

# AGRO-PROCESSING SECTOR IN ETHIOPIA

SNAPSHOT BY: EAGATE FOREIGN TRADE AUXILIARY PLC



## Country Data (2012-13)

Population (million inhabitants)	93.9
Labor force (million)	45.6
GDP (billion USD)	43
GDP Growth	7.0%
Exports (billion USD)	3.2
Imports (billion USD)	10.7

Exchange rate for 1 USD	19.9
Estimated N. of EU investors	299

## Sector Data (2012-13)

Share of the GDP (< than)	4.0%
Export earning (million USD)	50.8
Target of export earning (million USD)	300
Production of pulses (tousand quintals)	27
Production of cereals (tousand quintals)	196
Production of oilseeds (tousand quintals)	7

Ethiopia being an agrarian economy, developing agro-industry that makes use of the agricultural proceeds and the available resources is high on the Government of Ethiopia's agenda. Consequently, Ethiopia has put in place the ALDI (Agricultural Led Development Industry) that is aiming to spearhead the country's economy by focusing on agriculture and rural development, by encouraging agriculture-led, export-oriented labor-intensive industries. In this perspective, the Government of Ethiopia has committed to allocate 10% of annual budget to this effect. Despite this, investment in the agro-processing sector in Ethiopia is not matching the large potential that the country offers.

Considering agro-processing to be all produce originating from agricultural farm, livestock, aquaculture and forestry to which value has been added; the scope of agro-processing industry encompasses all operations and activities from harvesting until produce reaches the end consumer. Agro-processing prospects become manifold when potential is exploited along the life cycle of the commodity. For example, maize flour or maize starch processing provides maize germs; gluten, feed and other byproducts that can be further processed or marketed. Similarly, in livestock based products, processing can be made of meat, bone, hide, skin and wool.

Agro-processing is the largest manufacturing industry in Ethiopia, and it is dominated by the food and beverages industry. In addition to the size of the sector becoming significant, its growth trend reveals future opportunities. The development of the agro-processing industry in Ethiopia is closely linked with the availability of agricultural raw materials (see *Agricultural sector in Ethiopia* snapshot by Eagate) and abundant and cheap labor. Aside from the availability of raw material and abundant labor, other factors make Ethiopia a good destination for agro industry investment. In fact, the Government of Ethiopia apart from creating favorable agricultural conditions is providing the necessary infrastructure (transportation, power, water...) so that industries can set up in the area where the raw material is produced.

Other government led efforts have resulted in the formation of the ECX (Ethiopian Commodity Exchange), and the QSAE (Quality and Standards Authority of Ethiopia). The ECX is intended to reduce transaction costs, improve market efficiency and develop a modern trading system whereas the QSAE is the national standards body that follows international norms. The organization is a member of the International Organization for Standardization (ISO) and Code Alimentarius Commission (CAC).

Other incentives and private public partnerships play an important role in vitalizing the agro-processing and industry sector in Ethiopia.

On the demand side, Ethiopia remains an interesting investment destination due to various reasons. The local demand for processed agricultural produce is expected to increase with steady population growth, a rising middle class, more workingwomen and changes in food habits.

Food import dependent countries like Sudan, South Sudan, Somalia and Djibouti mainly drive regional market for processed goods. For instance, some 60% of food consumption in Somalia is imported. Proceeds from export of semi and processed foods earned Ethiopia 300 million USD from Somalia, 93 million USD from Sudan and 75 million from Djibouti in 2013. Overall, the regional market offers even greater shares and there is room to improve export performances to the East African region. As for the international markets, Ethiopia has many bilateral and other trade agreements, making the country an interesting investment destination.

Ethiopia imports few food items, the top 3 were wheat and meslin, cane/beet sugar and palm oil amounting to a total of 1,945 kilo tons (2011). Processed food is hardly imported; about 11 kton (fruit juice 8 kton). The total import value in 2011 was 1,340 million USD as opposed to 2,009 million USD in export trade value during the same year. The export of processed food in volume was below 7 kilo ton. According to a study presented at the AGRIFEX (Specialized International Exhibition in Agriculture and Food) in 2012, local agro-processing output meets only about 13% of the country's demand.

Ethiopia remains therefore a pertinent choice for agro-industry and agro-processing investments along the value chain. Hereunder are identified opportunity areas in the non-food and food agro-processing sector in Ethiopia.

