, and not for free.

The lists of public, primary skill development centres, private and non-for-profit TVET centres and training courses on offer as well as their addresses are presented in annexes 1, 2, 3 and 4 respectively.
Checklist 22: Summary of information seeking and decision-making

1. Market demand
   - Saturation of existing demand by existing suppliers;
   - Reliability of supply for existing product/service;
   - Expected increase of demand for the product/service;
   - Variety of distribution channels and target clients
   - (low, medium and high income group clients) and market segment;
   - Existing sub-contracting and market linkage opportunities;
   - Names and prices of advertising enterprises;
   - Same/similar kind of goods/services (number, price, concentration, and quality) offered by competitors.

2. Availability of qualified personnel and training
   - Availability of different skills (conceptual, managerial, technical, manual);
   - Steadiness of supply of skills;
   - Cost of labour;
   - Institutions that provide business management training and their fees;
   - Institutions that provide skill up-grade training and their fees.

3. Availability of technology and equipment
   - Availability of proven technology/tasted equipment;
   - Availability of technology/equipment at reasonable prices;
   - Availability of technology appropriate for the level of production, level of investment and desired product quality.

4. Availability of supply of raw materials
   - Availability of adequate local/imported sources of raw materials at reasonable prices;
   - Reliability of supply of raw material;
   - Seasonal availability, quality and viability of raw materials.

5. Competitors
   - Competitors offering the same kind of goods/services

6. Availability of utilities and infrastructure
   - Availability of/access to electric power and water supplies;
   - Availability of transportation at an affordable price;
   - Access to work premises and related costs.

7. Finance
   - Alternative sources of finance (micro finance institutions, commercial banks, government funds, donor funds);
   - General loan conditions, terms and interest rates of the various lending institutions including government financial sources.

8. Legislation
   - Business laws and binding contractual agreements;
   - Special provisions and support from government;
   - Form of business enterprise to establish and related legal requirements and licensing procedures (partnership, sole proprietorship, co-operative);
   - Tax holidays and exemptions, types and rate of payment;
   - Standards and quality regulations;
   - Tender procedures.

9. Business management
   - Organisational form of the business;
   - Availability of different skills (conceptual, managerial, technical, manual);
   - Steadiness of supply of skills;
   - Cost of labour;
   - Institutions that provide business management training and their fees;
   - Institutions that provide basic accounting training and their fees;
   - Auditing services and their fees;
   - Institutions that provide skill up-grade training and their fees.
The following table is presented to show you what decision variables you should consider in order to start your business. Please note that the crosses indicated in the 'Yes' and 'No' columns of the table are presented as examples only.

**Checklist 23: Final decision to start your business**

<table>
<thead>
<tr>
<th>Decision variables</th>
<th>Yes</th>
<th>No</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have you decided what product/service to sell?</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have you identified who your customers will be?</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you know who your competitors are?</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you know what price to charge for your product/service?</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is it competitive?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have you found a location for your business?</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have you decided what kind of promotion to use and have you calculated the related costs?</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have you decided which legal form your business will have and do you have all the relevant information about licensing procedures?</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you know what kind of skilled labour you are going to hire, their availability and the relevant costs?</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have you calculated how much start-up capital you need and from where to secure it?</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have you decided what kind of record-keeping system your business uses?</td>
<td>x</td>
<td></td>
<td>look for assistance from others</td>
</tr>
<tr>
<td>Have you prepared a sales and costs plan for at least six months?</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does your sales and costs plan show profit for a reasonable period of time, say at the end of the first year of operation?</td>
<td>x</td>
<td></td>
<td>revise your plan and strategy</td>
</tr>
<tr>
<td>Have you prepared a cash flow projection, for at least 6 months?</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does your cash flow plan show your business will not run out of cash during the first few months i.e. 6 months?</td>
<td>x</td>
<td></td>
<td>revise your cash flow plan</td>
</tr>
<tr>
<td>Have you found out what assistance you may get from government and other development agencies?</td>
<td>x</td>
<td></td>
<td>look for information from relevant offices</td>
</tr>
</tbody>
</table>

| Total | 11 | 4 |

Now make your final decision based on the total sum of 'Yes' and 'No' answers for the indicated decision variables.
3. Steps of Business Implementation

Followed by possible business idea generation, screening and information seeking concerning the selected best business idea, the entrepreneur is expected to start setting up the business in a step-by-step manner. Steps involved are: 1. Preparation of a business plan, 2. Determination of available and accessible sources of finance, 3. Going through (following) legislation and administrative procedures, 4. Setting up the necessary infrastructure, 5. Contact suppliers and undertake supply of equipment, 6. Undertaking product development activities, 7. Undertaking business management and 8. Marketing activities.

Figure 3: Components of business implementation steps
Draw an action plan

To start your business, you need to have an action plan that shows a list of activities to be undertaken and when to do them. The following simplified action plan format is presented for your reference.

Follow the graphic presentation and put all the necessary steps into the action plan including the timetable, responsibilities and institutions or persons to be contacted.

Checklist 24: Simplified action plan format (sample)

<table>
<thead>
<tr>
<th>Activities</th>
<th>Weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
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<td>3</td>
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<td>4</td>
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<td>12</td>
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<td>13</td>
</tr>
<tr>
<td></td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>15</td>
</tr>
<tr>
<td>Pre-operating activities:</td>
<td></td>
</tr>
<tr>
<td>Attending training (if required)</td>
<td></td>
</tr>
<tr>
<td>Product identification</td>
<td></td>
</tr>
<tr>
<td>Market survey</td>
<td></td>
</tr>
<tr>
<td>Renting/con structing workshop</td>
<td></td>
</tr>
<tr>
<td>Business plan preparation</td>
<td></td>
</tr>
<tr>
<td>Registering the business</td>
<td></td>
</tr>
<tr>
<td>Applying/approval of loan</td>
<td></td>
</tr>
<tr>
<td>Contracting equipment and suppliers</td>
<td></td>
</tr>
<tr>
<td>Hiring labour (if applicable)</td>
<td></td>
</tr>
<tr>
<td>Installing/placing the equipment</td>
<td></td>
</tr>
<tr>
<td>Purchasing raw materials</td>
<td></td>
</tr>
<tr>
<td>Trial production</td>
<td></td>
</tr>
<tr>
<td>Product costing</td>
<td></td>
</tr>
<tr>
<td>Pricing</td>
<td></td>
</tr>
<tr>
<td>Selection/securing sales outlet/shop</td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
<td></td>
</tr>
<tr>
<td>Operating phase:</td>
<td></td>
</tr>
<tr>
<td>Start actual production</td>
<td></td>
</tr>
<tr>
<td>(say at 70% capacity)</td>
<td></td>
</tr>
<tr>
<td>Evaluate market share/sales</td>
<td></td>
</tr>
<tr>
<td>Set a plan to improve your business</td>
<td></td>
</tr>
<tr>
<td>Product diversification</td>
<td></td>
</tr>
<tr>
<td>Improve financial management capacity</td>
<td></td>
</tr>
<tr>
<td>Make market survey for further expansion</td>
<td></td>
</tr>
</tbody>
</table>

→ = continuous activity
Steps to follow to put your business idea into practice
Note: Some steps have to be done simultaneously.

**Step 1: Preparation of business plan and calculation of costs**

A business plan is the most essential document for starting, building and making businesses successful. It is an effective tool for raising the necessary capital to start and/or run business enterprises. The business plan describes what the business will do, how and where it will be started. Many businesses fail due to lack of planning and preparation.

The preparation of a business plan is important because it provides information about:
- What profit your business can expect to make in the future;
- How much money you can expect to come into and go out of your business;
- Level of profit expected from your business within the period of the life of the business;
- Which part of your business you can improve.

The two most important planning documents for your business are:
- Sales and cost plan;
- Cash flow plan.

When you make business plans:
- Make them simple;
- Choose the most suitable period;
- Make them before you need to use them;
- Look for information.

In working out your own project, you should prepare a sound business plan based on data which you collected and in which you have the utmost confidence. Make your business plan tailor-made based on your specific strengths and weaknesses. Decide on how much of your savings should be invested in the project, how much income you should generate from the business, who your clients would be, and which technical process is in line with your level of skills, resources and market size.

The following two checklists are presented to show you two business plan formats. 'Business plan format 1' is envisaged to serve people who engage themselves in micro and small enterprise activities, whereas 'Business plan 2' may be used by medium and large businesses. The formats will help you take practical steps to prepare your business plan accordingly. You will find help topics and explanations for the majority of the elements of 'Business plan 1'. When applying the formats, you need to organise and make use of data collected in the information seeking stage.
Checklist 25: Business plan format 1 for micro and small enterprises

1. Full name of the business operator............................................................................................................................................................................

2. Address: Woreda / Sun-City..................................................................................................................................................................................... Town ........................................................................................................
Kebele.............................................................................................................................................................................................................. House no..................................

3. Type of the plan/work/business........................................................................................................................................................................

4. Date of business plan: From........................................................................... to .............................................................

5. Work premises at the disposal of the operator .................................................
(location, size, facilities)
....................................................................................................................................................................................................................................
Specify, if there is any advantage or problem related to the location:
....................................................................................................................................................................................................................................

6. Yearly sales plan:

<table>
<thead>
<tr>
<th>No.</th>
<th>Product/service to be sold/marketed per year</th>
<th>Unit of measurement</th>
<th>Qty.</th>
<th>Unit price</th>
<th>Total price</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
</tbody>
</table>

Total sales

Months during which sales are expected to be high.................................................................................................................................
....................................................................................................................................................................................................................................

7. Equipment currently owned by the operator:

<table>
<thead>
<tr>
<th>No.</th>
<th>Type of equipment and year of purchasing</th>
<th>Unit of measurement</th>
<th>Qty.</th>
<th>Unit costs</th>
<th>Total costs</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total costs of equipment
8. Equipment to be purchased by the operator:

<table>
<thead>
<tr>
<th>No.</th>
<th>Type of equipment</th>
<th>Unit of measurement</th>
<th>Qty</th>
<th>Unit costs</th>
<th>Total costs</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Total costs of equipment

9. Annual raw material requirements:

<table>
<thead>
<tr>
<th>No.</th>
<th>Type of raw material</th>
<th>Unit of measurement</th>
<th>Qty</th>
<th>Unit price</th>
<th>Total price</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total yearly raw material costs

Sources of raw materials ..........................................................................................................................................................

10. Other annual operating expenses:
(e.g. labour expenses, sales expenses, depreciation expenses, tax expenses)

<table>
<thead>
<tr>
<th>No.</th>
<th>Types of expense</th>
<th>Amount of expense in Birr</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total expense

11. Annual production/service plan:

<table>
<thead>
<tr>
<th>No.</th>
<th>Types of production/ service planned to be produced / rendered</th>
<th>Unit of measurement</th>
<th>Qty</th>
<th>Unit costs</th>
<th>Total costs</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total costs
12. Annual Profit and Loss Statement

<table>
<thead>
<tr>
<th>Company: ..........................</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and Loss Statement</td>
</tr>
<tr>
<td>Period: from................ to.................</td>
</tr>
<tr>
<td>Gross Sales</td>
</tr>
<tr>
<td>Less: Returns and allowances</td>
</tr>
<tr>
<td>= Net Sales</td>
</tr>
<tr>
<td>Less: - Costs of goods sold</td>
</tr>
<tr>
<td>Direct material</td>
</tr>
<tr>
<td>Direct labour</td>
</tr>
<tr>
<td>Factory overhead</td>
</tr>
<tr>
<td>= Gross Profit</td>
</tr>
<tr>
<td>Less: - Administrative and selling expenses</td>
</tr>
<tr>
<td>Salaries</td>
</tr>
<tr>
<td>Telephone</td>
</tr>
<tr>
<td>Water</td>
</tr>
<tr>
<td>Electricity</td>
</tr>
<tr>
<td>Rentals</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>= Operating Profit</td>
</tr>
<tr>
<td>Less: - Interest expense</td>
</tr>
<tr>
<td>= Net Profit before Tax</td>
</tr>
<tr>
<td>Less: - estimated Income Tax</td>
</tr>
<tr>
<td>= Net Profit after Tax</td>
</tr>
<tr>
<td>Date</td>
</tr>
<tr>
<td>Signature</td>
</tr>
</tbody>
</table>

Introduction to some components of business plan 1

In order to compose the business plan, please download the Winword.doc version that can be found in the business plan web page

www.bds-ethiopia.net/business-plan.html

The table of the business plan has to be complemented with more lines, if necessary.

Help to 3: Write down the type of business/activity in which the operator is engaged /would like to be engaged.

Help to 4: Fill the starting and termination date of the planning period, specifying the date, month and year.

Help to 5: Describe the work premises and other utilities at the operator's disposal and describe the specific working premise problems, if any. If there is anything in the location that is of special interest for your business you can stress it, too.

