

# MANUFACTURING SECTOR IN ETHIOPIA

SNAPSHOT BY: EAGATE FOREIGN TRADE AUXILIARY PLC



## Country Data (2016)

Population (million inhabitants)	102,374,044
Labor force (million)	50.97
GDP (billion USD)	69.22
GDP Growth	6.50%
Exports (billion USD)	2.93
Imports (billion USD)	14.7
Exchange rate for 1 USD	23.2

## Sector Data (2015)

% of total exports	8.00%
Year-on-Year Growth	11%
Share of the GDP	5%
Share of the domestic market (2012)	98.70%
Large & medium scale (%total)	71.5
Small scale and cottage (%total)	28.4

The history of manufacturing in Ethiopia dates back to the 1920s, with production of handcrafts and traditional goods. Being prone to various challenges, its progress has been muted. During the previous regime, hundreds of industries were nationalized and the sector was disposed to lesser productivity, underutilized capacity, high capital consumption, and its contribution to the Ethiopian economy was minimal. Following the change in regime, the manufacturing sector witnessed an important change, private sector capital investment increased, the government set up the Ethiopian Privatization Agency and the Public Enterprises Supervising Agency in 1994 in order to transfer public enterprises to the private sector, to revitalize the manufacturing sector and to foster private investments.

Under the first 5-year Growth and Transformation Plan (GTP) that Ethiopia has embarked on, manufacturing of textile, garments, leather, cement, agro-processing and pharmaceuticals are priority industries with a considerable amount of investment and incentives directed towards them. In 2013, the country has established the National Manufacturing Competitiveness Council that has the task of boosting the lurching manufacturing sector.

Under the second Growth and Transformation Plan (GTP-II), Ethiopia has put manufacturing at the heart of its plan to become a middle income country by 2025. The industry sector in Ethiopia registered an 18.5% growth in the fiscal year 2012/2013, and the manufacturing sector has contributed approximately 21% to the industrial output growth. Hence, manufacturing represented around 4% of the GDP and it employs around 200,000 people. In 2016 manufacturing accounted for around 6% of GDP and is dominated by the food and beverage, textiles, hides and skins and the leather industry. Under GTP-II the aim is for manufacturing to account for 8% of GDP by 2020.

Ethiopia is the 2<sup>nd</sup> largest population in Africa after Nigeria and most of its manufacturing establishments supply the local market to fill the widening market gap and meet a rising demand. Nevertheless, there is also a big prospect in the export market for countries in the region such as South Sudan, Kenya and Uganda. The tanning industry and the manufacturing of leather goods (footwear, hand bags, luggage, gloves etc) is by far the most promising in the sector. This subsector is generating revenue from export and much effort is being made into adding value by exporting high quality finished goods that are being made available at high end boutiques and fashion houses in Europe and Asia. The country is a strategic investment destination because it has various ongoing bilateral and regional trade agreements. With the European Union, there is the ongoing 'Everything But Arms' agreement and the African Growth and Opportunity Act with the United States will go on until 2025. In addition, Ethiopia's location at the crossroads between Africa, the Middle East and Asia as well as its membership of the Common Market for Eastern and Southern Africa (COMESA) and the Inter-Governmental Authority for Development (IGAD) offer unparalleled regional market potential and provide a platform to access the region's high growth markets. Currently Ethiopia is not a member of the free trade agreement provided by the COMESA, nevertheless, the Ethiopian Government plans to join within a year. This will open new markets for the manufacturing sector.

Ethiopia is therefore being eyed for the manufacturing sector and it is expected to be the next manufacturing power house for light industry as the country has a competitive advantage at different levels such low labor cost, a large internal consumer market, an abundance of raw materials and a convenient geographical position. With production costs spiking in the Asian countries, it is now a pivotal time for Ethiopia as it is attempting to make its way to become a middle income country by fostering the manufacturing sector and by boosting the country's share in the international market. In this perspective, light industry will be the driving force of the manufacturing sector and is expected to attract more investment, create more jobs and give way to the more heavy industry. In fact, light manufacturing generates externalities in technology development, skill creation and know-how that are crucial for the development of competitiveness.

Ethiopia is one of the top recipients of FDI in Africa, the inflow grew from 300,000 USD in 2010 to 2.2bn USD in 2016 and the momentum is expected to last. According to the Ethiopian Ministry of Foreign Affairs, 41% of foreign investments are registered to invest in manufacturing. Turkey has made several large investments mostly in the textile manufacturing sector, India's investments in manufacturing exceeds four million USD, and figures show that China's investments in manufacturing grew by 197% between 2006-2010, faster than the mining and the agricultural sectors. To support and foster both foreign and local export-oriented manufacturers and to become an industrial hub, the Government of Ethiopia is engaged in the construction of several Industrial Zones in the country. Following the model of the Eastern Industry Zone owned and operated by the Chinese Jiangsu Qiyuan Group, the Ethiopian Government inaugurated in June 2014, the Bole Lemi site just outside the capital city Addis Ababa, where a total of 156 hectares are available for the first stage and 186 hectares at a later stage. Textile, garment and leather industries are the main sectors targeted by this industrial zone. The government provides land at a very competitive price, is improving infrastructure (roads, electricity and telecommunications) and offers a number of tax incentives.

