



From left to right, Horizon Plantations plc Managing Director Ato Jemal Ahmed, Ethio Agri-CEFT plc General Manager Ato Esayas Kebede and Technology Group CEO Dr. Arega Yirdaw

Agribusiness and the Role of MIDROC Ethiopia

By Mekonnen Teshome

Various literatures in the areas of agricultural business indicate that the notion of *Agribusiness* first emerged in 1950s across the globe. The term "agribusiness" usually refers to the business of farming; although, it is not often used in correlation with actual farms as it is an agriculturally related business like the supply of farm inputs.

The *Business Dictionary* defines agribusiness as business that earns most or all of its revenues from agriculture. An agribusiness tends to be a large scale business operation and may dabble

in farming, processing and manufacturing and the packaging and distribution of products.

Ato Esayas Kebede, General Manager of the Ethio Agri-CEFT, one of the group companies of MIDROC Ethiopia, also says that Agribusiness is a broad concept that covers input suppliers, agro-processors, traders, exporters and retailers.

He says that Agribusiness is also related with the provision of inputs to farmers and the linkage between farmers and consumers through financing, handling, processing, storage, transportation, marketing and distribution of agro-industry products.

According to Ato Esayas, agribusiness can be seen in four major component levels. The first is agricultural input industry which is related to inputs vital to enhance agricultural productivity. These include agricultural machinery, equipment and tools; fertilizers, pesticides, insecticides; irrigation systems and related equipment.

The second is agro-industry that is the manufacturing of food and beverages; tobacco products, leather and leather products; textile, footwear and garment; wood and wood products; rubber products; as well as construction industry products based on agricultural materials.

The third is agricultural equipment that play a vital role in agribusiness in the processing of agricultural raw materials. The equipment can include including machinery, tools, storage facilities, cooling technology and spare parts.

The fourth are various services related to finance, marketing and distribution firms, including storage, transport, ICT, packaging materials and design for better marketing and distribution are integral part of Agribusiness.

As agriculture accounts for over 50 per cent of Ethiopia's GDP and more than 80 per cent of its export revenue as well as 85 per cent of employment generation, agribusiness is considered as a major economic activity in the country. In addition, an estimated 65 per cent of employed women work in the agricultural sector.

Ato Esayas says that given the commitment of government to support private sector especially in the agricultural sector, the political and macro-economic stability in the country, the prevalence of good governance and less impact of corruption, the prospect of agribusiness in Ethiopia is very high.

In addition, he said, the country is endowed with vast and fertile land, abundant and diversified natural and climate suitable for agricultural business. The availability of competitive, cheap and trainable labor also makes Ethiopia viable for agribusiness.

Taking the huge national potential in to consideration, the government has made agriculture a key priority in the country's Growth and Transformation Plan (GTP). The considerable investments made by the government in the sector by expanding extension systems and large-scale infrastructure would have a paramount importance in encouraging business people to engage in agribusiness. The government has also established various institutions like the Ethiopian Agricultural Transformation Agency (ATA) to assist in the promotion and growth the sector.

Agro processing, Small-and Medium-size Enterprise (SME) growth, increasing the capacity of women, and job creation are four of the priorities of GTP.

As to Ato Esayas, the agricultural police adopted by the Ethiopian government and other supportive structural adjustments made by the country are vital for the growth of the national economy in general and agribusiness in particular.

He cited the successful experience of Brazil, Malaysia, Thailand and Chile that agribusiness can really be a development drive if it is given due attention and of deliberately supported by policies and strategy.

Esayas also indicated that the country's rich livestock recourse is also another factor that shows it has a real potential for agro-processing activities like dairy, meat and meat products processing, poultry and leather and leather products industries.

Domestic Animal Resource	Population in Ethiopia
Heads of cattle	43 million
Heads of goats	27 million
Camels	2.3 million
Heads of sheep	31 million
Chickens	53 million
Equines	7 Million

Esayas also mentioned that the rapid infrastructural development - road, power generation efforts as well as the stable macro economic situation in Ethiopia are the other positive factors that contribute towards successful operation of agribusinesses in the country.

What are the challenges?

Despite the prospects and enormous opportunities of agribusiness in Ethiopian, there are concerns that should be addressed to further create a level playing field for potential business people in the area.