Help to 6: The annual sales should be planned based on certain market surveys or past experiences, if any are available. Planning the annual sales enables you to find out about the desired production amount (it makes no sense to produce more than you can sell) and the annual income. Describe the months during which sales are expected to be high, in order to make the necessary preparations ahead of time and exploit the advantage. For defining the unit price per product/service you should first know the unit costs (see production costs) as well as the prices of your competitors. So probably you will at first fill only columns I-III, to define the possible production amount and after counting the costs per unit you can define the price per unit.
Help to 7: Knowing the possible amount of products/services you can sell, you are now able to plan your desired production capacity, and hence the machinery you will need for this amount. If you already have some equipment, then describe it here. Multiplying the quantity of the specific equipment by its unit cost will give you the total cost of the equipment. Depreciation is the theoretical price to the use of an asset. You need to know it to count later the costs of your product/service. One of the various methods of defining yearly depreciation, and the simplest one, is to divide the purchasing price of the asset by the number of years of usage.

Help to 8: Make a list of the equipment for production/service planned to be bought by the operator. Multiplying the quantity of the specific equipment to be bought by its unit price will give you the total costs of the equipment.

Help to 9: Describe the annually required raw materials by specifying the type of raw materials, the quantity needed, unit and total costs. Indicate the source of raw materials, whether it is self owned, obtained from the local market or imported from abroad.

Help to 10: The general yearly operating expenses should be explained in order to know production costs and determine the price of the product or service. Unit costs are comprised of material, labour, production overheads, administration and marketing costs, if the production of one product is in place. For several products: Divide the production costs by the number of products.

Help to 11: If logically planned, then columns I-III are the same as the annual sales plan chart (see 6). If you multiply the quantity of production/service planned by its unit cost you will obtain the total cost of production or service. To define the unit costs you have to add the fixed costs per unit and variable costs per unit. Fixed costs are usually: administration expenses (tel., fax), stationery, rent, electricity, water, transport, public services, maintenance, advertisement, depreciation, entrepreneur’s salary/wages and salaries (not piece wage!). Variable costs usually include: Raw materials and salary per produced piece (hint: for more details about counting the unit costs refer to the booklet on “Accounting and Cost Calculation” published by the same editor).

Help to 12: In order to determine the annual gross profit, subtract all the appropriate annual expenses from the annual sales revenue. If the annual tax expenses are subtracted from gross profit, the net profit will be obtained.

Instruction to the Profit and Lost Statement

The "Profit and Loss" (P+L) Statement is one of the financial analysis tools employed by business enterprises to track the performance of their enterprises. The P+L statement is the difference between sales and expenses of an enterprise over a given period of time, often one year. If this difference is positive, it is called profit, while if it is negative, it is then called loss. The P+L statement is important for business operators/managers in checking the efficiency of their business strategies and taking proper action. The statement is also important for bankers to check business profitability before extending credit. The statement can only be drawn up based on certain source documents such as the cashbook; otherwise it would be very difficult to apply, especially for micro enterprises. For the statement to be applied in a given enterprise a certain level of accounting system is needed to be in place. The P+L statement has the following components:

- **Gross sales**: This is the total value of sales, which is obtained by multiplying the price of each product with the total units of output sold.

- **Returns and allowances**: Stands for the value of damaged goods that are returned by customers to the business enterprise for which the business replaces the damaged goods with new. It also considers payments that are made as sales commissions, discounts, etc., which again are deducted from Gross Sales to result in Net Sales.

- **Costs of goods sold**: Stands for the costs involved with regard to direct labour, direct material and factory overhead costs which are deducted from Net Sales to arrive at Gross Profit

- **Direct material**: Stands for those material costs directly accrued in the production process, such as raw materials.

- **Direct labour**: Refers to costs of all labour input directly used in the production of goods/services of a given enterprise. Often the direct labour costs are measured on unit rates and costs of the daily labour.

- **Factory overhead costs**: Stands for those costs incurred, but which are not directly related to the production process. e.g. depreciation of machinery or equipment, factory shade, rent.
• Administrative and selling expenses: This includes costs incurred for certain administrative purposes and for the distribution of products. These are deducted from Gross Profit to arrive at Operating Profit. These expenses are for example, salaries of management and support staff, expenses related to telephone, water and electricity bills as well as office rentals and other similar expenses.

• Interest expense: This is the amount of interest to be paid on the amount of loan obtained, based on the current interest rate.

• Estimated income tax: The amount of tax that has to be paid as per the income tax proclamation.

Checklist 26: Simplified sales and cost plan format

<table>
<thead>
<tr>
<th>Details</th>
<th>Months</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>Direct material costs</td>
<td></td>
</tr>
<tr>
<td>Direct labour costs</td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
</tr>
<tr>
<td>Indirect costs</td>
<td></td>
</tr>
<tr>
<td>Net profit</td>
<td></td>
</tr>
</tbody>
</table>

Direct costs: Are those costs incurred in direct proportion to the volume of output or to the time spent on making a specific number of units of the product.

Direct material costs - are all the money your business spends on the parts and materials that become part of, or are directly related to, the products or services you make or sell. To be counted as direct material costs, the amount of material must be easy to calculate, and the cost of the material must be big enough to add a considerable amount to the total direct material costs. If this is not the case, they may be considered as indirect costs.

Direct labour costs - are all the money your business spends on wages, salaries and benefits for the people who are directly involved in the production of your products or services. The time spent on making the product must be easy to calculate, and the cost of the labour must be big enough to add a considerable amount to the total direct labour costs. If this is not the case, they may be considered as indirect costs.

Indirect costs - are all other costs that you have incurred by running your business when running your business, for example rent, interest and electricity. Indirect costs are not directly related to one particular product or service. They are sometimes called overheads or expenses.

Manufacturing cost - is the sum of direct material cost, direct labour cost and manufacturing overheads.

Non-manufacturing cost - is the sum of selling expenses and general and administrative expenses.

Factory overhead - includes costs such as auxiliary materials, factory/workshop supplies, supervision, tea for workers, depreciation of building and equipment, maintenance/repair of tools, equipment and machinery.

Administrative cost - includes costs such as salaries, depreciation (office equipment, etc), office supplies, communication, transport, insurance, rent, taxes/fees and financial charges or interest on loans.

Selling expenses - salaries, packaging, transport, allowances for sales persons, communications and promotions and miscellaneous others.

Full cost - is the sum of manufacturing and non-manufacturing costs.
Suggested examples for direct and indirect costs

<table>
<thead>
<tr>
<th>Costs</th>
<th>Direct</th>
<th>Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages for workers in the workshop</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Salary for the secretary</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Electricity</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Rent for factory building</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Petrol for car</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Raw material cost</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Cost of replacing a worn out tool</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

Note for the reader: categorising costs as direct and indirect is sometimes controversial. A direct cost in one enterprise may be considered as indirect cost in the other based on their size or nature.

Fixed costs and variable costs: Some costs vary with the volume of production or services, whilst others do not. This means that certain costs increase or decrease proportionally with the increase or decrease in production activities. These costs are called variable costs. Fixed costs, however, do not generally change over a range of different production levels except in the long run.

Depreciation: A cost charged against fixed assets for their replacement. Fixed assets are depreciated over time to reflect the decline in value of these assets. Depreciation is a tax deductible but non-cash expense for the business and does not appear in the cash flow.

Many people are unaware of costs and waste scarce resources. Be cost conscious and think about systematic but simple cost calculation! Cost calculation is the way to calculate the total costs of making and selling a product or providing a service. How can it improve the business? Costing helps you to:
- Set prices;
- Control and reduce costs;
- Plan for the future;
- Make better decisions;
- Write a business plan to obtain a credit.

Steps of cost calculation:
1. Identify cost components;
2. Systematise costs;
3. Calculate variable costs;
4. Calculate fixed costs;
5. Calculate total costs per unit;
6. Set prices, deduct the breakeven point.

It is also important to know and identify cost components involved in your enterprise as follows:

**Production**
- Manpower; raw materials; electricity, transport, rent, water; machinery, equipment and tools.

**Management**
- Manpower, entrepreneur’s salary; stationery, telephone, rent, electricity, insurance; equipment.

**Selling**
- Publicity, promotion, commissions.

**Finance**
- Interest.
Cash-flow plan: It is a forecast which shows you how much cash you can expect to flow into your business and how much cash you expect to go flow out of your business each month. A cash flow forecast helps you make sure that your business does not run out of cash at any time. That means that it helps predict cash needed - how much money will be needed and when it will be needed - or to predict cash surplus and plan investment. A business with more cash outflow than inflow will soon get into trouble. It will not be able to pay its expenses when they fall due.

Diagrammatic presentation of cash flow:

Collections (from sales, loans, equity)

Business

Payments (for material and other supplies, salary, water, electricity, rent, interest, transport)

Checklist 27: Simplified cash flow format

<table>
<thead>
<tr>
<th>Details</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan</td>
</tr>
<tr>
<td>Beginning Cash Balance (1)</td>
<td></td>
</tr>
<tr>
<td>Cash Receipts: Example</td>
<td></td>
</tr>
<tr>
<td>- Sales</td>
<td></td>
</tr>
<tr>
<td>- Equity</td>
<td></td>
</tr>
<tr>
<td>- Loans</td>
<td></td>
</tr>
<tr>
<td>- Collections from credit sales</td>
<td></td>
</tr>
<tr>
<td>Total receipts (2)</td>
<td></td>
</tr>
<tr>
<td>Cash available for use (1+2)</td>
<td></td>
</tr>
<tr>
<td>Cash payments: example</td>
<td></td>
</tr>
<tr>
<td>- Materials</td>
<td></td>
</tr>
<tr>
<td>- Wage/salaries</td>
<td></td>
</tr>
<tr>
<td>- Rent</td>
<td></td>
</tr>
<tr>
<td>- Stationery</td>
<td></td>
</tr>
<tr>
<td>- Transport</td>
<td></td>
</tr>
<tr>
<td>- Other expenses</td>
<td></td>
</tr>
<tr>
<td>Total payments (3)</td>
<td></td>
</tr>
<tr>
<td>Ending Cash Balance (1+2-3)*</td>
<td></td>
</tr>
</tbody>
</table>

* The cash balance at the end of the previous month shall be foreworded to the beginning of the next month.
Components of a balance sheet:

The balance sheet is the statement of assets and liabilities and gives the financial picture of the business as of a certain date, for example, at the end of the year.

Checklist 28: Balance sheet (example for first year of operation)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Amount (Birr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>10,000</td>
</tr>
<tr>
<td>Raw materials inventory</td>
<td>12,000</td>
</tr>
<tr>
<td>Work-in-process inventory</td>
<td>11,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,000</td>
</tr>
<tr>
<td>Total current assets</td>
<td>35,000</td>
</tr>
<tr>
<td>Fixed assets:</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>0</td>
</tr>
<tr>
<td>Building/workshop</td>
<td>15,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>15,000</td>
</tr>
<tr>
<td>Total fixed asset</td>
<td>30,000</td>
</tr>
<tr>
<td>- Less accumulated depreciation</td>
<td>(3,750)</td>
</tr>
<tr>
<td>Net fixed asset</td>
<td>26,250</td>
</tr>
<tr>
<td>Total Assets</td>
<td>61,250</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>2,000</td>
</tr>
<tr>
<td>Loans payable</td>
<td>10,000</td>
</tr>
<tr>
<td>Total current liability</td>
<td>12,000</td>
</tr>
<tr>
<td>Long-term liabilities:</td>
<td></td>
</tr>
<tr>
<td>Loans payable</td>
<td>10,000</td>
</tr>
<tr>
<td>Total long term liability</td>
<td>10,000</td>
</tr>
<tr>
<td>Total liability</td>
<td>22,000</td>
</tr>
<tr>
<td>Owner's equity:</td>
<td></td>
</tr>
<tr>
<td>Beginning capital</td>
<td>30,250</td>
</tr>
<tr>
<td>Add: Net profit after tax</td>
<td>9,000</td>
</tr>
<tr>
<td>Less: Withdrawals/dividend</td>
<td>(0)</td>
</tr>
<tr>
<td>Total owner's equity</td>
<td>39,250</td>
</tr>
<tr>
<td>Total liability and equity</td>
<td>61,250</td>
</tr>
</tbody>
</table>

Note: Total asset = total liability + total owner’s equity.

Break-even point analysis

Break-even analysis is a tool to determine the level of production/sales at which the project will cover both fixed and variable costs. It indicates the minimum amount of revenue that the project must earn in order to cover the total cost incurred so that it does not incur any loss.

For the break-even analysis costs are categorised into variable and fixed costs. In addition, it is important to know the level of the Contribution Margin (CM).

What is a contribution margin?