## FOOD & BEVERAGE INDUSTRY



The food and beverage industry is a key investment area and it represents the top three types of retail trade enterprises in Ethiopia. The sector has been the major scene of government incentives and reforms making it an attractive source of FDI.

The food-processing sector is by far the largest manufacturing industry in Ethiopia. It covered 36% of the gross value of production (4.3 billion birr) in 2013/2014 of large and medium size manufacturing industry and 38% of the value added at basic price of large and medium scale manufacturers.

The industry's potential resides in the processing and preserving of meat and dairy products, fruits and vegetables, manufacturing of sugar, processing and bottling of beer, wine, soft drinks and water.

The expanding consumer base in Ethiopia, the local sourcing options and the strategic advantages have already attracted global companies such as Diageo, Heineken, Castel Group, Unilever, Coca Cola, SAB Miller, Pepsi and others. Also, Ethiopia has great potential to export food and beverages to East African and Middle Eastern countries that are highly dependent on these imports.

## TEXTILE INDUSTRY



Ethiopia has the comparative advantages that puts it on top of the destinations for FDI in the textile industry including: available land, abundant raw cotton of good quality, dependable power supply, skilled labor force, proximity to major markets, and alleviated trade barriers. In 2016, H&M announced that they would set up a factory in Ethiopia that would support up to 4000 jobs.

Ethiopia grows some of the world's finest cotton and has a rich textile spinning and weaving history, yet its role in the global textile industry remains undefined. The country benefits from a favorable quota free and duty free market access to both EU and US markets through the African Growth and Opportunity Act. The Ethiopian Government is and has been putting in place incentives and giving priority to the sector as part of the Agricultural Development Led Industrialization Economic policy.

The industry has seen significant growth in recent years as it has grown an estimated 51% over the last six years. However, opportunities still exist. For instance, Ethiopia's textile share under the AGOA agreement in 2014 represents 7% of the country's exports and its share among the COMESA beneficiaries is a mere 5%. Given the cost and geographical advantage which Ethiopia has, this share could be increased

## LEATHER INDUSTRY



Ethiopia is one of the top ten countries in the world with abundant livestock resource. The livestock population is estimated at 55 million heads of cattle, 27 million sheep and 28 million goats. As a result, leather has been at the core of Ethiopia's economy, the sub sector accounts for 44% of total export values in 2012/2013, 123 million USD. The country is known for its high-quality hides and skins, and the government is promoting the industry to export products with higher value added. Production of leather and leather goods has great potential in Ethiopia because of the unique marketing opportunities the country offers as well as the low wages, average salaries in leather factories are only \$35 per month, about ten times lower than those of Chinese workers. Under GTP-II, leather output is expected to increase from 301 million square feet in 2014/15 to 555.1 million square in 2019-2020.

## FOOTWEAR INDUSTRY



The Ethiopian footwear industry produces shoes of high quality and competitive price. Due focus is given to maintaining the quality of the hides and skin, therefore the leather and leather footwear craftsmanship is well recognized by international standards. Global brand shoe manufacturers are eyeing and coming to Ethiopia as the country offers very interesting comparative advantages. Among these companies, there is Chinese Huajin Group that supplies for the US market and makes shoes for brands such as Guess, Calvin Klein, Nine West, and Naturalizer. The Japanese manufacturer Hiroki Co. Ltd is also setting up shop in Ethiopia to directly source high quality leather and take advantage of the main advantages offered. Local brand footwear companies are also developing in global markets and opening doors to Ethiopian footwear in the global map leveraging high quality leather.

## PLASTIC INDUSTRY



Plastic materials have become important inputs for a wide range of industry sectors such as food packaging, automotive, telecommunication, building, infrastructure and much more. In 2012/2013 the gross value production of the plastic industry was 7 billion birr. Market potential for reprocessed plastic waste is also important as raw materials are in high demand. Ethiopia has attracted several foreign companies in the sector entering in joint ventures to set up plastic manufacturing plants. Furthermore, local and international demand is estimated to grow steadily in the coming years.

## WOOD INDUSTRY



The wood industry opportunity lies initially in the domestic market. The country is importing wood and steel used for wood manufacturing of furniture and is also importing finished furniture mainly from China and Vietnam. Ethiopia has the natural resources that can provide input for the wood industry. In 2012/2013 the gross value production of wood, paper, and paper products was 2.4 billion birr. Hence investment opportunities include commercial wood farming, production of straw (from wheat, barley or rice), bagasse, maize stalks, bamboo, cotton cuttings, lint and fluff, rags (from cotton material), hemp and sisal from old rope and jute.

