

Ethiopian Investment Agency

Investment Opportunity Profile for the Production of Fruits and Vegetables In Ethiopia

June 2012

1. Background

Ethiopia has a comparative advantage in a number of horticultural commodities due to its favorable climate, proximity to European and Middle Eastern markets and cheap labour. However, the production of horticultural crops is much less developed than the production of food grains in the country.

On average more than 2,399,566 tons of vegetables and fruits are produced by public and private commercial farms, this is estimated to be less than 2 percent of the total crop production.

According to recent information obtained from the Central Statistics Authority, the total area under fruits & vegetables is about 12,576 hectares in 2011. Of the total land area under cultivation in the country during the same year, the area under fruits and vegetables is less than one per cent (i.e. 0.11%), which is insignificant as compared to food crops.

Including areas under production of fruit and vegetable crops from commercial private farms and the area and production from the private peasant holdings are indicated in the following table.

Table1 Fruit & Vegetable Cultivation in Ethiopia for Private peasant Holdings (2010/11)

Crop Type	Area (ha)	%	Production (Quintals)	%	Productivity Qt/Ha
Cereals	9,233,025.14	79.05	155,342,279.88	69.63	16.83
Oil seeds	780,915.89	6.69	6,436,143.98	2.89	8.24
Pulses	1,489,308.45	12.75	18,980,472.57	8.51	12.74
Cash Crops	159,287.98	12.75	39,226,177.5	17.58	246.26
Vegetable	7,309.16	1.36	1,403,234.19	0.63	192
Root Crops	4,419.64	0.06	996,331.80	0.45	225.4
Fruit Crops	5,266.91	0.04	706,119.18	0.32	134.07
TOTAL	11,679,533.17	0.05	223,090,759		

Source; Statistical Abstract CSA 2011.

At present both state owned and private farms are operating in fruit and vegetable production, export and processing sub-sector in Ethiopia. The average yield of fruit and vegetable in the country is low as compared to other countries (Table 2). One of the major reasons for low yield of these crops is poor management.

Table 2: Productivity Status of Selected Fruits, Vegetables and Root Crops of Ethiopia as Compared to other Countries

S.No	Crop Type	Yield (qt/ha)		
		At peasant Farm	At demonstration site	Other countries
1	Tomato	102	288	600-1000
2	Potato	62	294	600-700
3	Sweet potato	86	248	Above 700
4	Asparagus	-	400	1000
5	Banana	-	250	Up to 1000

Source: Ministry of Agriculture and Rural Development

At present, many private commercial farms & private farmers are producing fruits and vegetables both for domestic and export markets in the country.

Processing plays an important role in the conservation and effective utilization of fruits and vegetables. It converts perishable fresh products to more durable processed products in cases of sluggish markets or when there are profit- generating demands for processed products. It also helps in generating rural employment. Besides, processed fruits and vegetables are sources of foreign exchange earnings.

In Ethiopia, the number of fruits and vegetables processing industries is limited. Currently, there are only 5 fruits and vegetables processing plants in the country. These plants presently process limited products: tomato paste, orange marmalade, vegetable soup, frozen vegetables and wine. Most of the processing plants fall in the small-scale processing units category. In general, processed products are mainly geared to domestic markets.

2. Government Policy

The Government emphasized the priority given to agricultural development through its policy document entitled Agricultural Development Led Industrialization (ADLI). This policy focuses on the

development of agriculture both as a source of production for direct consumption and of raw materials for industrial processing, on the one hand, and as a major source of consumer products coming out from the industrial sector, on the other.

Thus production and processing of horticultural crops, vegetables and fruits have been placed by the Government in the list of high priority areas and various incentives have been provided for investors investing in this sub-sector (see part 5) .

3. Resource Availability

3.1 Agro-climatic Advantages

Ethiopia has diverse climate and altitude conditions which are conducive to various agricultural activities. There are several lakes and perennial rivers that have great potentials for irrigated agriculture. The groundwater potential of the country is about 2.6 billion cubic meters. Groundwater in the country is generally of good quality and it is frequently used to supply homes and farmsteads. The potentially irrigable land area of the country is estimated at 10 million hectares, out of which only about 1% is currently under irrigation.

Most of the soil types in fruits and vegetables producing regions of the country range from light clay to loam and are well suited for horticultural production.

Endowed with favorable weather, altitude, adequate water and availability of suitable soils, the potential to develop horticultural crops, such as fruits, vegetables, root crops and cut flowers is great in Ethiopia.

