



Investment Opportunity in Fruit and Vegetable Processing Sector in Ethiopia

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1. Introduction

Ethiopia has a comparative advantage in the processing of horticultural products due to its favorable climate for the production of a variety of fruits and vegetables. Furthermore, the cheap labor force and access to regional and international markets due to its proximity to European and Middle Eastern countries makes the country favorable for investors in the sector.

The fruit crops for 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, cucumber. The major vegetables produced for domestic consumption are cabbages, tomatoes and garlic, while green beans and peas have recently emerged as export crops. At present, many private commercial farms and small-holding farmers are producing these fruits and vegetables both for domestic and export markets.

Currently there are five fruits and vegetables processing plants in the country. These plants process limited products, namely; tomato paste, orange marmalade, vegetable soup, frozen vegetables and wine. In general, processed products are mainly geared to domestic markets however there is a scope for export market.

Capacity of Fruits and Vegetables Processing Plants in Ethiopia.

No	Name of Processing Plant	Location	Ownership	Major Products	Plant Production Capacity
1	Melge Wendo Food Processing Factory	Melge Wendo/Southern Nations, Nationalities and Peoples National Regional State	Private(foreign)	- Tomato paste (850gm.can) - Tomato paste (410gm. can) - vegetable soup (240 gm.can)	- 5,000 in a single shift operation of 8 hours per working day - 8,000 - 40,000
2	Gonder Food Processing Factory	Gonder/Amhara National Regional state	Private(foreign)	- Tomato paste (850gm. can)	- 1,250
3	Merti Processing Factory ¹	Merti/Oromia National Regional State	Private	- Tomato paste - Orange	

				marmalade	
4	Awash Winery ²	Addis Ababa	Private	- wine	-10.9 million liters per year
5	Green Star Food Company (Ethiopian Branch)	Debre Zeit/Oromia	Private (foreign)	- canned vegetable	9,990 tons per year

Source: Ethiopian Privatization Agency

Export market opportunities and the growing local demand for high quality packed vegetables and fruits have grown. The production of processed fruits and vegetables such as tomato paste and fruit juices for the domestic market and tomato and orange concentrate for export market are viable areas of investment in the country.

It is well known that 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 for the products. By generating rural employment and foreign exchange earnings the sector contributes its share towards the development of the country. Thus, the production and processing of horticultural crops, vegetables and fruits are given a high priority by the Government and various incentives have been provided for investors investing in this sub-sector.

2. Market Opportunity

Processed Fruits and vegetables have a large domestic demand market in Ethiopia with a population of 90 million. There is a demand both in the local market and as well as the export opportunity to the neighboring countries and the Middle East. The availability of raw material is secured for wineries, tomato processing plants and vegetable canning factories which require grapevine, tomato and various types of vegetables for processing.

In Ethiopia, fruit processing is mainly to extraction of fresh juice which is sold on the local market. The Merti processing factory is 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 below.

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

Note: Exchange rate 1 US\$ = 18.87 Birr (as of Oct. 26, 2013)

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 Europe especially for green beans, climbing beans, okra, melon and passion fruits. The demand for Ethiopian wine is also high both in domestic and export markets. These international markets are accessible for processed fruits and vegetables.

Therefore, the access for both local and international markets for processed fruit and vegetable products is available.

3. Investment Policy and Incentives

- A foreign investor can undertake investment either as a sole proprietor; or jointly with domestic investors
- Capital requirement for foreign investors (As a sole proprietor)
- USD 200,000 for a single and wholly foreign owned investment
- USD 100,000 per project in areas of engineering, architecture, accounting & audit services, project studies, consultancy services
- Capital requirement for investment in partnership with domestic investors:
- USD 150,000 per project
- USD 50,000 in areas of engineering, architecture, accounting & audit services, project studies, consultancy services
- No capital requirement for an investor who reinvests his profits or dividends generating from the existing enterprise.
- Land is leased out by the government.
- Repatriation and remittances are granted to foreign investors to be made in convertible foreign currency at the prevailing exchange rate on the date of remittance:

Guarantees

- The Constitution of Ethiopia and the Investment Proclamation and the legal system protect private property
- Ethiopia is a member of Multilateral Investment Guarantee Agency (MIGA) which issues guarantees against risks to entrepreneurs that invest in signatory countries,
- Ethiopia has signed Bilateral Investment Promotion and Protection Agreements as well as Avoidance of Double Taxation with many countries including India.