The Contribution Margin (CM) is the contribution of each unit of production towards covering fixed costs of the project and eventually the margin of profits. Simply, it is the difference between selling price (SP) and the Variable Cost per Unit (VCU), i.e. $CM = SP - VCU$

The following can help you calculate the Break-Even Point (BEP):

\[
\text{BEP in units} = \frac{\text{Total fixed costs}}{\text{Contribution margin per unit}}
\]

The BEP can be calculated in terms of volume of production, sales revenue, plant capacity and sales price.
Examples:

Installed capacity of a machine = 25,000 units per year
Total fixed costs = Birr 30,000
Sales price = Birr 10
Variable Costs = Birr 7

(a) Volume of production at BEP = Fixed costs = 30,000/3 = 10,000 units
CM

(b) Sales revenue = Production units x sales price at BEP
= 10,000 x 10 = Birr 100,000

(c) Plant capacity (%) = Number of units at BEP x 100
Number of units at full capacity
= 10,000 x 100 = 40%
25,000

(d) Minimum acceptable price = Total fixed costs + Total variable costs
Number of Units Produced
= Birr 30,000 + (15,000 units x Birr 7)
15,000 units
= 135,000/15,000 = Birr 9

The minimum price will be lower if production is more, say 20,000 units. In this case, the minimum price will be Birr 8.5.

Return on Investment (ROI): Is a measure of profitability and it helps you decide whether or not to go ahead with your business idea. ROI = Net Profit/Total Equity x 100. If the percentage is greater than bank deposit rate, then the project appears viable.
Checklist 29: Business plan format 2 for medium and large enterprises

<table>
<thead>
<tr>
<th>Business Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive summary</strong></td>
</tr>
<tr>
<td>a. Brief description of the business</td>
</tr>
<tr>
<td>b. Brief profile of the entrepreneur</td>
</tr>
<tr>
<td>c. Business’s contribution to the economy</td>
</tr>
</tbody>
</table>

1. **Sales and marketing**
   1.1 Product description
   1.2 Competitors
   1.3 Business location
   1.4 Market area
   1.5 Major customers
   1.6 Estimated total demand
   1.7 Estimated market share
   1.8 Selling price
   1.9 Sales forecast
   1.10 Promotional measures
   1.11 Marketing strategy
   1.12 Marketing budget

2. **Production**
   2.1 Required fixed asset
   2.2 Life of fixed asset and production process
   2.3 Maintenance and repair of fixed assets
   2.4 Sources of equipment
   2.5 Terms and conditions for purchasing equipment/tools
   2.6 Factory location and layout
   2.7 Raw material needed
   2.8 Cost of raw material raw material availability
   2.9 Labour availability
   2.10 Cost of labour
   2.11 Factory overhead expenses
   2.12 Total production cost
   2.13 Planned capacity (capacity projection for at least 3 years)

3. **Organisation and management**
   3.1 Form of business
   3.2 Organisational structure
   3.3 Business experience and qualification of the entrepreneur
   3.4 Pre-operating activities
   3.5 Pre-operating expenses
   3.6 Office equipment required
   3.7 Administrative expenses

4. **Financial plan**
   4.1 Project cost
   4.2 Financing plan and loan requirement
   4.3 Profit and loss statement
   4.4 Cash flow statement
   4.5 Balance sheet
   4.6 Break even point analysis
   4.7 Return on investment

The business plan for medium and large enterprises is a rather complex and extended one. Normally the business plan format 1 should be sufficient for your business purpose. Please find the instructions to business plan 2 in the publication “How to write a Business Plan” of the same editor.
Step 2: Financing a business

Start-up capital is the money you need to start your business. At the implementation stage of your business it is mandatory to know how much start-up capital you need. You need investment capital for:

- Business premises;
- Equipment;
- Stock of raw materials;
- Wages;
- Promotions.

Business premises
After knowing what sort of premises you require, you should make decision whether to:

- Construct the premises;
- Buy the premises;
- Rent the premises or
- Run the business in your home.

Your financial capacity determines which one of the above alternatives to choose from.

Equipment
Equipment is all the machines, tools, workshop fittings, office furniture, etc. that your business needs. After deciding what sort of equipment you need, you should decide if you need to:

- Buy equipment or
- Lease equipment.

Leasing is like renting where the leasing company will lease the equipment to you for an agreed time period. You pay a monthly lease, just like paying rent. In the absence of leasing opportunities, you may also consider the possibility of going to other enterprises with sufficient number of equipment and use their facilities for a fee.

Stock of raw material
At start-up stage of your business you need to have an optimum quantity of raw materials to start production. The more raw material stock you need the more working capital you should have.

Wages
If you employ staff, you will have to pay them wages during the start-up period. You need to pay yourself for living costs as well. Based on how many staff you are going to have, you can estimate how much working capital you will need per month to pay wages.

Promotion
Starting a new business requires intensive promotion. The promotion you do requires funds, which are also part of your working capital needs. You should choose effective and affordable means of promotional tools and allocate working capital wisely.

In general, while doing your SWOT analysis you should strictly look into the strengths and opportunities you have in accessing the required resources in time.

Source of start-up capital
After knowing the estimated level of working capital you need for your new business, the next question is: Where do you get that capital from?

Possible sources of finance are:

- Own savings/equity;
- Loans;
- Grants (if available).
Own savings
Equity is the owner’s contribution from his/her private funds. You as an entrepreneur, should cultivate a culture of saving money for future investments. Financing institutions, such as micro finance institutions, are highly interested in your capacity to match your own funds with the loan amount that they are going to finance your new business with.

Loans
A loan is one way of financing your investment and working capital outlays. Many lending institutions require the following from you:

- A well carried out feasibility study of the business idea that the lending institution would find viable. In this case, the feasibility study for micro and small enterprises could be a business plan. The business should, at least, tell the lending institution that the envisaged business would be profitable within reasonable period of gestation and availability of working premises;
- Some kind of collateral against loan.

Types of lending institutions
- Micro finance institutions;
- Commercial banks (government and private banks);
- Government credit schemes;
- Non-governmental credit schemes;
- Other special sources of funding (such as ‘iqub’ in the case of Ethiopia).

Micro Finance Institutions
Micro Finance Institutions (MFIs) are institutions established to provide savings and credit services mainly to the owners of micro and small enterprise engaged in wide ranges of economic activities such as construction, production (e.g. woodwork, metal work, handcraft, local food and drinks processing) and services such as hotel, transport or secretarial services.

For further information on the lending conditions of the micro finance institutions and commercial banks in Ethiopia, please refer to the publication on “Loan conditions of Commercial Banks and Micro Finance Institutions in Ethiopia” of the same editor.

Step 3: Administrative procedures
An administrative procedure refers to the various types of legal requirements you are expected to fulfill prior to or after implementation of your business. In part 2 of this toolkit it has been indicated that information pertaining to legal requirements should be collected prior to implementation of the envisaged business idea. In this section, however, the main concern is to bring to the attention of the business operator that he/she should take practical steps towards implementing the business.

a) Decide on legal form and start registration process
As indicated in Part I of the toolkit, there are about six alternative forms of business organisations. Choose the business form based on the following criteria:

- Ease of registration;
- Number of owners and financial capacities;
- Financial responsibility of owners;
- Degree of freedom in decision-making.

Once you decided on the form of business organisation to establish, you can start the process of registering the business and securing a license/work permit. The different legal requirements as well as relevant registration forms are also annexed to this toolkit.

At this stage you are expected to be familiar with the procedures involved in business registration and you have to know that there are different legal provisions for the different types of business forms. For instance, there are independent registration procedures and application forms for sole businesspersons and business organisations such as share companies and partnerships. In addition, registration for trade mark has also its own procedure.
In general, the practical steps you should take are:

- Make sure that you have decided to register your business and get license in one of the business forms and you have the necessary capital, infrastructure, personnel and other minimum requirements that registering authorities are going to ask for;
- Go to the concerned authorities and take registration form;
- Fill the registration form. If needed you can consult legal persons on the contents of the application form and their legal consequences;
- Submit the application form to the concerned office;
- Make follow-ups until you secure the license.

For license/work permit, refer to annexes 7 to 11

b) Staff contracts

If you come to the decision that you as an entrepreneur miss important competencies or cannot cope up with the high demand in your product or service, you should consider employing personnel.

You should be able to recruit the best available skilled candidate. You can organise your hiring activities in a five-step process. These are:

- Organising and planning: before starting recruitment; you first need to decide on the salary range and minimum level of skills. Place vacancy advertisements through the possible existing channels. In the meantime prepare interview guidelines and selection criteria;
- Interviewing: Based on interview guidelines, invite candidates for an interview. If necessary, you can also screen candidates through written exams;
- Select competent candidate(s) based on the pre-set criteria;
- Conclude staff contracts, write letters of employment provide orientation to the newly contracted employee(s) about your business and give a written job description. At this stage it will be good if you consider a probation period of at least 15 days.
- Plan for a strong 'first week at work' test to make sure that your new staff is doing the job according to your expectation. Sometimes you may also need on-the-job training for new staff.

Contents of staff contract should comply with the existing labour proclamation. The contract between you and the staff may have the following contents:

- Responsibilities of the employee;
- Responsibilities of the employer;
- Employee’s rights;
- Employer’s rights;
- Performance evaluation standards for technical skill and workplace ethics;
- Starting salary, benefits, safety measures at workplace and promotion;
- Working days, working hours and holidays;
- Annual leave and sick leave;
- Starting date.
c. Follow taxation procedures

Taxation issues are discussed in detail in Part 2 of the toolkit. The different types of taxes such as income tax, business profit tax, value-added tax and turnover tax are defined and their corresponding schedules are also indicated. In this stage, too, you are required to take practical steps concerning taxation. Thus:

- Make sure that you have already understood to which tax category your business belongs to. As indicated in the Regulation No. 78/2002 of the Councils of Ministers, issued pursuant to the Income Tax Proclamation, there are three tax categories known as schedules "A", "B" and "C". Category "A" tax payers include the following persons and bodies (a) any company incorporated under the laws of Ethiopia or in a foreign country (b) any other business having an annual turnover of Birr 500,000 (five hundred thousand Birr) or more. Category "B" tax payers, unless already classified in Category "A", are any businesses having an annual turnover of over Birr 100,000 (one hundred thousand Birr). Category "C" tax payers, unless already classified under Categories "A" and "B" are businesses whose annual turnover is estimated by the Tax Authority as being upto Birr 100,000 (one hundred thousand Birr).

- Put books of accounts and accounting system in place. This is important because the tax authorities require you submit relevant financial statements for registered businesses. The following conditions are stated in the above stated regulation in this regard:
  - Category "A" and "B" taxpayers shall maintain the following records and accounts:
    - Category "A" taxpayers shall at the end of the year submit to the tax authority a balance sheet and a profit and loss statement and the details of (a) gross profit and the manner in which it is computed, (b) general and administrative expense, (c) depreciation, and (d) provisions and reserves.
    - Category "B" taxpayers shall at the end of the year submit to the tax authority profit and loss statement;
    - All entries in the records and accounts referred to above shall be supported by appropriate vouchers.
  - Category "C" taxpayers are not required to submit financial statements mentioned for categories "A" and "B", rather subject to "Presumptive tax" as stated in Regulation 78/2002 (schedules 1 and 2). But if category "C" tax payer maintains book of accounts acceptable to the tax authority, shall pay tax on the basis of such book of accounts.

Under each of these schedules, there are provisions with respect to income exempt from tax, adding tax on income, deductible expenses, non-deductible expenses, deductible interest, conditions for deducting gifts and donations, loss carried forward, depreciation allowance and similar issues.

d. Contractual agreements

Government funded projects are implemented as per the Standard Conditions of Contract for Construction of civil Works Project (December 1994).

To serve as references for business start-ups in the construction sector, formats for contractual agreements with government organisations, bid evaluation criteria and a bank guarantee form for advance payments to contractors are presented in annexes 20, 21 and 22.

The following terms are important regarding a contract in the construction sector for civil works:

Work  What the contract requires the contractor to construct, install and hand over to the employer, as defined in the contract data.

Contract  Legal agreement between the employer and the contractor to execute, complete and maintain the construction of civil works.
Offer Proposal expressing the willingness of the applicant (one who takes initiative to declare his intention to the other) to enter into a contractual agreement, regarding a particular thing. An offer can be verbal or in writing. A valid offer is an offer that is certain, communicated and unconditional.

Employer Party who employs the contractor to carry out the works.

Contractor Person or corporate body whose bid has been accepted by the employer.

Contractor’s bid Completed bidding document submitted by the contractor to the employer.

Contract price Price stated in the letter of acceptance and thereafter as adjusted in accordance with the provisions of the contract.

Day work Varied work input subject to payments on a time basis for the contractor’s employees and equipment, in addition to payments for associated materials and plant.