Fruit crops of significant importance and with a potential for domestic consumption, export markets and industrial processing include pineapples, passion fruits, bananas, avocados, citrus fruits, mangoes, mandarin, papayas, guava, grapes, asparagus and vegetable crops of economic importance such as tomato, melon, pepper, chilies, onion, carrot, green beans, green peas, cabbages, okra, cauliflower, cucumbers are produced in the country. The major vegetables produced for domestic consumption are cabbages, tomatoes and garlic, while green beans and peas have recently emerged for export purposes.

Table 3. Estimated Potential Area for Fruit & Vegetable Investment (ha)

No.	Regions	Area	Remark
1	SNNP	346,300	Rain fed and irrigation (Gibe, Omo, Sawla, Woito Rivers are source of irrigation).
2	Oromia	150,000	Rain fed and irrigation (Awash, Wabe. Dabus, Guder, Didessa)
3	Amhara	270,000	Grater than 200,000 ha based on out growers. Lake Tana and Abay river are source of irrigation.
4	Dire Dawa	1,000	Based on Ground Water
	Total	767,300	

MORAD March 2009

From cost consideration, export of citrus fruits would not be a strategic priority for a land locked and large country such as Ethiopia given their bulk. As transportation of citrus fruits is similar to transportation of water, production of these commodities for export markets erodes Ethiopia's competitive advantage in comparison with the market leaders who are competing on sea rather than inland freight, given their geographic location. For Ethiopia, therefore, opportunities mainly exist in commercial production of fruits for the domestic market. However, some regions like East and West Hararghie, Dire Dawa, Harari, and Somale National Regional State (e.g., Error and Hurso districts) may be potential areas for the production of sea-freighted fruits so as to transport to the Middle Eastern markets. Especially, perishable fruits varieties (fast moving products with a short shelf-life of one to two days) have great export potential for Ethiopian producers since they have a comparative advantage over competitors further away.

Furthermore, export market opportunities lie in the growing demand for high quality and pre-packed vegetables. The opportunities for these vegetables should be based on the combination of perishables and short transport time by air, added value and pre-packing to allow relatively high transport costs and food safety considerations. Fresh chilies and frozen vegetables especially mixed with legume vegetables are also important areas of investment.

Production of processed fruits and vegetables such as tomato paste, fruit juices for the domestic market and tomato concentrate, orange concentrate for export market are also viable areas of investment in the country.

There is, therefore, a great potential for increased production either by contracting local farmers to produce export standard fruits and vegetables for processing or opening commercial farms,

particularly through the establishment of specialized farms to produce fruit and vegetable crops (e.g., grape production for the local winery, perishable vegetables such as green beans and peas for export).

3.2 Labour

Horticultural farming is high labour-intensive, requiring 32 to 34 labourers per hectare per day. Since Ethiopia has abundant supply of unskilled labor at Birr 20-30(US 1.17- 1.76) per day. The salaries of fresh university graduates normally range from Birr 496-1768 (US\$88-104) US\$ per month.

3.3 Infrastructure

The Bole International airport has frequent flights to various parts of the world.

4. Markets

Fresh and processed Fruits and vegetables have a large domestic market in Ethiopia, significantly higher than the exported volumes. The size of the Ethiopian population is currently estimated at about 80 million. This is a strong indication of the existence of large potential demand for fresh fruit and vegetable crops in the country.

The other customer of Ethiopian fresh fruits and vegetables is processing plants, i.e., wineries, tomato processing plants and vegetable canning factories which require grapevine, tomato and various types of vegetables for processing.

Processing of fruit juice into concentrate near the source of the fruit either for export markets or to the local manufacturers is also an area of investment available in the country.

In Ethiopia, fruit processing is limited mainly to extraction of fresh juice which is sold on the local market. The Merti processing factory is the only plant producing fruit juice for the local market. At present, a range of fruit juices are imported into the country. The demand for fruit juices on the local market is high as indicated by the volume of imports. This is a strong indication of the existence of investment opportunities in fruit juice processing for the local market. The most popular fruit juices imported into the country are shown in Table 4.