## PHARMA INDUSTRY



Ethiopia's pharmaceutical industry is at its infancy, but bears interesting investment opportunities. The country imports over 85% of the pharmaceutical and medical supplies, 21 companies among which half are private foreign companies supply the remaining 15% with limited capacity and technology advancement. The market is expected to reach about 1 billion USD in the year 2018 experiencing a growth rate higher than the global pharmaceutical market.

## METAL INDUSTRY



The production capacity of the metal industry in Ethiopia is underutilized. Local demand is not satisfied and imported products dominate the market. There is much room for improvement and substitution of imported goods. Scrap metal can be locally sourced and it is also believed that iron ore can be mined in the country. Profit margins are high in the industry resulting from huge demands especially in the public sector as the government is undertaking big construction projects.

Major industrial groupings	Revenues from Sales	
	Domestic	Export
Manufacture of food products	98.16%	1.84%
Manufacture of beverage	99.96%	0.04%
Manufacture of tobacco products	99.90%	0.09%
Manufacture of textiles	96.23%	3.77%
Manufacture of wearing apparel	93.78%	0.73%
Tanning, leather goods, footwear, luggage & hand bags	82.14%	17.86%
Manufacture of wood and of cork products cork	--	--
Manufacture of paper & paper products	100%	--
Manufacture of chemicals and chemical product:	99.51%	0.49%
Manufacture of rubber products	100%	--
Manufacture of rubber products	99.79%	0.21%
Manufacture of basic iron and steel	100%	--
Manufacture of fabricated metal products except	100%	--
Manufacture if motor vehicules, trailers and semi	100%	--
Manufacture of furniture	100%	--
<b>TOTAL</b>	<b>98.77%</b>	<b>1.13%</b>

Manufacturing in 1<sup>st</sup> quarter 2012, July-October, (CSA Data)

## CHEMICAL INDUSTRY



As a major input for other industries, chemical industry is also on top of the Ethiopian Government’s agenda. The government has set up a Chemical Corporation mandated to conduct feasibility studies and design works for chemical industries. Fertilizers, rubber products, ethanol, soda ash, nitrogen, cements and other by-products that are produced in Ethiopia. In 2012/2013 the gross value production of chemical products was 9.7 billion birr.

## AGRO-PROCESSING



In line with Agricultural Development Led Industrialization Economic policy, ample focus is given to agro-processing. Ethiopia has extensive arable land, abundant water resources, cheap labor and growing agricultural production to foster a successful agro-industry. Hence, investment and development of commercial farming is encouraged to supply to the agro-processing industry. Currently, agro-processing export proceeds are worth 51 million USD (2012/2013). Proceeds are mainly exported to East African countries, Middle Eastern countries and Europe. The potential remains highly untapped, as horizontal integration of the supply chain is still nascent.

### DOCUMENT SOURCES:

Photos: EAGate Foreign Trade Auxiliary Plc, Olivier Poujade/  
Text and figures: Ethiopian Investment Agency/ Ethiopian Privatization Agency/Central Statistics Agency (CSA)/Ministry of Finance and Economical Development of Ethiopia / The Ethiopian Herald/AGOA/ Frontier Market Network/ World Investment Report (2014)/ International Monetary Fund (IMF)/ National Bank of Ethiopia annual report (2013-2013)/ The Ethiopian Press Agency / Ministry of Industry ‘Ethiopia Leather Sector Value Chain Strategy’ / Ethiopian investment commission / African transformation forum 2016



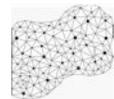
East Africa Gate (EAGate) is a dynamic French/Ethiopian business partnership founded by Ms. Tigist Getachew Araya and Mr. Olivier Poujade. The two partners graduated from Toulouse University (France) and together combine more than 15 years of experience in emerging markets in the legal, financial and business strategy fields ([www.eastafricagate.com](http://www.eastafricagate.com)). EAGate has rapidly become a reference for accurate business information and tailored investment solutions in the Horn of Africa.

For more information, contact us at: [contact@eastafricagate.com](mailto:contact@eastafricagate.com)

UNDERSTAND



NETWORK



ACT



**DISCLAIMER:** This document has been prepared in good faith on the basis of information available at the date of publication without any independent verification. EAGATE Foreign Trade Auxiliary Plc does not guarantee or warrant the accuracy, reliability, completeness or currency of the information in this publication nor its usefulness in achieving any purpose. Readers are responsible for assessing the relevance and accuracy of the content of this publication. EAGATE Foreign Trade Auxiliary Plc will not be liable for any loss, damage, cost or expense incurred or arising by reason of any person or company using or relying on information in this publication.