

# ETHIOPIAN AGRO-INDUSTRY DEVELOPMENT POLICY (DRAFT)

Ministry of Trade and Industry  
Ministry of Agriculture and Rural Development

Draft for review (not for circulation)



THIS DOCUMENT IS NOT PROFESSIONALLY EDITED

March 2009  
Addis Ababa





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**Draft for discussion**

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**MINISTRY OF TRADE AND INDUSTRY  
MINISTRY AGRICULTURE AND RURAL DEVELOPMENT**

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## Acronyms

AGOA	African Growth and Opportunity Act
COMESA	Common Market for Eastern and Southern Africa
EBA	Everything But Arms
EPA	Economic Partnership Agreement
GOE	Government of Ethiopia
IAFP	Integrated Agro-Industry Food Parks
MOARD,	Ministry of Agriculture and Rural Development
MOFAED	Ministry of Finance and Economic Development
MOTI,	Ministry of Trade and Industry
SME	Small and Medium Scale Enterprises

# **ETHIOPIAN AGRO-INDUSTRY POLICY**

## **DRAFT FOR DISCUSSION**

### **1 PREAMBLE**

- 1.1 Ethiopia has a large population and thus potentially one of the largest domestic Markets in Africa. Beyond the domestic market, by virtue of its membership of the Common Market for Eastern and Southern Africa (COMESA), embracing 23 countries with a population of 380 million, Ethiopia enjoys market access to these countries. With the realization of the African Union, trade liberalization among member states could provide further market access. Ethiopia's proximity to the Middle East also offers potential market opportunities
- 1.2 The country also qualifies for preferential access to European markets under the EU's Everything-But-Arms (EBA) initiative and to US markets under the African Growth and Opportunities Act (AGOA). No quota restrictions are placed on Ethiopian exports falling under the 3,000-plus items currently eligible
- 1.3 The country has several advantages such as different agro climatic zones, with wide variation in soil type, water availability and climate, abundant natural resources suitable for a variety of commercial crops like oil seeds, spices and cereals. The country has an established network of market yards besides industrial peace, responsive farming community and above all, its unique geographical location, proximity to European and middle east countries
- 1.4 Ethiopian Government has also identified Agro-Industry as one of the thrust Industries in the Industrial development strategy.
- 1.5 Despite excellent potential for growth, a critical constraint in development of Agro-Industry is the lack of supply chain infrastructure across the entire chain. While Ethiopia possesses competitive advantages in several crops like oil seeds, cotton and horticultural crops such as fruit and vegetables, this advantage is often frittered away due to lack of farmer education in adopting best practices and poor linkages of farmers and Agro-Industry. Numerous middlemen add to wastages from the farm to the consumer, retail, processor or exporter. This leads to 40% wastages in fresh products and up to 20 % in cereal crops from the farm gate to the final consumer leading to price trade-up.
- 1.6 A long supply chain also means that each level of the supply chain is oblivious of the requirements of the next level. As a result, there is no premium for good quality

produce or for superior handling practices. Hence, there is no incentive or choice for the farmer to invest in high quality inputs and in adopting the best agronomic practices.

1.7 High prices of processed goods deter increase in consumer demand for such goods. Processors find it difficult to procure adequate quantity and appropriate quality of raw materials at the right price due to the fragmented nature of Ethiopian agricultural system. This has a cascading effect on their business, as they are unable to honour their marketing commitments. Subsequently capital for day-to-day running of the business becomes scarce, vitiating the viability of the business itself.

1.8 The unique features of Agro-Industry necessitate the industries' integration with farmers to secure raw material supply. Despite these constraints it is necessary that the Agro-Industry Sector delivers adequate return on invested capital by operating throughout the year to achieve acceptable rate of capacity utilization

1.9 Agro-Industry sector displays such characteristics, where only 'Process & Manufacture' cannot be taken as 'Industry', because Agro-Industry can not be defined without backward linkage of food chain right up to the farm. Various organizations such as World Bank, FAO (Food and Agriculture Organization), UNIDO, have defined Agro-Industries keeping in view the value addition aspect. The definition of Agro-Industry is thus defined as below.