Table 4: **Volume (kg) and Value (Birr) of Fruit Juice Imports of Ethiopia for the Period 2009-2011**

Fruit juices	2009		2010		2011	
	Kg	Birr	Kg	Birr	Kg	Birr
Orange	22110	114938	60741	743751	50529	961274
Grape	5689	179980	3971	66311	31001	413495
Other	1090	16584	300425	3947090	416970	10029261
Pineapple	294757	3462641	531439	6576537	1060958	16774035
Tomato	951920	9022271	1509352	20671644	1558240	22283409
Apple	430398	6004336	381461	6964263	586445	10125950
Other	1225	35741	3204	110097	953901	12036835
Mixtures	339039	3759322	980419	10250038	1237883	17106937
Total	2046228	22595813	3771012	49329731	5895927	89731196

Source: Ethiopian Customs Authority

Ethiopia exports fresh fruits and vegetables to the international markets. The major markets for Ethiopian fresh fruits and vegetables are the European Union, the Arab countries and the regional markets. Ethiopia is very well known in some parts of Europe especially for her green beans, climbing beans, cut flowers, okra, melon and passion fruits. Thus, there is a reliable demand for these Ethiopian products during a particular period and a great volume is re-exported. Therefore there is strong business image for Ethiopian vegetables and flowers in the European markets.

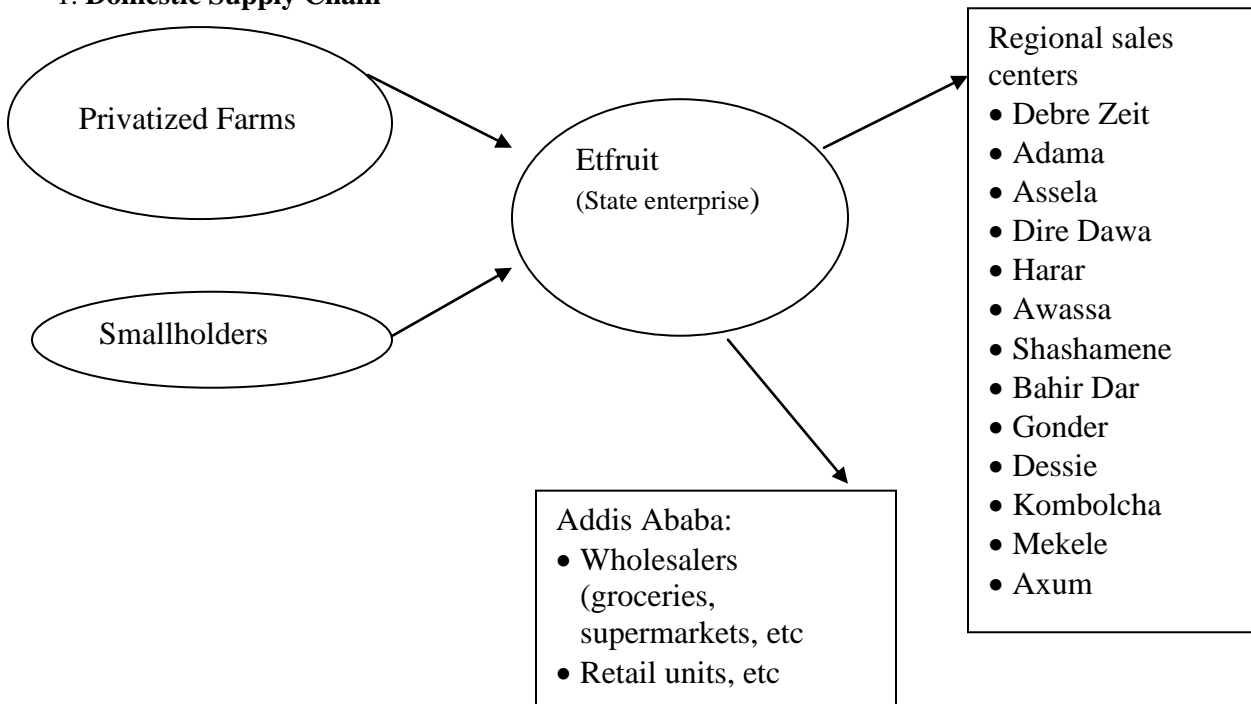
The demand for Ethiopian wine is also high both in domestic and export markets. Currently, the winery receives fresh grapes from Guder, Nura Era, Merti and Zewai Vineyard. Grape production in a great volume for the domestic winemaking plant is, therefore, an attractive area of investment in the country.