Defect Any part of the works not completed in accordance with the contract.

Initial contract price Contract price listed in the employer’s letter of acceptance.

Plant Any integral part of the works that shall have a mechanical, electrical, chemical or biological function.

Site Area defined as such in the contract data.

Sub-contractor Person or corporate body who has a contact with the contractor to carry out part of the work in the contract, which includes work on the site.

Adjudicator Person appointed jointly by the employer and the contractor to resolve disputes in the first instance.

Bill of quantities List containing items for the construction, installation, testing and commissioning to be done by the contractor. The Bill of Quantities is used to calculate the contract price. The contractor is paid for the quantity of the work done at the rate in the Bill of Quantities for each item.

Retention Proportion of money the employer retains from the contractor’s payment as per the statement in the contract until completion of the assignment.

Hand-over Hand-over of the sites by the contractor to the employer upon completion of the work. Usually, the employer issues a certificate of completion to the contractor.

Contractual agreement for sub-contracting and joint ventures

According to the Ethiopian Civil Code, Article 1675, a contract is an agreement where two or more persons create, vary or extinguish obligations of a proprietary nature. Based on this article, it is possible for two or more parties to enter into a binding agreement for sub-contracting and joint venture activities. Once it is concluded, a legal contract involves an obligation, which is a legally binding undertaking. Obligations can be classified in bilateral and multilateral agreements.

Step 4: Premises and facilities

This refers to the different facilities you should access to implement your business smoothly. They include both external and internal facilities. The following are presented as checkpoints where you should:

- Look for a strategic shop location near potential customers, as far as possible from competitors;
- Compare price of shops, negotiate and enter into a rental agreement;
- Equip shop (put sales shelves, etc.);
- Arrange for facilities (power, telephone, fax, computer, internet connection, furniture);
- Buy/hire transport facilities.
Step 5: Supply of equipment and raw materials

This is an implementation step where you should:

- Make contact with suppliers;
- Get pro forma and prices and detailed leaflets for equipment and raw materials, compare prices and suppliers;
- Order and buy machines/equipment and raw material.

At the start-up stage of your business you need to have optimum quantity of raw materials to start production. The more raw material stock you need the more working capital you should have.

For more details please refer to part 2 Information seeking, No. 2.2 Supply analysis

Step 6: Product development

Product development is one of the important implementation steps you should continuously consider. The following steps are presented to serve you as checkpoints.

- Identify product and produce based on feedback obtained from customer survey or simplified market research;
- Compare quality with competitors;
- Improve quality;
- Decide on packaging and pricing strategies.

New product development is successful when and if based on market research. Some consumers would like to purchase a given product just because it is newly developed. If the target market is responding positively to the newly developed product, then the strategy of producing new items will work. New product development has to refer to the following issues:

- Size of demand;
- How long demand will continue;
- Pricing issues;
- Implication of future competition;
- Availability of resource;
- Skills required;
- Rate of return on investment.

Producing customised items can give the benefit of offering personalised items, which may not be available in other competing firms. This system gives the option of getting goods that fit to the needs of a particular buyer. The promotional programme for selling customised items should emphasise the advantage and benefit the buyer can get from the product.

Modifying existing products is possible when the demand for an existing product declines and when there is possibility of changing design, size, features or the colour of the product. Modification of existing products requires expertise in product idea generation and technical skills. The buyer may be ready to pay for an increased price provided the modification is as per his/her needs.

After modification of a product you should ask questions such as:

- Did the technical modification of the product go well?
- How was the reaction of buyers towards the modified product?
What was the cost of modification?
Has the product a competitive edge?
Was the increased price accepted by existing and new buyers?

Last but not least product quality is a prior for product development. Quality is considered as a key factor for the success of business enterprises through:
- Creating satisfied customers;
- Facilitating volume purchase; and
- Repeated purchase.

Step 7: Business management

Under this step you are required to:
- Identify, engage and train qualified personnel;
- Organise work procedures;
- Organise marketing activities;
- Install an accounting system;
- Install a stock management system for raw materials and finished products:

In organising your accounting system, you may not need a sophisticated computerised system that you cannot afford or make use of. A simple accounting system can be used to meet your needs. The simplest accounting system called ‘open invoice system’ (Hailay Gebretinsae 2003) that requires only a cashbook and four boxes or files would serve the purpose. The following figure, taken from the same author, is presented to show you a simple accounting system.

Instruction to the above figure
Help1: Keep unpaid sales invoices and paid sales invoices separately in boxes A and B respectively.
Help2: Keep unpaid purchase invoices and paid purchase invoices for goods and services separately in boxes C and D respectively.
Help3: The total sales for the period is the sum of A and B.
Help4: The total purchases for the period is the sum of C and D.

See also the chapter “Improving Accounting and Data management”, pages 50ff
Time and stock management
With respect to time and stock management in the implementation stage of your business, you should monitor the following:

- Quantity of raw materials used to produce the items;
- Inventory of raw materials remaining unused;
- Time taken to produce the items;
- Amount of the products produced;
- Amount of the products sold and revenue generated;
- Amount of the products remaining unsold.

Step 8: Developing your marketing activities

On the basis of your market research (see chapter “Information seeking” and the graphic presentation) put the following marketing steps into practice:

Marketing strategy
Formulate a marketing strategy and make a proper implementation plan, balance and integrate product strategy of the business and decide on pricing, distribution, promotions and business management strategies.

Marketing is everything you do to find out who your customers are and what they need and want to purchase. Therefore, decide on how to satisfy them while making profit. At the implementation stage you should consider and decide upon how to:

- Provide the products or services they need;
- Set prices that they are willing to pay;
- Get your products or services to them;
- Inform and attract them to buy your products or services.

Your marketing starts with your business idea. Using your business idea as a starting point, you must learn more about your customers and competitors through market research. Finally, you use the information you obtained from the market research and draw up your marketing plan.

In your marketing plan you should take practical decisions on the following marketing strategies.

- **Product:** Test your product(s) and launch them. Before launching the products, you are required to give attention to the quality of your products, size, colour and packaging.

- **Price:** Test the price of your product(s) that you set based on your market research during the information seeking stage. You are now required to know if the price of your product is competitive in the market. Be sure that you have kept your costs down as much as possible so that you will have room to vary your selling prices within an acceptable range. Check that the price is attractive to customers and competitive with that of producers of the same product(s).

- **Place:** Determine where you should locate your business in a way you can best reach your customers. Location of the business is essential to reduce costs, or increase the chances of customers stopping at the business to look at your products or to at least make inquiries. The important factors to consider in selecting business location are:
  - Proximity to essential raw materials;
  - Proximity to markets and distribution channels;
  - Availability of transport facilities;
  - Availability of efficient and cheap skilled labour;
  - Existence of related businesses (forward/backward linkages);
  - Infrastructure facilities (e.g. road, power);
  - Communication facilities (e.g. post office, telephone, fax, internet).
Promotion

Promotion is defined as a means of informing your customers about your product(s) and how to attract customers to buy from you. Make sure you have used one or more of the following promotional measures during the implementation stage:

- Discounted on selling price and sold in bulk;
- Distributed flyers, brochures, business cards and used signboards;
- Provided prompt, regular, courteous and efficient service to your customers;
- Made proper display of your products and good presentation of the sales room;
- Kept your business well organised, well lit, clean, fresh looking and attractive.

Note that when you begin to sell a new product or service, you want to attract people to try it. So, set a low introductory price that only gives you a small profit for the first few weeks. Check whether customers liked the product, and if so, slowly increase the price for a higher profit.

One way of promotion is advertising

Advertising is defined as giving information to your customers to make them more interested in buying your goods and services. At the implementation stage of your business, carry out promotions, sell more and thereby increase your profit. Check that your advertising measures helped you to get the following benefits:

- Customers interested in the product/service because of its quality, good packaging, durability, and other product features (attraction);
- Customers purchased more product/service (come-again type of reoccurring sales);
- Customers benefited from promotions such as price reductions, and gifts (good public relations);
- Your selling skills improved (salesmanship).

Be a successful salesperson!

- Greet your customers;
- Be polite and friendly so that customers feel welcome and enjoy visiting your business;
- Smile - friendliness costs nothing;
- Be patient. Give customers the chance to ask questions and decide if they want to buy. Do not disagree with customers if they decide they do not want to buy;
- Always be honest and trustworthy;
- Thank your customers for coming to your business.

Participation in tenders

In addition to all of the above-mentioned steps, there could be cases where you should consider tender participation in the implementation stage of your business. Therefore, make sure that you have obtained information on tender guides and procedures (see chapter on tenders, page 25). Thus, check that you have become familiar with the following:

- Bid documents;
- Instruction to bidders;
- Tender specifications;
- Bid proposals and price schedules;
- Terms and conditions of contracts.
Part 4. Follow up and improve your Business

After setting up your business, there should be a day-to-day follow-up and improvement of activities. You should consider 1. Accounting and data management and on-going cost calculation, 2. Product development, 3. Advertisement and price adaptation, 4. Staff training, 5. Stock management, 6. Maintenance of tools and equipment and 7. Financial follow-up.

Figure 4: Components of business follow-up and improvement
Follow-up is the process by which you make an assessment of the performance of your business activity to find out what has worked well and what has gone wrong. Above all, be sure that your customers are satisfied with the product/service you offered them.

Customers’ satisfaction, amongst others, is mainly based on:

- The quality of the product/service they consumed from you;
- On-time delivery of the product/service they wanted from you;
- Affordability of your product/service;
- Your customer handling skill, honesty and trustworthiness;
- In some cases, the after-sale service you offered to customers.

You must build upon your good performances and take corrective actions for the weaknesses. For new business start-ups follow-up can be done every six or twelve months, depending on the size of the business enterprise. Follow-up helps you in:

- Getting feedback from customers about your product;
- Improving product quality;
- Diversifying products;
- Improving business premises and equipment/tools;
- Increasing sales outreach;
- Identifying training needs of your employees and/or yourself;
- Improving your business management skills (marketing, record keeping, customer handling, stock management);
- Evaluating your financial position in terms of current and fixed assets, liability, capital, cash sales, credit sales/receivables, expenses, cash in flow and out flows);
- Assuring loan retirement as per the loan conditions of the lending institution.

**Step 1: Improve accounting and data management**

Improvement of accounting system

As a businessperson you should be able to check if your accounting system is good enough to record your daily transactions. If you do not know how to make such records in a simple and easy manner it will be very difficult for you to identify your income and expenses and eventually you will not know whether you have made a profit or a loss with your business activities.

The absence of recording will also cause some problems in handling customer needs, particularly in providing sales on credit. The lack of recording also makes it very difficult for the tax offices to levy reasonable taxes that are commensurate with the business activities. As a result, you may feel that taxes that are being levied on the basis of estimation are too heavy to bear. Therefore, to improve the accounting and statistics of your business check the following:

Do you have proper cashbook? Example:

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Description</th>
<th>Cash in</th>
<th>Cash out</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Birr</td>
<td>Ct</td>
<td>Birr</td>
</tr>
<tr>
<td>1</td>
<td>2.2.04</td>
<td>Initial cash in</td>
<td>2 345</td>
<td>00</td>
<td>2 345</td>
</tr>
<tr>
<td>2</td>
<td>3.2.</td>
<td>Electricity</td>
<td></td>
<td>126</td>
<td>2 218</td>
</tr>
<tr>
<td>3</td>
<td>3.2.</td>
<td>Shop rent</td>
<td>930</td>
<td>40</td>
<td>1 288</td>
</tr>
<tr>
<td>4</td>
<td>4.2.</td>
<td>Sales of products</td>
<td>455</td>
<td>70</td>
<td>1 743</td>
</tr>
<tr>
<td>5</td>
<td>5.2.</td>
<td>Taxes</td>
<td></td>
<td>780</td>
<td>962</td>
</tr>
<tr>
<td>6</td>
<td>5.2.</td>
<td>Sales of products</td>
<td>1 675</td>
<td>80</td>
<td>2 638</td>
</tr>
<tr>
<td>7</td>
<td>5.2.</td>
<td>Raw materials</td>
<td></td>
<td>1 675</td>
<td>962</td>
</tr>
<tr>
<td>8</td>
<td>7.2.</td>
<td>Sales of products</td>
<td>780</td>
<td>45</td>
<td>1 743</td>
</tr>
</tbody>
</table>

... ... ...