Investment Incentives

Customs duty exemption

- 100% exemption from payment of import customs duties and other taxes levied on imports to import all investment capital goods, such as plant machinery and equipment, construction materials, as well as spare parts up to 15% of the value of capital goods imported.

Income Tax Exemption

- Exemption from income tax for the processing of fruit and/or vegetables,
 - In Addis Ababa and Special zone of Oromia surrounding Addis Ababa..... 3 years
 - In other areas..... 5 years
- Any investor who invests to establish a new enterprise in Gambela, Benshangul/Gumuz, Afar, Somali, Guji & Borena Zones (Oromia), and in some zones in the State of South Nations and Nationalities and Peoples' (SNNP), shall be entitled to an income tax deduction of 30% for 3 consecutive years after the expiry of the income tax exemption period.
- The period of exemption for income tax shall begin from the commencement date of production or provision of service by the investor.
- An investor who has incurred loss within the period of income tax exemption shall be allowed to carry forward such loss for half of the income tax exemption period after the expiry of such period.

Export Incentives

- Duty Draw-back Scheme: Duty paid at the port of entry and locally on raw materials used in the production commodities is refunded, 100 percent, upon exportation of the commodity processed.
- Voucher Scheme: It is a printed document to be used for recording balance of duty payable on raw materials imported for use in the production of goods for external market. The beneficiaries of the voucher scheme are also exporters.
- Bonded Manufacturing Warehouse: Producers wholly engaged in exporting their products who are not eligible to use the Voucher Scheme and who have license that enable them to operate such Warehouse.

4. Cost of Land and Utilities

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
- Amhara.....US\$ 6.34 –28.45 per hectare per year
- S.N.N.P.....US\$ 2.17 – 6.68 per hectare per year

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.

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

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%

One-stop Shop Service

The Ethiopian Investment Agency (EIA) in addition to facilitation and promotional services gives a one-stop shop service to foreign investors in which every process is given in one window.

5. Why Invest in Ethiopia?

Stable Political and Economic condition

- Mature and stable political environment
- Stable social and economic environment
- Peaceful and friendly people
- Zero-tolerance to corruption
- Fastest growing economy with a double digit GDP growth rate for the last ten years.
- Third largest economy in Sub-Saharan Africa, after South Africa and Nigeria and the third fastest growing economy in the world.

Strategic location and Market Access

- Strategically located in Eastern Africa with easy access to the lucrative markets of the Middle East, Europe and Asia,
- Vast market opportunities to domestic, regional and international markets.
- Second largest domestic market in Africa with 90 million consumers,
- Access to markets of 19 member states of COMESA, Common Market for Eastern and South Africa, with a population of over 400 million with a preferential tariff rates,
- Preferential access to European Market under EU's Everything-But-Arms (EBA)
- Preferential access to Austria, Canada, Finland, Japan, Norway, Sweden, USA and most other EU countries under Generalized System of Preference (GSP),

- Under the African Growth and Opportunity Act (AGOA) program, Ethiopia is entitled to duty-free U.S. market access.

Natural Resource

- Exceptional climate due to location on highlands, half the country experiences average annual temperatures of 20°C to 30°C,
- Untapped natural resources and fertile soils,
- Sufficient surface and ground water resource

Investor friendly policies

- Government policies encourages and supports FDI,
- Government invests in infrastructure, telecommunications and other facilities,
- A National Foreign Investment Promotion Advisory Council with the aim of conducting focused foreign investment promotion.

Labor

- Ethiopia has abundant, hard working, disciplined and easily trainable workforce,
- Monthly wages for labor ranges from US\$ 38 to US\$ 50.
- Universities, engineering colleges and technical and vocational training schools annually providing trained personnel,
- English is widely spoken and understood by many people.

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