## BIO-FUEL



The imbalance between demand and supply; price spikes coupled with the important economic growth has exacerbated the local demand and has pushed the Government of Ethiopia to develop alternative sources for fuel. Ethiopia has potential to develop bio-fuel industry as it has ample available land, labor, and suitable climate. In this regard, jatropha plant and castor plant wildly grow and can be easily developed on large scale in Ethiopia. Palm tree can also be grown at a competitive price in Ethiopia to use in the production of bio-diesel. Moreover, byproducts can be processed out of the residues of bio-diesel. Seed cake can be used for fertilizer production; glycerol can be used to produce Propylene Glycol.

On the other hand, bio-ethanol is already being produced in Ethiopia mainly under government owned sugar cane factories. Sugar molasses is used to produce bio-ethanol, which is then used to mix with benzene. According to a study conducted by the Ministry of Mines, Ethiopia has 700,000 hectares suitable for development of sugar cane plantation. Though the bio-ethanol market is under government monopoly, there is much room to develop the industry and there are no entry barriers. Aside from the considerable potential the country has, the government also has put in place incentive packages for bio-fuel development.

## ANIMAL FEED



Livestock feed is a mixture containing protein, minerals, and other nutrients, which are useful for livestock. The mix may be varied over a wide range of compositions, determined by nutritional values required for each type of livestock.

The lack of animal feed in sufficient quantity throughout all seasons and in good quality is by far one of the main setbacks of the meat and poultry industry in Ethiopia.

Feed determines an important amount of the cost of running a livestock business. Demand is estimated to be around 30 000 tons per annum in Ethiopia. Given that the country does not import animal feed, cattle is traditionally feed through ruminant grazing... Grazing is becoming a thing of the past because farmers are increasingly aware of the bad impact on soil and on livestock productivity. Most producers engaged in animal feed production do so primarily for on-farm consumption. Currently, there are a small dozen animal feed processing plants. Nevertheless, considering the size of livestock population and their recommended per capita annual intake, production of animal feed falls short. Hence, animal feed production and processing is a great opportunity.

## DAIRY PRODUCTS



Ethiopia has one of the largest numbers of cows, but average milk yield is low and the country is far from being one of the major producers in Africa. The projected local urban market for liquid milk is estimated at 60 million liters in 2015. To meet the demand, additional 35 million liters should be produced. Thus, the bridge between supply and demand for the local market needs to be filled. Currently, a large portion of produced milk is consumed on farm, 1/3 is processed and the rest is directly marketed. Processing of milk covers the transformation into butter, yogurt or cottage cheese. Investment potential exists in all the steps of the supply chain and in the processing of new products like powdered milk or cream. In Ethiopia, the major lacking components in the development of dairy industry are veterinary, pharmaceutical services, feed supply, transportation and hardware supply.

## LIVESTOCK AND MEAT



In rural Ethiopia, livestock are bred for farm input; they are considered as asset and provide a security function. Out of the estimated 55 million heads of cattle, only about 1% are slaughtered per annum by the main public slaughterhouse and small number of private establishments of lower capacity. The considerable potential is hence not exploited due to pending cultural paradigm and consumer trends. But consumer habits are changing, demand is increasing both in Ethiopia and abroad so there is much pressure on the supply side to revitalize the meat industry.

With approximately 45 million head of poultry, there is also great potential throughout the value chain from hatcheries to slaughterhouses and processing units.

Given current prices and return levels, livestock and meat processing are profitable businesses.

## FRUITS AND VEGETABLES



In spite of availability of horticultural produce, a very minimal amount of fruits and vegetables is being processed in Ethiopia.

The contribution of fruits and vegetables to the country's export earnings is small. Nearly all the fruits and vegetables produced are consumed domestically. The exports that do take place are mainly going to Djibouti (more than 60%). Other destinations of Ethiopia's fruits and vegetables during off-seasons are Yemen, Sudan, Germany, Netherlands, Japan, Italy, Saudi Arabia, France and Russia. Fruits production in Ethiopia amounts to about a million tons a year (2011). Nevertheless, in the fruit processing sub sector there are only a handful of companies and they import a good amount of their raw materials (fruits or concentrates). Ethiopia also produces more than seven hundred tons of vegetables annually (2011). Despite the availability of the raw materials, there is only one processing factory which is Upper Awash Agro Industries. The 30 year old state owned factory produces tomato paste and juice for local market.

In a nutshell, there are tremendous opportunities in the processing of fruits and vegetables for both local and international markets if challenges in the supply chain are overcome. One way of doing so is by integrating the downstream components of the value chain.