56
Do you have proper records of maintenance services? Example:

<table>
<thead>
<tr>
<th>No.</th>
<th>Date item received</th>
<th>Name of client</th>
<th>Type of item received</th>
<th>Estimated fee to be paid</th>
<th>Date of submission</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>17.3.04</td>
<td>Almaz Bekele</td>
<td>Television</td>
<td>Birr 100</td>
<td>22.3.04</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>18.3.04</td>
<td>Hallu Belayt</td>
<td>Video deck</td>
<td>Birr 200</td>
<td>24.3.04</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>24.3.04</td>
<td>Martha Sisay</td>
<td>Tape recorder</td>
<td>Birr 20</td>
<td>26.3.04</td>
<td></td>
</tr>
</tbody>
</table>

Do you use proper records of sales on credit? Example:

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Name and Address of client</th>
<th>Product / Service</th>
<th>Unit value</th>
<th>Advance paid</th>
<th>Remained to be paid</th>
<th>Date of final payment</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>17.3.04</td>
<td>Henok Tesfaye</td>
<td>Table</td>
<td>Birr 120</td>
<td>Birr 60</td>
<td>Birr 60</td>
<td>17.4.04</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>18.3.04</td>
<td>Helen Binyam</td>
<td>Dinning table</td>
<td>Birr 700</td>
<td>Birr 350</td>
<td>Birr 350</td>
<td>17.5.04</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>22.3.04</td>
<td>Beyene Ayele</td>
<td>Cup board</td>
<td>Birr 350</td>
<td>0</td>
<td>Birr 350</td>
<td>25.5.04</td>
<td></td>
</tr>
</tbody>
</table>

Do you use proper records of raw material inventory? Example:

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Raw material purchased</th>
<th>Raw material used</th>
<th>Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Type</td>
<td>Qty</td>
<td>Total value</td>
</tr>
<tr>
<td>2.</td>
<td>25.3.04</td>
<td>Glue</td>
<td>5 litters</td>
<td>Birr 125</td>
</tr>
<tr>
<td>3.</td>
<td>01.4.04</td>
<td>10 k.g. (12mm)</td>
<td>Birr 150</td>
<td>Nails</td>
</tr>
</tbody>
</table>

Evaluate sales

At the start of your business, you were expected to make projections of sales at least for one year. At the end of the first year of operation you are expected to evaluate actual sales against the projection.

After evaluation of sales you may get one of the following three outcomes:

1. Value of actual sales greater than the projected sales;
2. Value of actual sales less than the projected sales;
3. Values of actual sales and the projected sales equal.

If the result is No.1, it can be considered that your business has been doing well. In this case, try to build upon your strengths that helped you perform well. But be sure that you have taken all the necessary precautions while preparing the projection and that you did not underestimate it because of limitations in planning.

If the result is No. 2, look for the reasons that hindered you from performing well and try to prepare a strategy to recover from your difficulties during the next business cycle. Some of the reasons for decreasing sales could be:

- Poor product quality; high sales price; market saturation with similar products; poor business location; poor customer handling.

If the result is No. 3, it can show that you have made a good estimation of sales before you started the business. In reality, however, this may not be the case.
Follow-up on cost structure

Identify and evaluate what cost components have been involved in your enterprise during the previous year of operation. Example:

- Production costs such as personnel cost, raw material cost, electricity, transport, rent, water, costs of tools and equipment;
- Administrative costs such as stationery, telephone, rent, depreciation, electricity, insurance and equipment;
- Selling expenses such as publicity, promotions and commissions;
- Financial costs such as interest payments;
- Taxation such as business profit tax.

Be sure that you have properly classified the different cost items into fixed and variable costs. Identify which of the above cost components have shown unexpected increment than envisaged and find means to decrease them. Many people are unaware of costs and therefore waste scarce resources. Making yourself cost conscious is always a good point, particularly when you have the potential to reduce costs (variable and fixed costs) without neglecting quality. Simple ways to reduce costs are:

- Turn off a tap that is running;
- Handle your tools and equipment with care; clean your tools perfectly;
- Switch off any unnecessary lights;
- Switch off machines, if they are not used for hours;
- Work faster, but still be precise;
- Avoid unnecessary wastage of raw materials, finance and productive time;
- Try to reduce unit cost of items through mass production;
- Reduce variable costs;
- Find cheaper suppliers, but at the same or better quality;
- Find other similar businesses and make orders in large quantities;
- Share expenses with others;
- Optimise the stock level: The higher the stock, the higher the expense for storage; and: The lower the minimum stock the higher the risk of running out of stock;
- Improve the workplace layout: Good workshop layout means that the product travels and is handled as little as possible between processes from the beginning to the end of its manufacture.

Data management

To collect data in an organised way, you should have a data management system that suits your needs and capacity. If you have the capacity to use computers, life would be easier for you. But, this requires investment and the necessary knowledge to use computers. However, data can also be managed manually as it is the case for the majority of micro and small enterprises.

The importance of collecting data that reflects your business to achieve competitive advantage is now a widely recognised fact. You should collect data on each of the above-mentioned items to evaluate your past performance and adjust yourself in the market and remain competitive. You herewith keep yourself informed about the internal and external environment you are doing business in.

After collecting data, you should further organise and process this into valuable information that can be used in decision making. In business information should give warning signals when something starts going wrong, or even improves. Therefore, after the first run of your business, usually at the end of the year, you should collect data on:

- How much you produced and how many products you sold;
- How much raw material you consumed;
- How many finished goods you are left with;
- Your total operational/production cost;
- Your total administrative cost, including wedges and salaries;
- Your profit (before and after deduction of tax);
- How many clients you served;
- Who your customers were (low, middle or high income level/rural or urban population).

To get data easily on the above items you should have a properly designed record keeping system.
Step 2: Product development

Product development is an extension of business idea generation and implementation. You have been shown how you can generate and implement your business idea in this booklet. Some explanation on product development has also been provided under the chapter for implementation, page 53. Once you implemented your business, the next step is to think how it is possible to further develop or improve the product. You, as a designer-entrepreneur, should try to develop your product on a continuous basis. It is only then that you could satisfy customer needs and sharpen your competitive edge. In the follow-up and improvement stage of your business, you are required to undertake the following activities to develop the product.

- Carry out a simplified feasibility study on the product to be developed in terms of skill, technology, tools/equipment, raw material, and skilled labour;
- Make a market assessment for the product to be developed;
- Design the product;
- Develop a model or prototype of the product;
- Make limited initial production;
- Test the product for quality (physical strength and acceptability by the consumer);
- Promote/advertise the product;
- Commercialise.

When planning to develop a new product the decision of which product and design to manufacture needs to be based on research, and not just on a temporary demand for a certain product by a handful of people. When the demand for existing products is on the downturn the possibility of changing the design, size, features, colour etc. becomes necessary in order to maintain sales. Moreover, such strategies require expertise in idea development and technical skills to make the product.

Improve your product quality

Product quality improvement is one of the major critical success factors for your business and you should take care of it in the follow-up and improvement stage of your business. Customers are always concerned with the quality of the product they purchased from you. Quality assurance begins from the very beginning of starting a business. Therefore, in the follow-up and improvement stage check that you have been selling products with the required quality.

In the follow-up and improvement stage of your business, evaluate product quality in terms of:

- Raw materials used;
- Production technology selected;
- Tools/equipment used;
- Efficiency of the production process/line;
- Product finishing skill of your staff.

Since your customers are the best sources of information for product quality improvement, ask them how they felt when using your product.

Continuous quality upgrading is the best strategy to follow, however, only if you can afford it. If upgrading of product quality is too expensive, then maintaining the existing quality may be a better strategy. In the event that your products are for sale to conscious clients (who are sensitive to quality), then precautions should be taken to keep the products satisfactory to them. An existing product can be modified by improving its features, without altering the benefits to be gained, in order to attract new users or to increase its usage. In this connection you can resort to a method known as "value engineering": Value engineering is reducing the costs of a product by keeping the quality constant or increasing the quality, and hence the selling price of a product with production costs held constant. The producer should constantly exercise value engineering alone or with his friends, family or qualified personnel in his enterprise so as to reap increased benefits.

If the life span of the product is on the downturn, then you can look for new target markets and introduce the product appropriately. In the next run of your business, make sure that you have done your best to keep the product quality to the highest possible level. A product with good quality would improve your business in the future by:

- Creating satisfied customers;
- Facilitating sales in volume;
- Bringing repeat sales easily.
Diversify your product and/or market

Diversification is possible in two ways. The first possibility is to diversify the product (to introduce new products to the market) and the second is to diversify the market (to go to new markets). You can introduce new products related to the existing product line. In this case the risk involved is low. On the other hand, you can introduce a completely different product to the market. This may have a higher risk than the first strategy, as you do not have prior experience with the newly developed product.

In a similar manner, you can diversify your market base within the existing geographic location or start selling in a completely different market. Diversification in existing market is also possible by type of customer - selling to low or middle or high-income level customers.

At the end of each business cycle, you should be able to analyse your past performance and see if it is necessary to take one of the above actions for the next run.

If you want to diversify your product be aware of the following:

• The skill required to produce the new product;
• The technology and tools/equipment required for production;
• The personnel required for production;
• The additional investment required;
• Readiness of the market for the newly diversified product:
  o within the existing market;
  o within a new market.

If you want to diversify your market be aware of the following:

• Needs, purchasing power, tastes of target consumers, taste of sales and competitors etc. are assessed with the help of market research;
• Availability of work premises close to the new market, availability of transport facilities and additional costs thereof;
• Is the channel of distribution done by wholesalers or retailers?

In this respect, you can have different alternatives to choose from:

(a) Producer \[\longrightarrow\] Direct sale \[\longrightarrow\] Consumer
(b) Producer \[\longrightarrow\] Wholesalers \[\longrightarrow\] Retailers \[\longrightarrow\] Consumer
(c) Producer \[\longrightarrow\] Agent/broker \[\longrightarrow\] Wholesalers \[\longrightarrow\] Retailers \[\longrightarrow\] Consumer

Compare with products of competitors

Products of different enterprises can be compared in terms of:

• Production cost;
• Selling price of the product;
• Quality of the product;
• Design and packaging of the product;
• Availability of the product any time required by the customers;
• Accessibility of the product;
• Service life of the product.

After evaluating the differences you are expected to make the necessary corrections against the items you have found to be inferior.

You can develop a strategy of manufacturing broader product lines. This strategy allows profiting from economies of scale, which in turn will benefit customers to enjoy reduced prices due to low overhead costs. In addition, manufacturing a wide or full range of products in different designs allows customers to do all their shopping in one location.
Step 3: Marketing

At the beginning of your business venture you designed a marketing strategy where you determined what product to produce, what price to charge, how to promote the product, where and how to sell it. Now, it is time to examine the effectiveness of your marketing strategy and look for improvements. For this purpose, you need to evaluate your previous marketing activities, adopt them and find new strategies.

The following questions should get answers before you re-design your marketing strategy:

- Was the price set too high/too low/optimum? What was the feeling of the customers?
- How was the demand for the product? Was it equal/higher/lower to your initial projection?
- Was the business location found good or bad?
- Did your product promotion attract a sufficient number of customers? Was the cost of promotion too high for you? (this is the same like the demand)
- After evaluating the above situations, you can determine whether to:
  - Increase/decrease price (if the existing one found very low/high);
  - Increase/decrease production volume;
  - Change business location or not;
  - Reconsider market segmentation or not (note: market segmentation is the process of focussing on specific customer groups and separating business activities according to well defined target group);
  - Re-engineer the product to enhance quality and meet other customers’ needs;
  - Alter channel of distribution.

Sub-contracting arrangements with medium and big companies can also help you get a market for your business. Sub-contracting is an arrangement between you and another company that needs your product/facility to produce the output it needs. For example, if you are engaged in a woodworking activity, you can supply a wide range of household furniture to a company, say, engaged in real estate development. Sub-contracting creates good market opportunities for you, especially when you have excess production capacity (idle machinery and labour).

Advertising

Advertising is one form of promotion that is aimed at mass markets through media and impersonal commercial messages. After evaluating your market situation, you can determine whether to advertise your product (if not advertised so far) or reduce advertisement (if it was done aggressively and no need for further advertisement because of more than sufficient number of customers or limitation in supply of products).

In the follow-up stage of your business, evaluate the past advertising measures and re-adopt them if necessary.

Promotion and fairs participation

Promotion is a broad term applied to marketing tactics that serves to attract customers or inform them of products or services. The question, therefore, is:

- During the last business cycle, did you promote your product sufficiently?
- Did you use the proper tools of promotion based on the nature of your target group?
- How was the frequency of promoting your product? Was it sufficient?
- Did the promotion help you increase your sales outreach?

If your answer to the above questions is "No", take corrective actions during the next business cycle.