Ato Esayas says that in spite of the growing development in infrastructure, there are still gaps to be filled across the country in connecting rural areas with all weather roads. Other challenges like the lack of skilled man power in the area, financial/capital constraints as well as the challenges in accessing Agricultural Technologies and inputs should be mitigated.

He also pointed out that the market is also highly segmented and disconnected adding that productivity levels in agribusiness are low partly because educational levels fall well short of the standard.

Agro-industry is all about value addition

The national Growth and Transformation Plan which has been just concluded this fiscal year gives priority to agro-processing among other things. We cannot think of agri-business without agro-industry and value addition which are the integral part of it.

The United Nations Food and Agriculture Organization (FAO) describes the agro-processing industry as an industrial activity related to transforming products originating from agriculture, forestry and fisheries and is the sub-set of manufacturing that processes raw materials and intermediate products derived from the agricultural sector.

In relation to Agro-industry, Esayas explains that it comprises all the post-harvest activities that are involved in the transformation, preservation and

preparation of agricultural production for intermediary or final consumption of food and non-food products.

He also cited the International Standard Industrial Classification (ISIC) that agro-industry could include six main groups namely food and beverages; tobacco products; paper and wood products; textiles, footwear and apparel; leather products; and rubber products.

Agro-industry requires adding value is the process of changing or transforming a product from its original state to a more valuable state. For example, if we process wheat and change it into flour, we can say that the flour has added value, while the wheat as a raw commodity has only intrinsic value in its original state.

Value-addition activities involve the necessary investment in research, processing and marketing.

Professor Mike Boland, Kansas State University, USA, Department of Agricultural Economics, in his article “What is value-added agriculture? ”, puts a broad definition of value addition: “to economically add value to a product by changing its current place, time and from one set of characteristics to other characteristics that are more preferred in the marketplace.”

According to Prof. Mike, market forces have led to greater opportunities for product differentiation and added value to raw commodities because of: increased consumer demands regarding health, nutrition and convenience; efforts by food processors to improve their productivity; and technological advances that enable producers to produce what consumers and processors desire.

Innovation is Key in Value Addition

Referring to the experience of Brazil, Malaysia, Thailand and Chile, Ato Esayas indicated that apart from benefiting from substantial agricultural resources, great emphasis was placed on increasing productivity by applying science and technology as well as institutional support in an enabling private sector environment by these countries. He pointed out that innovation is a central idea in agribusiness.

Innovation focuses on improving existing processes, procedures, products and services or creating new ones. Often, successful value-added ideas focus on very narrow, highly technical, geographically large markets where competition is sparse. Innovative value-added activities developed on farms or at agricultural experiment stations are sources of national growth through changes either in the kind of product or in the technology of production. By encouraging innovative ideas, adding value becomes a reality.

Innovation also can come from research about alternative crops that can be grown successfully by producers to replace traditional crops. Value-added producers are able to economically profit by growing these alternative crops instead of traditional crops.

Innovation is all about the advancement of the agricultural sector (or of a specific value chain) requires a network of organizations, enterprises, and individuals (value-chain actors) focused on bringing new products, new processes and new forms of organizations into economic use. The network works together with the institutions and policies that affect their behavior and performance.

Industrial Innovation – a specific type of innovation is industrial innovation, which is processing traditional crops into nonfood end uses, is also a central

point

in

agribusiness.

Fair Price matters in Agribusiness

Nevertheless, before producers examine value-added processing and marketing, cost minimization in production must be achieved. Only low cost and efficient producers will be able to survive and compete in production agriculture. Adding value cannot take the place of reaching the efficiencies of production attainable through technology and economies of scale.

Entrepreneurship and agribusiness

The issue of entrepreneurial activity in agribusiness is fundamental to characterize conditions that are likely to lead to new profit opportunities or to the formation of new enterprises. Here it is also important to think about attainable and creative the business as well as staff determination, and technical knowledge which impact its successfulness.

Value chain in agribusiness

Value chain in agribusiness is about how inputs and services are brought together and then used to grow.

When we evaluate a value chain in agribusiness it is vital to analyze how to transform or manufacture a product; how the product then moves physically from the producer to the customer; and how value increases along the way. Value chains focus on value creation typically via innovation in products or processes, as well as marketing—and on the allocation of the incremental value among the actors in the value chain. The value chain perspective thus helps us understand business-to-business relationships that connect the chain,

mechanisms for increasing efficiency, and ways to enable businesses to increase productivity and add value.