## **2 DEFINITIONS**

### **a) Agro-Industry**

'Agro Industry' means units which add value to agricultural products/ intermediates/residues, both food and non-food, by processing into products, which are marketable or usable or edible or by improving storability or by providing the link from farm to the market or part thereof. Agro-Industry also includes hi-tech and biotechnology based agriculture.

### **b) Agricultural product**

'Agricultural Product' means produce of Agriculture -Horticulture - Sericulture - Floriculture - Fisheries and includes minor forest produce and live stock based products, except dairy and dairy based products.

### **C) Other categories of units**

Products and processes as may be notified by Government from time to time, would also be eligible.

## **3 OBJECTIVES**

This policy endeavors to make Ethiopia the destination of choice for investors and processors, both global and domestic.

Ethiopia has vast untapped potential in Agro-Industry, which could be used advantageously to achieve multiple goals viz. increased income for farmers, rural industrialization, rural employment, better quality products to consumers. This can be achieved by new investments in the sector by national/ multinational companies. The broad objectives of Agro-Industry policy are enumerated as under:

- I. To create world class supply-chain infrastructure needed for Agro-Industry development.
- II. To increase total flow of investments both skills and capital, in Agro-Industry to establish backward and forward linkages,
- III. To accelerate a close interface between research, extension mechanisms and industry and farmers in agri sector,
- IV. To foster strong linkage between agriculture and agro industry.
- V. To increase the value addition and reduce wastages, thereby increasing the income of farmers and to produce better quality products,
- VI. To create rural employment, off farm income opportunity and improve quality of life of rural people,
- VII. To assist small-scale Agro-Industry based units to remain competitive in global markets,
- VIII. To facilitate commercialization of agriculture and increase export of value added agri products.

## **4 APPROACH**

In the present climate of globalization, Ethiopia needs to create favorable environment by providing incentives to the domestic and foreign investors for setting up of Agro-Industry



project in Ethiopia. The approach would be for the government to play a facilitator role in galvanizing private sector investment in Agro-Industry.

A key initiative of the government would be to metamorphose the supply chain infrastructure, which would have multiplier effects in the agricultural sector and greatly increase competitiveness across the entire sector. A well integrated and coordinated approach to infrastructure development will be necessary to ensure healthy utilization of infrastructure facilities across the chain.

The Government, in conjunction with appropriate private sector agencies and development partners will market this supply chain infrastructure opportunity to multilateral financial agencies and other infrastructure investors. Globally successful processors and retailers need to be aggressively marketed to by the country, as they provide the linkages with the consumer that has been hitherto missing in Ethiopia's Agribusiness development. The responsibility for such marketing will lie with the MoARD and MoTI

In the short to medium term, significant investments need to be made in the bricks and mortar infrastructure, cold storages, value added centers, irrigation, agronomic practices, etc.

With this approach of occupying top-of-the-mind share of investors and processors, Ethiopia should be able to take a lead in rapid Agro-Industry development.

## **5 STRATEGIES**

### **5.1 INCENTIVES**

In Ethiopia most projects in the Agro-Industry sector have been too highly leveraged considering the seasonal availability of raw material and their perishability, which contribute to considerable variability in revenues and concomitant debt repayment capability of the business. This has resulted in a reluctance of the financial sector to lend to this sector.

The GoE will offer an attractive package of financial support and incentives for Agro-Industry projects to reputed companies with proven technical capability and track record to successfully conceive and implement Agro-Industry projects. Projects under the ambit of infrastructure, marketing, research and development and facilitation will be eligible for these incentives.

Incentive would be available to new Units as well as existing Units undertaking technology up gradation, modernization, expansion or diversification. Incentives would be available in entire country

## **5.2 INTEREST SUBSIDY TO AGRO INDUSTRY UNITS**

The GoE will offer back ended interest subsidy to Micro, Small, Medium and Large Agro-Industry units, as under:

1. 3.75 - 4 % [To be determined in consultation with the government MOTI, MOARD, MOFAED, private sector] per annum back ended interest subsidy for first 5 years, from commencement of operations,
2. The aggregate interest subsidy will not exceed *1.3 million Ethiopian Birr*, [ To be determined in consultation with the government MOTI, MOARD, MOFAED, private sector
3. The interest subsidy will be available on the funds borrowed from financial institutions/banks for capital investments only. No interest subsidy will be available towards working capital loan or any other loan, which is not in the nature for acquiring capital assets,
4. The interest subsidy will be released so long as the eligible unit continues timely repayment of the loan and remains in production.