Promotion can be done through different means. Participation on trade fairs and exhibitions/bazaars is just one of them. You can use government programs and that of business associations to participate on trade fairs. However, it would be up to you to solicit information on trade fair calendars. You can refer to the Website www.bds-ethiopia.net/tradefairscalendar.html.
Step 4: Staff management

At the start of your business you might not have wanted to hire more personnel because of lack of financial capacity and/or limited production level. As your business starts to grow, however, you need to employ people to assist you in running the business. On the other hand, you might have employed more staff just at the start of the business. In any case, after the first run of your business you have to evaluate the staff situation. In this connection, you should ask yourself the following:

- How was the performance of the employee(s)? Did their skills fit the requirement of my business?
- How was the salary? Was it too high compared to what similar enterprises pay for their employees? Or was it too low compared to staff performance?
- Did I provide the necessary safety facilities and motivating factors?
- How was the staff turnover? Was it too high?
- How was the number of employees? Was it more than required (hence idle labour) or was it too small (staff overload?)
- How was the productivity of each employee?

After examining the above staff related issues, take corrective actions against the weaknesses before commencement of the next business cycle.

Staff specialisation should also be considered. The more specialised staff you have the more productive your staff would be. Staff specialisation is a situation whereby you assign each member of your staff to undertake a specific task of the enterprise, especially in the production unit. Your staff can specialise in:

- Product development;
- Finishing work;
- Product packaging and labelling;
- Quality control;
- Salesmanship.

Organise continuous staff training

If you feel that your staff, including yourself, needs skill upgrade training, try to make the following:

- Identify clearly what type of training is needed;
- Get information on which institutions are providing the training;
- Get information on the cost of the training;
- Get information on the duration of the training;
- Be sure that your employees make proper use of the skills they got through training.

Step 5: Stock management

Stock means all the products your business has for sale and also all the raw materials or parts your business keeps and uses to make products or provide services.

Stock management (stock control) is the way you:

- Receive your stock (quantity and condition);
- Record your stock (write down all goods or material coming into or going out of your business);
- Store your stock (keep the right amount of stock in a safe and orderly manner);
- Display your stock (it entices customers to buy and makes it easy for you to see and count);
- Check your stock (check and count your stock often to make sure that it is in good condition and that no stock is missing);
- Re-order your stock (re-order the right stock, in the right quantity and right time). Re-order level is the minimum level of stock of raw materials and finished goods you need to keep the production process continuous and not to fall short of finished products to meet orders from customers, respectively.
Now, check if you have considered all the above stock control items during the previous period. Take corrective action if you did not do them.

**Stock card form**

<table>
<thead>
<tr>
<th>Product</th>
<th>Cost per item</th>
<th>Selling price</th>
<th>Re-order level</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In</td>
<td>Out</td>
</tr>
</tbody>
</table>

**Step 6: Maintenance of tools and equipment**

Maintenance refers to repairing/renewal of equipment and tools that your business is using, so that they function without interrupting the production process. Maintenance of equipment and tools can be regular or irregular based on the pre-set specification of suppliers or any time the equipment and tools get damaged. Regular maintenance would enhance the life of equipment and tools and minimises frequency of interruption in the production process.

Therefore, at the end of the business cycle, you should check the situation of your equipment and tools and get them maintained for the next production process. Do not forget that you should put aside certain amount of money to cover maintenance costs. In addition, be sure that you know there are enterprises or individuals who would do the maintenance.

Premises refer to the places where your production and/or sales activities take place.

During making follow-ups on your premises check if:

- The premises needs more space to add more equipment/machines;
- The premises needs more space to serve more customers;
- The premises requires renovation;
- You have the necessary budget to renovate the premises.

**Step 7: Financing**

Finance is one of the important and scarce resources you need for your business. Be sure that your business money is used properly and effectively. If you have borrowed money from lending institutions be sure that:

- You used the money for the intended business purpose only;
- You paid the principal and interest amounts regularly;
- You might need additional money to borrow in case you decided to expand your business or improve internal capacity.

Loans involve financial expense in a form of interest. But, it is not always necessary to depend on loans. You have to be able to generate your own funds through savings. Check that you have opened a savings account for this purpose. If you did not have one during the previous business cycle, try to have the account in the next run.
Summary of follow-up

By carrying out a follow-up, you may use the following checklist to help you to accumulate the necessary information and evaluate your business. After collecting the information, you can take good decisions towards implementing the above-mentioned issues. Upon completing this format, you can easily identify weaknesses of your business. Try to eliminate or minimise them during the next business cycle. On the other hand, try to use your strengths to improve your market share, increase production capacity, improve product quality and diversify products. Provided that your business is running well, you can inject additional capital into the business from your own savings or take loans from financial institutions, or invite others to invest into your business.

Checklist 30: Follow-up format

<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Your position in the business:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- full-time owner-manager</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- part-time owner manager</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- no active managerial involvement except providing capital</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Total number of workers (if applicable):</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- paid workers / paid family members</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- unpaid family members</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Production capacity:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- limited utilisation of capacity (e.g. 25%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- partial utilisation of capacity (e.g. 50%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- improved utilisation of capacity (e.g. 75%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- maximum utilisation of capacity (e.g. 100%)</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Reasons for limited and partial capacity utilisation:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- no market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- shortage of raw materials</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- high cost of raw materials</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- high utility expense (power)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- no qualified workers (including yourself)</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Monthly sales:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- very high</td>
<td></td>
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<tr>
<td></td>
<td>- moderately high</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- break-even sales</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- losses</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Reasons for loosing sales:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- low product quality</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- bad location</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- rude competition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- no advertising</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- insufficient marketing strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- insufficient buying power of customers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- limited business management skills</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Profitability of business:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- very profitable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- moderately profitable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- break-even</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- moderate losses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- heavy losses</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Reasons for moderate and heavy loss of profits:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- insufficient sales</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- high costs (insufficient use of working materials, high transportation costs, high production costs, high marketing costs)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- misuse of business money for non-productive activities</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Location of business:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- near to customers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- near to supplies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- not strategically located</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Reasons for not locating your business strategically:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- lack of awareness</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- high cost of premises</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- insufficient infrastructure/utilities</td>
<td></td>
</tr>
</tbody>
</table>
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Excise Tax Proclamation No. 307/2002
Turnover Tax Proclamation No. 308/2002

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Quality and Standards Authority of Ethiopia
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Ethiopian Export Promotion Agency
www.ethioexport.org
Ethiopian Investment Commission (EIC)
www.investinethiopia.com
Addis Ababa Chamber of Commerce and Industry
www.addischamber.com
Ethiopian Business Development Services Network (EBDSN)
www.bds-ethiopia.net
Technical and Vocational Education and Training in Ethiopia
www.tvet-ethiopia.net
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## Annex 1

### List of Government schools that conduct 10+1 and 10+2 TVET programmes and the areas of construction and industrial technology

<table>
<thead>
<tr>
<th>No</th>
<th>Centre</th>
<th>Region</th>
<th>Town</th>
<th>Construction</th>
<th>Industrial Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Drafting</td>
<td>Surveying</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Woodworking</td>
<td>Road construction</td>
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<td></td>
<td></td>
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<td></td>
<td>Building construction</td>
<td>Electronics</td>
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<td>Electricity</td>
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<td></td>
<td>Automotive</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>General mechanics</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Mechanical technology</td>
</tr>
<tr>
<td>1.</td>
<td>Addis Ababa Technical School</td>
<td>Addis</td>
<td>Addis Ababa</td>
<td>x</td>
<td>x</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
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<td></td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>2.</td>
<td>Entoto Technical and Vocational School</td>
<td>Addis</td>
<td>Addis Ababa</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
<td>x</td>
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<td>x</td>
<td>x</td>
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### Annex 2

**List of Skill Training Centres**

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<td>Tel. 00251-3-310326</td>
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<td>Debre Markos Primary Skill Training Centre</td>
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<td>Gondar Primary Skill Training Centre</td>
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<td>Alem Ketema Skill Training Centre</td>
<td>Tel. 00251-1-811880</td>
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<td>5.</td>
<td>TVET Mekelle</td>
<td>P.O. Box 120, Mekelle, Tel. 251-4-407469</td>
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<td>Kol Diba Primary Skill Training Centre</td>
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<td>Deneba Primary Skill Training Centre</td>
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### Annex 3

**List of some private TVET centres**

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<tr>
<th>No</th>
<th>Name / Telephone</th>
<th>Type of courses offered</th>
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| Centre of Competence in the Construction Sector 00251-1-601328 (601332) | • Plumbing and sanitary installation  
• Electrical house installation  
• Road and pavement construction, incl. sewerage system  
• Plastering and tiling of walls and floors  
• Gypsum decoration  
• Masonry work (brick, hollow blocks and natural stones)  
• Formwork (wooden)  
• Painting (internal and external) | |
| 1. Addis Technical college 00251-1-113628 | • Building technology, Drafting technology, Surveying technology, Automotive technology, Electrical technology | |
| 2. Hibret technical training centre 00251-1-632033 | • Building construction, General and Auto mechanics, Electricity | |
| 3. Addis Polytechnic 00251-09-242510 | • Construction, Woodwork, General and Auto mechanics, Electricity | |
| 4. Asser Polytechnic 00251-1-184582 | • Construction, Quality surveying, Electricity, Maintenance | |
| 5. HOP Enterprise 00251-3-114419 | • Building and General technology, Electrical technology | |

### Annex 4

**List of some non-governmental TVET programmes**

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<tr>
<th>No</th>
<th>Name of the NGO</th>
<th>Type of courses offered</th>
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</table>
| 1. Selam Technical and Vocational Training Centre 00251-1-462942 | • Drafting  
• Wood Work  
• Electricity  
• Building machinery  
• General Mechanics | |
| 2. SOS (Kaliti) 00251-1-341703 | • Woodwork  
• General and Auto mechanics | |
| 3. Hope Enterprise Addis Ababa 482534 | • Electricity  
• General Mechanics | |
| 4. Don Bonsco Technical Training Centre, Mekele 00251-04-400333 | • Machine shops  
• Auto mechanics | |
Annex 5

Business Registration

The following conditions are also set in the Ethiopian Proclamation No. 67/1997 on Commercial Registration and Business Licensing with respect to registration in the Commercial Register:

- No person shall engage in any commercial activity unless registered in a commercial register;
- Any person shall principally register only once even though he carries on different commercial activities in different regions;
- Although a trade name is one of the entries of a principal registration as provided for under Article 105 of the Commercial Code, principal registration shall be made without waiting for the registration of a trade name under Proclamation No. 67/1997.

Application for registration

- A businessperson shall, before starting his commercial activity, apply for a principal or summary registration by completing and submitting to the appropriate authority the application form, prescribed by the regulations, to which he shall attach the necessary documents;
- An application for the alteration or modification of any entry of a commercial registration shall be made to the appropriate authority within two months from the occurrence of such a situation by completing the application form prescribed by the regulation;
- Where any application for principal or summary registration is found acceptable, the appropriate authority shall register the applicant and issue a certificate of registration on payment of the fee prescribed by the regulations.

Registration of trade name

A trade name, according to the Commercial Code of Ethiopia, is the name under which a person operates his business and which clearly designates the business.

- Any person who is engaged in commercial activities may have his trade name registered by completing the application form prescribed by the regulations at a place where he is principally registered;
- Any person who is applying for the registration of his trade name shall, with his application, submit to the appropriate authority: (1) His commercial registration certificate and (2) a valid business license.

Regulation for the principal registration of different business forms

According to the Registration and Licensing Regulation No. 14/1997, principal registration of a sole businessperson, commercial partnership and co-operative society, Share Company and private limited company are presented as follows:

(1) Principal registration of a sole business person

Where the applicant is a sole businessperson he shall submit, amongst others, together with the application, in two copies:

(i) His recent passport size photograph;
(ii) A prior business and operating license, if any;
(iii) A power of attorney where an agent signs the application.

(2) Principal registration of commercial partnership and co-operative society

Where the applicant is in a commercial partnership, he shall submit, in two copies, together with the application:

(i) A notice published in a newspaper pursuant to Article 8 of the Proclamation for Commercial Registration and Business Licensing, No. 67/1997;
(ii) A power of attorney where an agent signs the application;
(iii) The memorandum of association or the contract of partnership;
(iv) Where the applicant is a co-operative society, it shall, together with the application, submit the documents referred in (ii) and (iii) above.
(3) Principal registration of share company (if there is no foreign partner)

Where the applicant is a share company:

(i) The documents referred under (2) (i) and (ii);
(ii) A bank statement showing that the amount required to be deposited in a bank has been deposited in pursuant to Article 312 (1) (b) of the Commercial Code. (i.e. one quarter at least of the par value of the shares has been paid up and deposited in a bank, in the name and to the account of the company);
(iii) A copy of share certificates for each class of shares;
(iv) A report of any contribution in kind, if any, drawn up in accordance with Article 315 of the Commercial Code;
(v) The documents referred to in Article 323 (2) of the Commercial Code; shall together with the application, be submitted, in two copies.