This perspective also provides a reference point for improvements in supporting services and the business environment.

According to the Information for Development Program (infoDev), Ethiopia has a huge potential in agribusiness and the following are some of the Key value chains (or value chain groupings) identified as having good potential for growth:

Milk and milk products

Ethiopia has the largest reserve of milk producing animals in Africa; however, it imports milk products at a value of over 100 billion Birr annually. With unmet demand for milk and milk products in growing urban areas, the growth potential is significant for the 18 producers (half of them are small to medium-size processors).

The tremendous diversity of ecological zones in Ethiopia enables production of a wide variety of crops. Seven key value chains (or value chain groupings) were identified as having good potential for growth at this time:

Honey

Ethiopia is the largest honey-producing country in Africa and the fourth-largest beeswax-producing country in the world. Both domestic and export market are growing. The potential for honey processors is significant.

Fruit and Vegetables

The processing industry is quite promising. Many fruit and vegetable processing plants in Ethiopia are working below capacity because of the lack of sufficient and regular supply of fruits and vegetables. These processors and plants are producing for both the domestic and export markets, replacing imports of fruit juices and addressing the growing demand for catering products from the Middle East, nearby countries, and Europe. Ethiopian processors have a demonstrated comparative advantage compared to their competitors from Egypt, Tunisia, Morocco, and Kenya.

The Textiles Industry

Although the number of operating factories and their capacity is comparably low and does not provide self-sufficiency for the demand by Ethiopian garment or home textile industry, much cotton production in Ethiopia at the small holder scale is organic.

This offers an opportunity to enter the organic market where prices for organic cotton increase internationally and the market could be linked with Ethiopia's growing design and fashion brands.

Food Processing

Although Ethiopia is one of the largest wheat producers among the Common Market for Eastern and Southern Africa (COMESA) countries, it still imports quite significant amount. With a growing population and urbanization, the demand for wheat and particularly for processed food in the form of bread, flour, macaroni, and pasta is expected to increase, offering a real market opportunity for manufacturers of bakery products.

Spices Production and processing

About 244,000 tons of spices are produced annually. There is high domestic demand for spices and 50 per cent of Ethiopian spices are exported to Sudan, while other major export destinations include India, Morocco, Saudi Arabia, United Arab Emirates, and Yemen.

While the GTP now envisages substantial investment in the sector, the potential of spices has been largely overlooked in the past. Only few spice extraction plants exist, which produce for the export market, although not at full capacity because of equipment and production problems. The market potential for new processors is high, especially for the growing export markets.

MIDROC Ethiopia and its role in agribusiness

MIDROC Ethiopia companies especially Horizon Plantations plc, Ethio Agri-CEFT plc and ELFORA Agro-Industries plc plays a major role in the development of agribusiness in Ethiopia.

1. Horizon Plantations plc

Horizon is now emerging as a new large-scale agricultural and agro-processing ventures in Ethiopia and even in Africa. The company produces the world's best Arabica coffee, spices, fruits, vegetables, pulses (haricot bean and soybean), maize and organic honey. It is also at the forefront in the production and supply of processed fruits and vegetables.

Over the last five years, HORIZON has grown from a single Company into a group of six enterprises (four plantations and two agro-processing industries) across Ethiopia.

The six formerly state owned firms that are currently owned by HORIZON are Bebeka Coffee Estate, Limmu Coffee Farm, Gojeb Agricultural Development, Coffee Processing and Warehouse Enterprise (CPWE), Upper Awash Agro-Industry Enterprise, and last but not least Horizon Addis Tyre Share Company.

Horizon Plantations plc Managing Director Ato Jemal Ahmed once told this writer that the company was engaged in large-scale agro-industry activities. Horizon is developing various spices including black pepper and turmeric at Bebeka farm. “As the laboratory analysis of our turmeric product has already been accepted by pertinent European authorities, we are confident that we would secure the export market,” he added.

The Upper Awash farm under Horizon produces various agro-industrial products including Tomato Juice and paste, Orange Marmalade while other efforts are made to intensively develop Pineapple and realize a livestock ranch project at the Gojeb Agriculture Development Farm among others.