## CEREALS



Grain production contributes to major shares of the Ethiopian agricultural production; grain is also the major food expenditure in the consumer index. The principal cereals produced are teff (indigenous gluten free grain), barley, sorghum, millet, maize and wheat on an area that covers more than 10 million hectares. Annual production reaches about 18 million metric tons (2012/2013).

Grain trade is under the strict supervision of the Government of Ethiopia, exports are officially prohibited; strict control of foreign reserves has pushed out private traders leaving the government owned EGTE (Ethiopian Grain Trade Enterprise) the sole importer of grains. Nevertheless, in 2012, the Ethiopian government has vowed to no longer impose export quotas on commercial farm outputs and processed goods. This was part of the commitments under the New Alliance for Food Security and Nutrition to foster private sector investment.

Generally grains are being processed manually using mortars or grinding stones or are processed in water or diesel mills of small size. Although the commercial processing sector has shown growth in the last 20 years, there are investment opportunities in the grain processing sector.

Manufacturer Food	Index growth					
	Production Ethiopia	2010	2006	2007	2008	2009
Lemonade*	322,407	100	47	101	90	156
Flour (wheat)	314,053	100	81	88	150	181
Beer*	293,847	100	111	137	161	188
Sugar	283,205	100	70	102	107	97
Mineral Water*	217,306	100	101	110	128	485
Biscuits	193,773	100	134	283	185	1,858
Molasses	83,730	100	84	142	138	203
Bread	70,765	100	142	129	126	292
Macaroni and Pasta	43,691	100	110	105	80	124
Fafa, Dube, Edget, Meten, etc	37,971	100	82	78	75	261
Malt	26,754	100	75	112	46	179
Milk pasteurized*	24,256	100	83	90	99	150
Animal Feed	19,392	100	63	42	127	147
Sweets	14,625	100	260	227	295	796
Liquors*	14,336	100	104	112	92	200
Flour (Others)	13,644	100	3,880	2,863	4,577	6,688
Edible Oil	10,881	100	58	51	50	95
Tea	9,538	100	111	107	134	146
Oil Cakes	9,455	100	30	24	21	14
Wine*	5,734	100	103	96	102	112
Alcohol*	4,978	-	100	79	55	246
Meat	4,449	100	128	128	168	2,099
Tomato Paste	4,292	100	103	131	163	240
Orange Juice	1,824	-	100	15	21	33
Coffee (milled)	1,708	100	9	17	12	10
Galetta (kind of Biscuit)	1,707	100	124	133	838	992
Butter and Ghee	982	100	60	62	104	167
Vegetable soup	870	-	100	122	100	81
Zigin & Shiro wet	834	100	214	140	164	220
Cheese	185	100	393	193	221	152
Marmalade	-	100	487	566	-	-



Major oilseeds in Ethiopia produced in Ethiopia are Niger seeds, sesame seeds; linseed, sunflower seeds, rapeseeds and groundnut. The main pulse crops include various types of beans and peas (such as fava beans, chick peas, and lentils).

The ending fiscal year report (2013/2014) has shown oil seeds exports outweighing coffee. Export generated 919.9 million USD from export of oil seeds. An increase in demand for oil seeds and greater private involvement in the sector are the driving forces of this successful performance. Sesame seed forms an important crop among oil seed exports and its rapid expansion has made Ethiopia the second largest exporter after India. Some sesame seeds processing companies in Ethiopia are engaged in organic produce. Value is added to the sesame seeds through cleaning and dehulling process.

Production of pulses is below potential in Ethiopia due to low input and limited availability of variety seeds. Export market is underdeveloped due to weak links between producers and exporters. Thus, realizing the potential of the pulses value chain will generate greater revenue when adding value through processing.

Report on Large and Medium Scale Manufacturing and Electricity Industries Survey, Central Statistical Agency of Ethiopia, August 2011

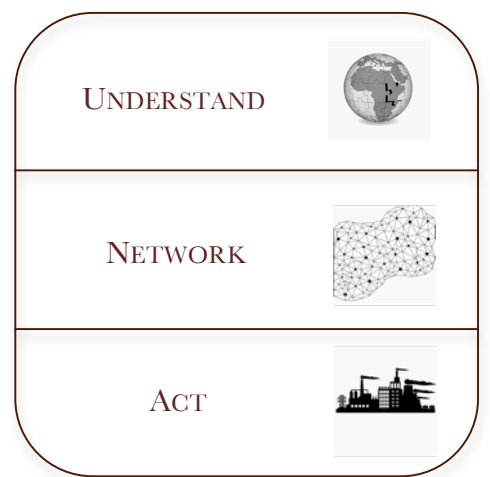
**DOCUMENT SOURCES:**

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