4.1 Supply Chains for Fruits and Vegetables

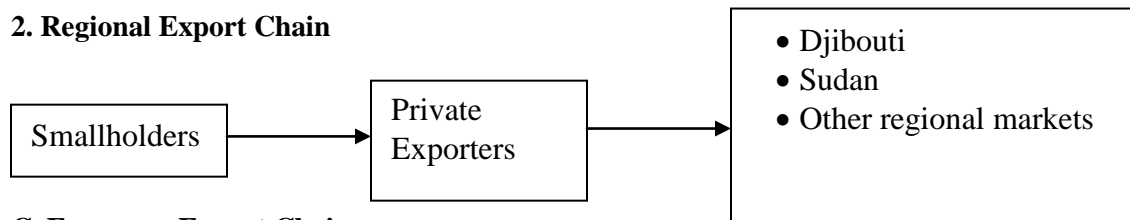
As noted in the background above, there are at least three supply chains existing for horticulture products depending on the destination market and type of product (Figure 1). The important state-owned enterprise that is dominating the domestic distribution channels is the Ethiopian Fruit and Vegetable Marketing Enterprise, Efruit. The Enterprise is responsible for marketing of horticultural products of the horticultural state farms and other farms that produce horticultural crops on a commission basis. Private exports are also engaged in the export of fruits and vegetables.

Figure 1

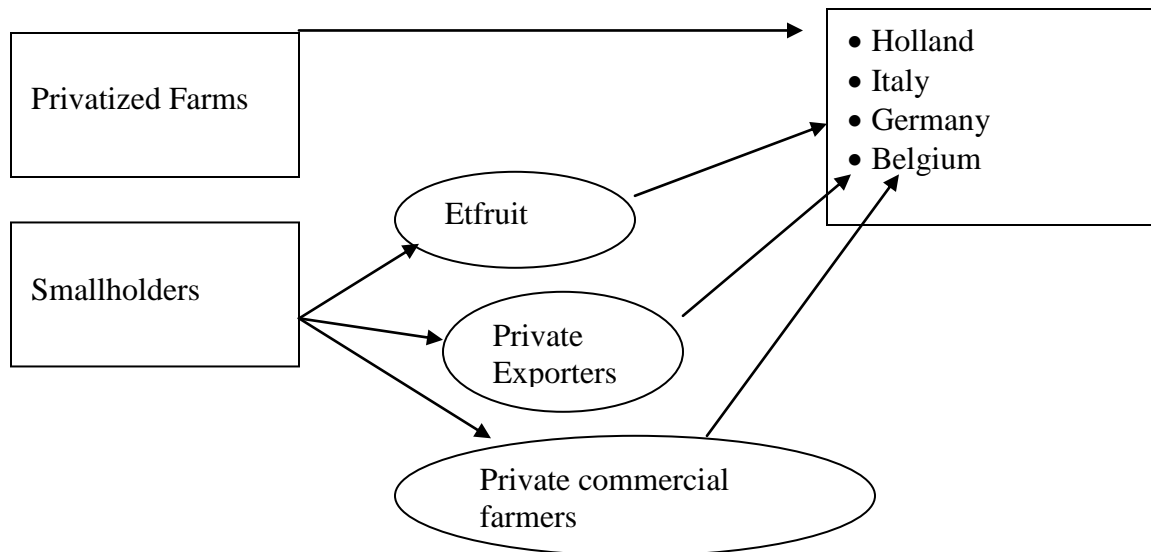
1. Domestic Supply Chain



2. Regional Export Chain



C. European Export Chain



5. Investment Incentives

To encourage private investment, the Ethiopian Government has developed a package of incentives under Regulations No.84/2003 for investors engaged in new enterprises and expansions, across a range of sectors. These incentives are available both to foreign and domestic investors and the said Regulations doesn't discriminate between a foreign and domestic investor or between foreign investors of different nationalities. The type of incentives that are available both to foreign and domestic investors are the following:

5.1. Customs Duty Exemption

- A 100 percent exemption from the payment of import customs duty and other taxes levied on imports is granted to investment capital goods and construction materials necessary for the establishment of a new enterprise or for the expansion or upgrading of an existing enterprise as well as spare parts worth up to 15 percent of the value of the imported capital goods;
- Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to investors enjoying similar privileges;
- Exemptions from customs duties or other taxes levied on imports are granted for raw materials and packing materials necessary for the production of export goods. Taxes and duties paid on raw materials and packaging materials are drawn back at the time of exports of finished products. The voucher system and bonded manufacturing warehouse facilities are also in place.
- All goods and services destined for export are exempted from any export and other taxes levied on exports.