## **5.3 AGRI INFRASTRUCTURE DEVELOPMENT**

The experience world over has demonstrated that impeccable agri supply chain infrastructure is key to a vibrant and competitive agriculture and Agro-Industry. The attempts so far of setting up infrastructure for agri produce in Ethiopia will be further strengthened by a well-orchestrated effort from the GoE for coordinated and integrated infrastructure in carefully selected agro-ecological zones called economic growth corridors

In order to spearhead the development of infrastructure facilities in an efficient manner, the Government needs to plan the facilities that are required and pro-actively promote and support the same. Government has therefore decided to accord the highest priority for creation of supply chain infrastructure and support services for the sector to create world class infrastructure corridors integrated with appropriate surface transport connections, cold storages, marketing centers and retail chains.

The GoE will offer the following incentives for projects providing common infrastructure facilities in the value chain of agri produce from farm to plate.

1. Back ended interest subsidy as follows:
  - a. 3.75 - 4% per annum back ended interest subsidy for first 5 years, from commencement of operations.
  - b. The aggregate interest subsidy will not exceed 1.3 million Birr [To be determined in consultation with the government MOTI, MOARD, MOFAED,
  - c. The interest subsidy will be available on the funds borrowed from mainstream financial institutions/banks for capital investments only. No interest subsidy will be available towards working capital loan or any other loan, which is not of the nature of Term Loan meant for acquiring capital assets.
  - d. The interest subsidy will be released so long as the eligible unit continues timely repayment of the loan.
2. The GoE will assist in preparing pre-feasibility studies through a coordination of Agro Industry Development Department of MoTI.
3. The GoE intends to avail land including agriculture farms on long lease basis at reasonable rates.

An illustrative list of such agri infrastructure projects follows:

- FOOD/AGRO-INDUSTRY PARK.
- COLD CHAIN (VALUE ADDITION CENTRE/SERVICE CENTRE FOR HORTICULTURE PRODUCE.
- SUPPLY CHAIN (VALUE ADDITION CENTRE/ SERVICE CENTRE) FOR AGRICULTURAL PRODUCE.
- CHAIN OF RETAIL OUTLETS FOR PERISHABLES PRODUCTS.MARKET
- Agro industry support center
- [Other to be added by the government (MOTI, MOARD, MOFAED)]

#### **5.4 ASSISTANCE FOR PREPARATION OF PROJECT REPORT**

Preparation of Project Report to set up Agro-Industry Unit is an intricate exercise, and requires multi disciplinary expertise such as Marketing, Finance, Technical and knowledge of supply chains, including involvement of foreign consultants, at times.

The GoE will reimburse 50 % cost of preparation of the project report to set up new agro industrial units subject to ceiling of 250,000 birr [To be determined by MOTI, MOARD, MOFAED, private sector]

Financial Assistance will be released after the Unit is set up and commences its operations.

## **5.5 LAND**

Land is crucial for backward integration for promoting Industry so as to set up nurseries, and captive consumption for consistent supply of material.

*The Federal government and Regional governments* [To be determined by the government MOARD, MOFAED] will issue guidelines for simplification and expeditious clearance of land allocation for agricultural production for selected priority commodities.

The Federal Government of Ethiopia will also consider suitable provisions to enable the Industry to hold private agriculture land on long term lease.

The Government also intends to provide government land including agriculture farms on long lease basis at concessional rates to the sector

## **5.6 CONTRACT FARMING**

One of the crucial requirements of -Industry is to get the supply of consistent and quality raw material as per specifications of the Industry. At present, raw material is procured by such industry from market place, which often has variable quality and also at times required quantity is not available. This situation has resulted in discouraging optimum size of processing units to come up and have advantage of economy of scale.

In consideration of the above, agro processing industries will be encouraged to enter into contract farming arrangements either directly or through group of farmers and cooperatives. These organizations may provide necessary inputs to the member farmers such as planting material, seeds and other inputs, may guide farmers in agronomic practices and may also take crop insurance on behalf of the member farmers.

The Ministry of Justice of the GoE will also examine the feasibility of a legal enactment to facilitate contract farming arrangement and the Agro Industry Development

Department is as well expected to coordinate and foster its smooth and efficient implementation.