(4) Principal registration of a private limited company (if there is no foreign partner)

Where the applicant is a private limited company:

(i) The memorandum and articles of association;
(ii) The documents referred under (2) (i) and (ii), shall together with the application, be submitted in two copies.

Summary regulation

(i) Any business person who is principally registered with the Ministry of Trade and Industry or any region shall be similarly registered when he/she opens a branch in the region;

(ii) An application for summary registration pursuant to (i) shall be submitted, in two copies, by completing the form prescribed in the schedule "B" of the Registration and Business Licensing Regulation No. 14/1997, together with the appropriate particulars provided under (1) to (4) for principal registration above and two copies of the certificate of principal registration.

Business license

Obtaining business license (non-foreigners)

• Any person engaged in a commercial activity is required to submit to the appropriate authority an application for a business license by completing the application form prescribed by the registration and licensing regulation;

• Any person engaged in a commercial activity whose capital is more than Birr 5,000, shall obtain a business license by applying through a relevant bureau in his/her region;

• Capital includes fixed assets and working capital put at the disposal of the business, but excludes the business premises unless the businessperson chooses otherwise.

Application for business license (non-foreigners)

• Any person desiring to obtain a business license shall submit an application, in two copies, to the concerned bureau in the form prescribed in the schedule "B" of the Registration and Business Licensing Regulation No. 14/1997.

• The applicant, shall, together with the above application submit in two copies:
  (i) a commercial registration certificate;
  (ii) his/her recent passport size photograph.

Issuance of a business licensee

The concerned Bureau issues business License within a period of five working days.
Renewal of a business license

(i) A business license shall be renewed within six months after expiry of the budget year in which the license has been issued or renewed upon payment of the appropriate fee prescribed by the Regulations;

(ii) The holder of a business license who has failed to have it renewed within the time period stated above, shall have it renewed within the next three months (from 'Tir' 1 to 'Megabit' 30), by paying, in addition to the renewal fee, a penalty equal to 20% of such fee, for each month of delay;

(iii) When the business license holder appears for the renewal of the license, he shall submit, in two copies, to the Bureau:

- A statement regarding the payment of income tax and municipal service fees, endorsing the renewal of the license, issued by the Inland Revenue Authority or Finance Bureau, as may be appropriate;

- Application for the renewal of the license in the form prescribed in schedule "C" of the Registration and Business Licensing Regulation No. 14/1997.

Suspension of a business license

Appropriate authority can suspend business license when:

- The holder of the license fails to maintain the standards of health and sanitary conditions, environmental protection, safety measures and the quality of his/her product or service as confirmed by the concerned government institution;

- The holder has failed to supply, accurately and on time, the information requested by the appropriate authority pursuant to Proclamation No. 67/1997.
Annex 6

Applications to be submitted by a sole business person
(for those whose capital is less than Birr 5,000)

Particulars of the application:

1. The applicant's
   - Full name
   - Nationality
   - Date of birth
   - Residential address in Ethiopia:
     - Region __________ Zone __________
     - Woreda __________ City __________
     - Kebele __________ H.No. __________
     - Tel. No. __________

2. Business Purpose

3. The amount of capital invested or allocated for the business __________

Declaration
1. I hereby declare that all the statements I have made herein and in the additional ___ pages I have attached hereto are true and correct.
   (a) Applicant’s name __________ Signature __________
   (b) __________ day _________ year _________

2. Declaration by the registry regarding the acceptance of the application (the same declaration shall also appear on the copy to be retained by the applicant)
   (a) Date of receipt of application
   (b) Number of pages attached
   (c) Name of receiving officer __________ Signature __________
Applications to be submitted by business organisations
(For those whose capital is more than Birr 5,000)

Particulars of the application:
1. The applicant's
   - Full name ___________________________________________
   - Nationality ___________________________________________
   - Date of birth ___________________________________________
   - Place of birth ___________________________________________
   - Residential address in Ethiopia:
     - Region __________________ Zone ___________________________
     - Woreda ________________ City ___________________________
     - Kebele ________________ H.No. ___________________________
     - Tel. No. ___________________________
   - Marital status
     - Married ® Single ®
     - Date of marriage __________________ place ______________
     - Whether or not there is a contract of marriage ® Yes ® No
       If yes, the place where the contract of marriage is kept, or the person who is keeping it
       Name _____________________________

2. Type of application:
   - Principal registration
   - Summary registration

3. In the case of summary registration
   (a) the place of principal registration ___________________________
   (b) the number of principal registration ___________________________

4. Business purposes

5. The amount of capital invested or allocated for the business

6. Trade name(s) and registration number. (if the trade name is not registered in the trade name
   register it is not necessary to include it in this form, as the trade name is not a valid one.)
   (a) Trade name __________________ Registration number __________________

7. Address of branches or agencies in Ethiopia, if any:
   - Region __________________ Zone ___________________________
   - Woreda ________________ City ___________________________
   - Kebele ________________ H. No. ___________________________
   - P.O. Box __________________ Tel. No. __________________

8. Name of the managers, if any

Where the applicant has a business license
   (a) Type of license __________________ (b) No. of license __________________ (c) Date of issuance ______________

Declaration
1. I hereby declare that all the statements I have made herein and in the additional _____ pages I
   have attached hereto are true and correct.
   (a) Applicant's name __________________ Signature __________________
   (b) __________________ Date ______________ Year ______________

2. Declaration by the registry regarding the acceptance of the application (the same declaration shall
   also appear on the copy to be retained by the applicant)
   (a) Date of receipt of application __________________
   (b) Number of pages attached __________________
   (c) Name of receiving officer __________________ Signature __________________
Annex 8

Application for trade name registration

Particulars of the Application

1. Applicant’s name ________________________________

2. Address
   Region __________ Zone __________
   Woreda __________ City __________
   Kebele __________ H. No. __________
   P.O. Box __________ Tel. No. __________

2. Form of Business
   ☐ Sole businessperson ☐ Other (Specify)

3. Business Address
   Region __________ Zone __________
   Woreda __________ City __________
   Kebele __________ H. No. __________
   P.O. Box __________ Tel. No. __________
   Fax __________ e-mail __________

4. Business sector ________________________________

5. Field of business ______________________________

6. Trade name intended to be registered __________

Declaration

1. I hereby declare that all the statements I have made herein and in the additional _____ pages have attached hereto are true and correct.
   (a) Name of the applicant __________________ Signature __________________
   (b) __________ day __________ year.

2. Declaration by the registry regarding the acceptance of the application (the same declaration shall also appear on the copy to be retained by the applicant).
   (a) Date of receipt of the application _______________
   (b) Number of pages of the enclosures attached _____
   (c) Name of the receiving officer __________ Signature __________
Annex 9

Application for a business license

This form shall also be used for application of a person to whom a business is transferred and for the annual renewal of a business license.

Particulars of the Application

1. Applicant’s name __________________________

2. Nationality ________________________________

3. Legal status:
   Sole business person ® Other ® (Specify)

4. Address of the firm:
   Region __________ Zone __________
   Woreda __________ City __________
   Kebele __________ H. No. __________
   Tel. No. __________ P. O. Box __________
   Fax __________

5. Address of the branch, if any
   Region __________ Zone __________
   Woreda __________ City __________
   Kebele __________ H. No. __________
   Tel. No. __________ P. O. Box __________
   Fax __________

6. Type of business __________________________

7. Business sector __________________________

8. Total capital of the firm ____________________
   Subscribed capital ________________________
   Paid up capital __________________________
   Authorised capital _________________________
   Out of the total capital employed in the business:
     Shares owned by Ethiopians ______________
     Shares owned by foreign citizens_________

9. Manager of the firm
   Name __________ Nationality ______________
   Address
   Region __________ Zone __________
   Woreda __________ City __________
   Kebele __________ H. No. __________
   Tel. No. __________ P. O. Box __________

Declaration

1. I hereby declare that all the statements I have made herein and in the additional_____pages have attached hereto are true and correct.
   (a) Applicant’s name ________________Signature_________ (b) _______day of _______19____

2. Declaration by the registry regarding the acceptance of the application (the same declaration shall also appear on the copy to be retained by the applicant).
   (a) Date of receipt of the application _______ (b) Number of additional pages attached _______
   Name of receiving officer __________Signature_________
Invitation to bid (example)

CONSTRUCTION OF TECHNICAL AND VOCATIONAL TRAINING CENTRES IN ADDIS ABABA

Ref. No. __________

Date: ___________

A/ Invitation to BID

To: All Contractors of Category GC/BC, Class 4,5 and above with license valid for the current year.

The Ministry of -------------- now invites wax-sealed bids from eligible bidders for furnishing the necessary labour, materials and equipment for the construction and completion of two TVET Centres in Addis Ababa.

DETAILS OF THE PROJECTS FOR BID

<table>
<thead>
<tr>
<th>Ser. No.</th>
<th>Project Description</th>
<th>Completion Time (Calendar Days)</th>
<th>Cost of Bid Document (Birr)</th>
<th>Required Contractor's Category</th>
<th>Bid Closing Date</th>
<th>Bid Opening Date &amp; Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Civil Works Construction Training Centre</td>
<td>300</td>
<td>1,000</td>
<td>GC/BC-5 + above</td>
<td>30/06/04</td>
<td>05/07/04 14:30hrs.</td>
</tr>
<tr>
<td>2</td>
<td>Agricultural Training Centre</td>
<td>450</td>
<td>1,300</td>
<td>GC/BC-4 + above</td>
<td>30/06/04</td>
<td>05/07/04 14:30hrs.</td>
</tr>
</tbody>
</table>

1. A complete set of bidding documents may be purchased by any interested eligible bidder on the submission of a written application to the -------------- (a specialised institution assigned to make technical evaluation of bids on behalf of the Ministry) and upon payment of the Cost of Bid Document in item 2, Column 3 of the above table. Additional sets of documents may be purchased each at the same price.

2. Bidders may obtain further information and inspect the bidding documents of:
   - Ser. No 1 from room # 5 and
   - Ser. No. 2 from room #3 at the office of -------------- (a specialised institution assigned to make technical evaluation of bids on behalf of the Ministry).

3. All bids must be accompanied by a bid security, 1% of the bid amount, to a maximum of Birr 100,000 - from recognised financial institutions payable on demand and must be delivered to ---- (a specialised institution assigned to make technical evaluation of bids on behalf of the employer) on or before 12:00hrs, 30/06/2004.

4. Bids will be opened in the presence of those bidders’ representatives who choose to attend on the respective dates and time of each project as mentioned in item 2 of the above table, column 6, in the office of -------------- (a specialised institution assigned to make technical evaluation of bids on behalf of the employer).

5. The construction of the works of each project shall be completed within a maximum of the Construction Time mentioned in item 2 column 2, from the commencement of the works.
   • The employer reserves the right to reject any or all bids.
   • Bidders are instructed to fill, sign and seal all forms of the bid documents. Failure of this instruction is automatic rejection.

Ministry of-----------------------------

Seal, name and signature of the responsible official
Annex 11

Instruction for bidders (example)

CONSTRUCTION OF TECHNICAL AND
VOCATIONAL TRAINING CENTRES IN ADDIS ABABA

Ref. No.___________

Date:______________

B/ Particulars of the project

1. Project Name : TVET Centre
   Employer : Ministry of--------------
   Location : Addis Ababa, Sub-city-------Kebele-------
   Scope of Work : (drawings and bill of quantity should be provided)

2. Source of Fund : Local

3. Eligibility and Qualification Requirement:
   Provide all the pertinent information in accordance to the instructions and forms of the bid document.

4. Bidding Documents
The bidding documents consist of:
   • Invitation to Bid
   • Standard Instruction to Bidders
   • Particular Information of the Project
   • Bill of Quantities
   • Technical Specification and Method of Measurement
   • Drawings in accordance with the enclosed list
   • Appendix to tender and construction clauses
   • Bid proposal
   • Form of Agreement
   • Form of Bid Security
   • Form of Performance Security
   • Form of Bid Evaluation Criteria

5. Address for queries: P.O. Box------Tel.------

6. Bid Security
   • The bid security amount is ---% (e.g. 1%) of the bid amount to a maximum of Birr----(e.g. 100,000)-from recognised financial institution, payable on demand, shall in the bidders opinion be in the form of an irrevocable letter of credit, bank guarantee C.P.O. or bid bond from insurance company.
   • Address for bid submission shall be to: P.O. Box------and bear the reference: 'Bid for the Construction of TVET Centres in Addis Ababa' and do not open before 14:30hrs on 30/06/2004.

7. Deadline for submission of Bid
   Bids must be received by the employer not later than 12:00hrs on 30/06/2004.

8. Tender opening
   Tenders shall be opened by the employer in the presence of the Ministry of -------------- representative consulting engineer, bidders’ or their authorised representatives and the employer’s representative at-------- (institution working on behalf of the employer) on 30/06/2004 at 14:30hrs.

