

MANUFACTURING 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	4.3%
Year-on-Year Growth	14.5%
Share of Exports (2012)	1%
Share of domestic market (2012)	98.70%
Large & medium scale (%total)	71.50%
Small scale and cottage (%total)	28.40%

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 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.

The industry sector in Ethiopia has registered an 18.5% growth in the fiscal year 2012/2013, and the manufacturing sector has contributed about 21% to the industrial output growth. Hence, manufacturing represented around 4% of the GDP and it employs around 200,000 people. Among the industries, the largest contributor in production value is the manufacturing of Food and Beverages, followed by chemical and chemical products, then basic iron and steel manufacturing. The least contributors are manufacturers of tobacco and furniture.

Ethiopia is the 2nd largest population in Africa next to 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...) 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 Nothing But Arms agreement and the African Growth and Opportunity Act with the United States will go on until 2015 and may be extended. 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, large internal consumer market, availability of raw materials, convenient geographical and regional position. With production costs spiking in the Asian countries, it comes at a pivotal time for Ethiopia as it is attempting to make its way to middle income country by fostering 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.

As figures of FDI show, Ethiopia is the second destination in Africa, the inflow grew from 300,000 USD in 2010 to 1,000,000 USD in 2013 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 several hundred million USD 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 very competitive price, infrastructure (roads, electricity and telecommunications) and offers additional tax incentives.

FOOD & BEVERAGE INDUSTRY



The food and beverage industry is a key investment area and it represents the top 3 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 39% of the gross value of production in 2009/2010 of large and medium size manufacturing industry and has a gross value of production accounting for 900 million USD.

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 a great potential of export to East African and Middle Eastern countries that are highly dependent on food and beverage imports.

TEXTILE INDUSTRY



Available land, abundant raw cotton of good quality, dependable power supply, skilled labor force, proximity to major markets, alleviated trade barriers, Ethiopia has the comparative advantages that puts it on top of the destinations for FDI in the textile industry. In 2013, H&M has announced that it would source and probably manufacture in the country.

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. 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.

Export opportunities created through the extension of AGOA GSP (the African Growth and Opportunity Act, Generalized System of Preferences), the COMESA (the Common Market of Eastern and Southern Africa) and the many bilateral trade agreements still remain untapped as the adequate infrastructure and necessary investments are not complete in Ethiopia. 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%.

LEATHER INDUSTRY



Ethiopia is one of the top ten countries in the world with abundant livestock resource. The livestock population was estimated at 55 million heads of cattle, 27 million sheep and 28 million goats, which annually produce about 2.7 million hides, 8.1 million sheepskins and 7.5 million goatskins. 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 not only because of the steady increase in demand for leather products around the world but also because of the unique marketing opportunities the country offers.

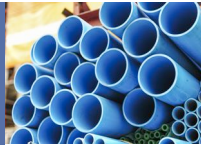
FOOTWEAR INDUSTRY



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 and Calvin Klein. 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. 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. Local and international demand is estimated to grow steadily for the coming years and Ethiopia is well located to reach the East African market.

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. 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 currently said to be worth 200 million USD with government and NGOs being the largest buyers. 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%	--
TOTAL	98.77%	1.13%

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 can be produced in Ethiopia. The country has various resources for raw material sourcing to support such industry.

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.

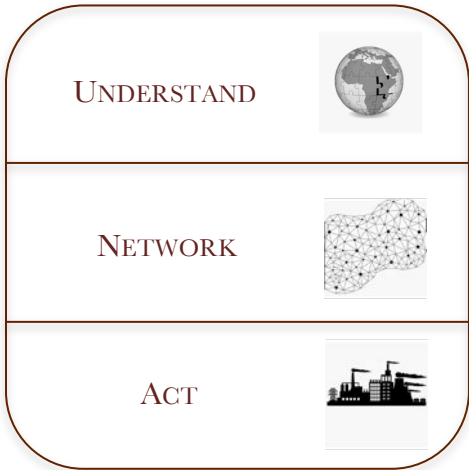
Manufacturing in 1st quarter 2012, July-October, (CSA Data)

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



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). 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



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.