## **5.7 ROAD**

The importance of rural road development for improving transportation and communication cannot be over emphasized. Agriculture produce cultivated in the rural areas is transported to distant places at consuming centres, processing units and for exports. Such road development will be encouraged through co-operatives, private sectors and/or group of farmers. The GoE shall canalize assistance for such road projects

## **5.8 HUMAN RESOURCE DEVELOPMENT**

HRD holds the key in all round improvement in technology innovations and productivity. Thus HRD will have to cover the entire gamut from basic education, vocational and technical guidance to professional qualifications. For this purpose Universities in the country will be encouraged to commence courses in food packaging and processing, and agriculture allied fields.

## **5.9 POLLUTION CONTROL & ENVIRONMENTAL PROTECTION**

The GoE is conscious about pollution control and in order to comply with legal provisions and standards, it is recognized that some of the agro industrial effluent is not only biodegradable, but also nourishes the soil. Environmental Protection Authority in collaboration with Ministry of Agriculture and Rural Development and ministry Trade and industry will, frame new guidelines keeping in view the nature of effluents,

## **5.10 MARKETING**

It is well recognized that proper marketing strategies will be key in determining the growth of the sector. This is particularly true of agro produce, which is perishable, variable and seasonal in nature. Domestic markets will need to be developed simultaneously with export markets, for sustainable growth of the sector.

To promote competitiveness and efficiency in the marketing chain, the GoE will improve standardization and grading system and improve the testing facilities of the- Quality and Standards Authority of Ethiopia (QSAE), Ethiopian commodity exchanges, terminal market, retail chains, etc. Most of these facilities would be created as part of agri infrastructure either by co-operative sector or through private initiative and government facilitation (Public Private Partnership).

## **5.11 QUALITY ASSURANCE**

Small Scale Agro-Industries Units will be encouraged to produce to internationally acceptable quality certification standards like HACCP or similar quality certification recognized by international bodies. The Government will provide financial assistance up to 50% **To be determined by GOE MOTI, MOARD, MOFAED, private sector: ministry of Science and technology** of the cost, subject to ceiling of 50,000 *Birr* **To be determined by GOE MOTI, MOARD,**

## **5.12 STANDARDS AND GRADING**

With opening up of economy and globalization under international trade agreements it has become imperative to grade and standardize agri and horticulture products of Ethiopia on the basis of international standards. The government of Ethiopia would formulate such standards and grading and develop regulatory mechanism for the same.

## **5.13 GENERIC PROMOTION OF KEY CROPS**

The GoE will pro-actively promote global positioning of crops in which it has preeminent position in world market through generic promotion, participation in exhibition abroad & creating brand for agro products of Ethiopia. Special campaign shall be undertaken in targeted international market in association the sectoral associations and Ethiopian export promotion Department, MoTI.

## 5.14 FOOD RETAILING

World over, food retailing chains have been key drivers in the food chain by agglomerating demand and streamlining the supply chain with regard to quality, standard, packaging, and pricing. Such chains exert considerable influence for producing what is in demand and reducing losses and cutting costs all across the supply chain.

GOE will encourage setting up chain of retail outlets in Ethiopia as a crucial link between consumers and producers. The support will be in the form of speedy approvals for land allocation, facilitation of infrastructure, for fresh produce segment, in particular.

## 5.15 EXPORTS

Ethiopian agriculture and Agro-Industry exports contribute to more than 80% of the total export from the country. Major agricultural products exported from Ethiopia include; coffee, oilseeds, spices, live animals, meat, cut flowers, fruit & vegetables, etc. Agriculture exports from Ethiopia however, are largely commodity based. The Government intends to encourage export of Agri products by taking following measures:

- Improve/upgrade laboratory for quality and inspection of Agriculture and Processed food products

**The following Assistance** will be available to exporters of selected Ethiopian Agricultural Produce.

- Air Freight Subsidy 25% [To be determined by GOE MOTI, MOARD, MOFAED,] Subsidy on Air Freight on commodities and value added products to be determined [commodities to be determined by GOE MOTI, MOARD, MOFAED, private sector] and such other products as specified by the Federal government from time to time, subject to a ceiling of 100,000 Birr [To be determined by GOE MOTI, MOARD, MOFAED, private sector] per beneficiary/per annum.
- The GoE will provide subsidy within a ceiling of 35,000 birr - per beneficiary [To be determined by GOE MOTI, MOARD, MOFAED, private sector] for sending samples / test marketing abroad. The Government assistance should not exceed 50% [To be determined by GOE MOTI, MOARD, MOFAED, private sector ] of the cost of sending samples and the beneficiary can avail such grant only once for sending samples for one time to one country and the product should be of Ethiopian origin and in the list of prioritized commodities only.