5.2. Income Tax Exemption

- Any income derived from an approved new manufacturing, agro-industrial or agricultural investment is exempted from the payment of income tax ranging from 2-8 years depending up on the area of investment, the volume of export and the location in which the investment is undertaken.

- Income derived from an expansion or upgrading of an existing manufacturing, agro-industrial or agricultural enterprise is exempted from income tax for a period of two years if it exports at least 50% of its products and increases, in value, its production by 25%.

5.3 **Loss Carry forward**

Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period, after the expiry of such period.

6. **Remittance of Funds**

Foreign investors are entitled to make the following remittances out of Ethiopia in convertible foreign currency at the prevailing rate of exchange on the date of remittance:

- Profits and dividends accruing from investment;
- Principal and interest payment on external loans;
- Payments related to a technology transfer agreement;
- Proceeds from the sale or liquidation of an enterprise;
- Proceeds from the transfer of shares or of partial ownership of an enterprise to a domestic investor;
- Expatriate employees may remit, in convertible foreign currency, unspent salaries and other payments accruing from their employment in hard currency.

7. **Investment Guarantee and Protection**

In Ethiopia both the Constitution and the investment Code protect private property. Ethiopia is also a member of MIGA, which issues guarantees against non-commercial risks to enterprises that invest in signatory Countries. Besides, the Country has signed bilateral investment promotion and protection treaties with a number of Countries and is also in the process of signing such treaties with a number other Countries.

8. Cost of Land and Utilities*

8.1 Land

In Ethiopia, land is public property. Both urban and rural land is available for investment on leasehold basis. Lease right over land can be transferred, mortgaged or sub-leased together with on-build facilities. The period of lease may also be renewed.

The rental value and the lease period of rural land are determined and fixed by land use regulations of each regional state. The costs of rural land in four regional states and in Dire Dawa are shown below:

- Oromia.....US\$ 4.02 – 7.71 per hectare per year
- Amahra.....US\$ 6.34 –28.45 per hectare per year
- Southern Nation,
Nationalities and Peoples’
Region.....US\$ 2.17 – 6.68 per hectare per year

8.2 Utilities

The cost structure of utilities is as follows:

a) Electricity

- Low voltage time-of-day industrial:
Equivalent flat rate.....US\$ 0.033 per KWh
- High voltage time-of-day industrial 15kv:
Equivalent flat rateUS\$ 0.023 per KWh
- High voltage time-of-day industrial 132kv:
Equivalent flat rate..... US\$ 0.021 per KWh.

* 1US\$ = Birr 17.50

b) Telephone

- Fixed telephone.....US\$ 0.011 per six seconds
- Mobile telephone
 - Mobile to mobile.....US\$ 0.041 per minute
 - Mobile to fixed.....US\$ 0.041 per minute

c) Water (in Addis Ababa)

- Residential
 - 0-7 m³.....US\$ 0.1 per m³
 - 7-20 m³.....US\$ 0.18 per m³
 - above 20 m³US\$ 0.21 per m³
- Non-residential.....US\$ 0.21 per m³

9. Taxation

The principal tax rates of the Country are as follows:

- Corporate income tax.....30%
- Turnover tax
 - From goods supplied to the local market and rendering of construction, grain mill, tractor, combine harvesting services undertaken in the Country.....2%
 - On other sectors.....10%
- Excise tax.....10-100%
- Customs duties.....0-35%
- Export tax.....nil

- Withholding tax.....2%
- Value added tax.....15%
- Dividend tax.....10%
- Royalty tax.....5%
- Capital gains tax
 - Shares of companies.....30%
 - Building held for business,
factory and office.....15%
 - Building held for residence..nil
- Income tax from employment0-35%

10. One-stop Shop Service

Foreign investors obtain pre-and post-approval services from the Ethiopian Investment Agency (EIA). In addition to facilitation and promotional services, the EIA offers the following services under the one-stop shop arrangement:

- issuance of investment permit.....in 4 hours
- issuance of commercial registration certificate» 4 »
- issuance of business license» 4 »
- issuance of work permit.....» 1 hour
- registration of technology transfer agreement.....» 2 hours
- registration of export oriented non-equity based
foreign collaboration.....» 1 hour
- facilitation of the acquisition of land and utilities .

Thus, availability of favorable weather, adequate water supply, suitable soil, abundant labour and the growing demand for Ethiopian fruits and vegetables as fresh and processed products for local and export markets encourage expansion of fruit and vegetable production in the country.