9. Bid price
   All costs for routine rest on all construction material shall be born by the bidder and included in the rates, prices and total bid price submitted by the bidder.
C/ Appendix to tender and construction agreement clauses standard by MoWUD

<table>
<thead>
<tr>
<th>Bid amount</th>
<th>BIRR------</th>
<th>Standard Clause (No.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum limit amount of performance bond</td>
<td>10%</td>
<td>(10)</td>
</tr>
<tr>
<td>Minimum amount of third party insurance</td>
<td>10%</td>
<td>(21)</td>
</tr>
<tr>
<td>Time of commencement</td>
<td>21 days</td>
<td>(41)</td>
</tr>
<tr>
<td>Time of completion</td>
<td>600 days</td>
<td>(43)</td>
</tr>
<tr>
<td>Amount of liquidated damages</td>
<td>1/1000/day</td>
<td>(47)</td>
</tr>
<tr>
<td>Limit of liquidated damages</td>
<td>20% of contract amount</td>
<td></td>
</tr>
<tr>
<td>Defect liability period</td>
<td>365</td>
<td>(49)</td>
</tr>
<tr>
<td>Power of the engineer to make variations</td>
<td>3</td>
<td>(52/3)</td>
</tr>
<tr>
<td>Percentage of adjustment of provisional sums</td>
<td>---%</td>
<td>(59/4/C)</td>
</tr>
<tr>
<td>Percentage of retention money</td>
<td>10%</td>
<td>(64/4)</td>
</tr>
<tr>
<td>Limit of retention money</td>
<td>10%</td>
<td>(60)</td>
</tr>
</tbody>
</table>

Advance payment

(attach advance disbursement schedule) ----% of the bid amount (60)

Rate of interest upon unpaid sums Official bank rate (60)

D/ Project instruction

Declaration of works at hand

<table>
<thead>
<tr>
<th>Employer</th>
<th>Project</th>
<th>Contract amount</th>
<th>Total approved payments</th>
<th>%</th>
<th>Date</th>
</tr>
</thead>
</table>

- In the % column indicate the percentage of works performed to date
- In the date column enter the date the project will be completed

Comments

Major items of constructional plant proposed for the work

<table>
<thead>
<tr>
<th>Type, mode, make</th>
<th>No. of each</th>
<th>New or used</th>
<th>Owned (O) or leased (L)</th>
<th>Power rating capacity</th>
<th>Rent/Hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Quarrying + Aggregate Processing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1.</td>
<td></td>
<td></td>
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<tr>
<td>1.2. etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Excavation</td>
<td></td>
<td></td>
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<tr>
<td>2.1.</td>
<td></td>
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<tr>
<td>2.2. etc.</td>
<td></td>
<td></td>
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<tr>
<td>3. Haulage</td>
<td></td>
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<td>3.1. ...</td>
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<tr>
<td>4. Concrete making</td>
<td></td>
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<td>4.1. ...</td>
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<tr>
<td>5. Asphalt Mixing</td>
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<td>5.1. ...</td>
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<tr>
<td>6. Miscellaneous</td>
<td></td>
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<tr>
<td>6.1. ...</td>
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<td></td>
</tr>
</tbody>
</table>

The bidder shall enter in this schedule all major items of construction plant, which he proposes: to bring on site both owned and leased (rented).
Key personnel proposed for the work

<table>
<thead>
<tr>
<th>No.</th>
<th>Profession</th>
<th>Qualification</th>
<th>Experience</th>
</tr>
</thead>
</table>

Declaration of bidders

| Wage schedule unskilled labour | Birr_________ per day |
| Brick/stone Mason             | Birr_________ per day |
| Rendered, Plasterer           | Birr_________ per day |
| Steel Bender                  | Birr_________ per day |
| Carpenter and Joinery         | Birr_________ per day |
| Painter, Decorator            | Birr_________ per day |
| Floor maker                   | Birr_________ per day |
| Plumber, Sanitary             | Birr_________ per day |
| Fitter                        | Birr_________ per day |
| Drain Layer                   | Birr_________ per day |
| Electrician                   | Birr_________ per day |

To the extent applicable to the contract, the General Conditions of work, and MoWUD I/We in case of Contract award, shall be legally bound to adhere with and execute the work on the bases of the minimum wages, number of machinery and personnel indicated above in the qualification forms.

I hereby testify that the above information is true to the best of my knowledge, and understand that any false statement may be a cause for the rejection of the Bid.

_________________________  __________________________
BIDDER                  DATE

Annex 12

Tender or negotiated proposal

Name of Contract  
To

Gentlemen:

1. Having examined the Conditions of Contract, specifications, drawing and Bill of Quantities and Addenda Nos. _______ for the execution of the above named work, we the undersigned, offer to execute and complete such works and remedy any defects therein in conformity with the Conditions of Contract, Specifications, Drawings, Bill of Quantities and Addenda for the sum of _______ (__________________________) or such other sums as may be ascertained in accordance with the said conditions.

2. We acknowledge that the Appendix forms part of our Tender/Negotiated Proposal.

3. We undertake, if our Tender/Negotiated Proposal/ is accepted to commence the work as soon as is reasonably possible after the receipt of the Engineer’s notice to commence, and to complete the entire work comprised in the contract within the time stated in the contract with in the time stated in the Appendix to Tender.

4. We agree to abide by this Tender/Negotiated Proposal/ for the period of____ days from the date affixed for receiving the same it shall remain binding to us and may be accepted at any time before the expiration of that period.

Dated this____ day of _______200( )____Signature__________________ in the capacity of ______________duly authorised to sign tenders for and on behalf of

ADDRESS

WITNESS

ADDRESS

OCCUPATION
Annex 13

Format of contract agreement with Government bodies

This agreement, made on the _____ day of _____ 200( ) Ethiopia, P.O. Box ____________
(herein after called “The Contractor”) whose registered office is situated at ______________________
of the part:
Whereas the Employer is desirous

_________________________________________________________________________________
_____________________________________________________________________
(herein after called “The Works”) at ______________________ and has called drawings and
a specification describing the work to be done and Bill of Quantities to be prepared by ________________
P.O. Box ____________________ (herein after called at Consulting Engineer) who is appointed to administer the contract in accordance with Standard
Conditions of contract for construction of Civil Works Project.

Whereas the Contractor has agreed to undertake the Construction works as per the terms and
conditions of the Contract Document enumerated in Clause 2 below.

Now, therefore, the parties agree as follows:

* (State nature of intended works in detail in fullest possible detail)

1. General provision

A. In this agreement works and expression shall have the same meanings as are respectively
assigned to them in the Standard Conditions of Contract referred in clause 2 below.

B. For the consideration herein after mentioned the Contractor will upon and subject to the conditions
hereto annexed execute and complete the work shown upon the said drawings and described or
referred to in the said Bills of Quantities, specifications and the said conditions.

2. Contract documents

It is agreed and understood that the following documents

a. This agreement and attached conditions
b. The letter of appointment
c. Signed tender proposal of the Contractor
d. Points of drawings as per the attached list
e. Standard technical specifications and methods of measurement (1991) and others related to the
work
f. Signed priced Bill of Quantities and Specifications
g. Standard Conditions of Contract for Construction of Civil Works Project (December 1994);

Shall be known as “The Contract Documents” and represent the agreement between the Employer
and the Contractor and that there is no other agreement or any other document relating to or in way
affecting this agreement at this stage and that these documents supersede all other agreements and
drawing prior to the date thereof.

3. Agreement considerations

In consideration of the payments to be made by the Employer the Contractor hereby covenants with
the Employer to execute and complete the works and remedy any defects therein in conformity in all
respects with the provisions of the Contract, and the Employer hereby covenants to pay the Contractor
in consideration of the execution and completion of the work and the remedying defects therein the
total contract price of Birr (_______________) at the terms and the manner
prescribed by the Contract Documents.
4. Contract administration

The consulting Engineer who shall be duly delegated by the MoWUD is responsible for interpreting and administering the contract documents specified in article 2 herein above and witnessed this agreement as hereunder.

5. Status of contract

The said contract documents shall be interpreted according to the Ethiopian Law and this agreement is deemed to be Administrative Contract in accordance with Article 3132 of the Civil Code of Ethiopia, 1960.

In witness whereof the parties have caused their respective common seals to be herein affixed on the day and year of the first above- written.

________________________  _______________________
For the Employer  For the Contractor

________________________  _______________________
Authorised Signature  Authorised Signature

Witness  Signature

1. ____________________________ (Consulting Engineer)  ____________________________
2. ____________________________  ____________________________
3. ____________________________  ____________________________

Annex 14

Bid evaluation criteria (example)

In the evaluation and recommendation process the following rules shall be applied:

- Bid offers below and above 20% of the project estimate shall be considered as none responsive and shall not be considered for further evaluation
- 25% of the engineers estimate and 75% of the bidders average shall be taken as final adjusted project estimate
- A bid offer below 15% of the adjusted project estimate shall not be considered for contract awards.

Note: Amendments made to the Standard Conditions of Contract for Construction of Civil Works of the MoWUD, Dec. 1994 should be stated in the contract agreement. Examples could be particular conditions of contract with respect to monthly payments, advance payments, default of the contractor, etc.
Bank guarantee form for advance payment

To: _______________________________(Name of Employer)

____________________________________(Address of Employer)

____________________________________(Name of the Contractor)

Gentlemen:

In accordance with the provisions of the document for "Advance Payment" in the contract, ______________________[name and address of the contractor] (herein after called "the contractor") shall deposit with ______________________[name of employer] advance payment to guarantee his proper and faithful performance under the said clause of the contract in an amount of ______________________[amount of guarantee]_____________

We, the ____________________________[Bank or financial institution], as instructed by the contractor agree unconditionally and irrevocably to guarantee as primary obligator and not as surety merely, the payment to______________________[name of employer] on his first demand without whatsoever right of objection on our part and with out his first claim to the contractor, in the amount not exceeding___________________________[amount of guarantee]_____________

We further agree that no change or addition to or other modification of the terms of the contract or of works to be performed there under or of any of the contract documents which may be made between ______________________[name of employer] and the contractor, shall in any way release us from any liability under this guarantee, and we hereby waive notice of any such change, addition, or modification.

No drawing may be made by you under this guarantee until we have received notice in writing from you that an advance payment of the amount listed above has been paid to the contractor pursuant to the contract.

This guarantee shall remain valid and in full effect from the date of the advance payment under the contract until ________________________ [name of employer] receives full repayment of the same amount from the contractor.

Signature and seal

____________________________________

Name of Bank/Financial institution

____________________________________

Address

____________________________________

Date
List of Publications for Business Development

Start and Improve your Business
Identification of viable business ideas, market and supply analysis, steps of business implementation, write a business plan, organise business management, follow up and improve your business, evaluate sales, improve and diversify products, expand business premises and equipment, how to start your business in the construction sector.

Marketing Strategies for Micro, Small and Medium Enterprises
Marketing problems faced by Ethiopian businesses, marketing strategies for businesses in Ethiopia, managing prices, product development and promotion.

Trade Fair Participation and Export Guide
Guidelines for trade fair organizers and participants, export procedures, export business registration and licensing, Ethiopia's external trade statistics, quality export products information.

Business Planning
Business planning for micro, small and medium enterprises: personal data, equipment owned and to be purchased, work premises at the disposal of the operator, yearly production/service plan, yearly raw material requirement, yearly sales plan, yearly operating expenses, yearly profit and loss statement.

Accounting and Cost Calculation Manual
Manual cash book format, electronic cash book format on Excel basis, records on maintenance services, receipt formats, sales on credit format, raw material inventory, profit and loss statement, explanation to the profit and loss statement, cash flow statement, accounting software available in Ethiopia, software providers, training courses in accounting and bookkeeping, cost calculation, identify cost components, calculate variable and fixed costs, calculate total cost per unit, how cost calculating improves your business.

Loan Conditions of Commercial Banks and Micro-Finance Institutions
Loan conditions in Ethiopia: loan types, loan term, lending rate, maximum loan term, purpose of loan, re-payment schedule, type of collateral, loan criteria, eligibility.

Improve your Business Association
Needs assessment of your members, situation analysis overview, action planning, implementation of services, contacting partners, fundraising, association regulations and bylaws, membership fees and accounting, cash book format for associations, how to present your association.

Standards and Quality in Ethiopia
What is a standard? Why standards? How are Ethiopian standards developed? International relations, inspection and certification: Conformity assessment, testing, product certification, what is metrology?

Investment Guide
Business environment, investment opportunities, investment conditions, costs and skills, labour regulations, infrastructure, taxation and incentives, business organizations, organizing a private business investment, ownership, investment protection.

Publications on sale by Mega Book Store and by the Chambers of Commerce and Industry