## **5.16 INTEGRATED AGRO FOOD PARKS**

Integrated Agro Food Parks (IAFP) are the industrial estates specifically setup for setting up of food processing industries. Development of IAFPs intends to enable particularly small and medium scale food enterprises to attain viability by defraying cost of major common facilities such as Laboratory, Cold Storages, warehousing, pack houses, food testing and analysis lab, effluent treatment plant, common processing facilities, power, water supply, R&D etc.

The GoE, after a thorough study, will to set up first of its kind IAFP through Private Public Partnership at selected carefully selected locations, including Economic growth corridors.

## **5.17 RESEARCH & DEVELOPMENT**

Agro Industrial units are required to compete in domestic and global markets with stringent quality standards. Such units, therefore, are required to upgrade their technology and introduce modernization.

The GoE will facilitate partial funding/subsidy for technology upgrading from funds such as European Partnership Agreements (EPA) for the selected SME engaged in processing of prioritized commodities.

The GoE will encourage research and development activities. The Government will provide assistance to the sector for sponsored research work undertaken by reputed and government listed research institutions, up to 50% [To be determined by GOE MOTI, MOARD, MOFAED] of the cost, within a ceiling of 150,000 Birr [To be determined by GOE MOTI, MOARD, MOFAED, private sector].

## **5.18 INFORMATION TECHNOLOGY**

Farmers, processors and planners will be requiring latest information related to agri business. The GOE is committed to develop suitable infrastructure for agri business to enable wide dissemination of information.



GoE intends to prepare software for Agribusiness including availability and cost benefit analysis of inputs, documentation of best agronomic practices for various crops and varieties, market information, price projection, etc.

## **5.19 CERTIFICATION AGENCY FOR ORGANIC FARMING**

Organically produced products are gaining popularity amongst the health conscious consumers worldwide. Such products attract premium. To encourage production of organic products and make them acceptable in the international market, the Government will facilitate setting up of internationally recognized quality testing and certification laboratories in the country.

## **5.20 VENTURE CAPITAL FUND**

A revolving venture capital fund can be a major contributor to jumpstart investments in the food & agri business sector. As Ethiopian agro-industry sector is at the take off stage, such a fund could catalyze Agro-Industry development.

The GoE has recognized the need for a venture fund to cater to the needs of prospective entrepreneurs who have developed or acquired unique technologies in the sector such as Food Processing, Horticulture, Aquaculture, and other related projects. The Government intends to create a venture funds for Agro-Industry in association with international financial institutions, regional and national banks, etc.

## **5.21 AGRI WASTE**

Agri waste has a vital role in agri economy and need to be optimally utilized to provide adequate return to the farmer and maintain competitiveness in global environment by full utilization of all resources. GOE, therefore, intends to support projects on agri waste, by treating them at par with Industrial Infrastructure projects for the purpose of incentives.

## **5.22 SINGLE WINDOW CLEARANCE**

The GoE is will continue to improve the facility of single window clearance to ensure that entrepreneurs do not have to visit different government offices to obtain the required clearances for setting up industrial units.

The one stop shop service of the Ethiopian Investment Promotion Agency could be further strengthened to efficiently provide the clearance services for the setting up and after care services for the industry unit.

## **5.23 IMPLEMENTING AGENCY**

The GoE will assign an Agro-Industry Development Department of MoTI [To be determined by GOE MOTI, MOARD, MOFAED, private sector] as Nodal Agency to promote and develop Agro-Industry in the country.

## **5.24 IMPLEMENTATION**

GOE will ensure that Agro-Industry Policy is implemented expeditiously. The Empowered Department will be the sanctioning projects under this policy. The department will issue letters of approval as per decisions of the government and disbursement will be made by the Office of the Agro-Industry development Department of MoTI [To be determined by GOE MOTI, MOARD, MOFAED]