Gojeb Agricultural Development

Gojeb is an agricultural development farm that aims at specializes in sheep breeding and fattening, and expanding its pineapple and banana plantations.

Gojeb Agricultural Development lies on 2,548 hectares of land, of which about 2,000 is cultivable, of which our current land use plan envisages 50% for livestock development, 25% for fruits and vegetables and the rest 25% for annual crops, involving double cropping for the latter using irrigation. On the other hand, the area is well known for its Bonga breed sheep stock, which is widely known for its superior quality mutton.

Upper Awash Agro Industry Enterprise

Upper Awash Agro Industry Enterprise (UAAIE) is the biggest producer of oranges, mandarins and other tropical fruits like mango and papaya in Ethiopia. The company is also the main producer and supplier of tomato paste, tomato juice, orange marmalade and guava nectar in the country.

The total landholding of the farm is nearly 5,000 hectare of which about 4,200 hectares is arable. Of these total, some 2,200 hectare of the land is occupied by perennial crops (1,200 hectare of citrus, 400 hectare of mango, and the remaining papaya, guava, lemon, lime and grape vine). The remaining 2,000 hectare of the area coverage is allotted for growing different annual crops with strong emphasis on the cultivation of tomatoes, followed by haricot beans, cotton and maize.

In 1993, it was re-established with its current name, “Upper Awash Agro-Industry Enterprise (UAAIE)”, as a public enterprise having four farms and one processing plant under it. As a result, it was given the mandate to administer the four farms, i.e. Nura-Era, Merti-Jeju, Awara-Melka and Tibila, as well as Merti Fruit and Vegetable Processing Plant. In 2007, two of the farms (Awara-Melka and Tibila) were transferred to other companies leaving UAAIE with the rest two farms (Nura Era and Merti Jeju), as well as Fruit and Vegetable Processing Plant.

2. Ethio Agri-CEFT

Tea Plantations and processing

Ethio Agri-CEFT plc has the largest commercial Tea Plantations in Ethiopia, Wush Wush and Gumaro, which are located in South Western Ethiopia. The

formerly state-owned Plantations together with the Tea Processing and Packing Factory in Addis Ababa were bought by the company in 2000.

The total annual production of the two plantations annually produced about 6,000 tons of black tea.

Both Gumaro and Wush Wush Plantations produce black tea. For this, Wush Wush has two and Gumaro one tea factory. The fresh leaves undergo withering, cut, tear and curl (rolling), fermentation, drying, and sorting. Each step determines the tea quality before it is transported to Addis Ababa for the final grading and packaging. Wush Wush has also started to grow small amounts of green tea with the objective of introducing new tea brand.

The Tea Factory located in Addis Ababa is engaged in the final sorting, blending, grading, cup tasting and packing the tea. It carries out blending activities of tea with no artificial flavoring material added to flavour its tea products. Once the processing and packaging is complete, the tea is ready for local and foreign markets.

The three main brands of black tea (Gumaro, Wush Wush and Addis) are prepared in 100 and 50gm packs. Addis Tea is also available in immersible tea bags of 2 gm each and 25 bags in a sachet. Tea Processing and Packing Factory has also started to pack and market herbal teas like chamomile and hibiscus. To cater for all tastes, other tea brands blended with cinnamon, ginger, mint and thyme are produced and marketed.

The Gojam Farms

The Ayehu and Bir Farms occupy a total of 15,539 hectares of land in Gojam.

The major crops cultivated at the farms include maize, wheat, soybean, pepper, chickpea, haricot bean, mung bean, rape seed, and sesame. The farms also produce essential oils, spices such as coriander, black cumin, and flax trials is also in progress. Hybrid maize is produced at Ayehu farm for farmers in the surrounding areas.

In an effort to maintain environmental balance the farms have started planting such as: onion, mango, banana, potatoes, and coffee with supplementary irrigation. Furthermore, chamomile and hibiscus teas, honey, fruits and vegetables are produced with the possibility of export in the near future. Finally the farms are engaged in livestock fattening for local market by using by-products from the farms.

Moreover, Ethio Agri - CEFT's produces high quality especiality coffees from its four farms - Gemadro, Duyina, Ayehu and Beha (totally 2,675 hectares) in the SNNP, Oromia and Amhara regional states.

3. ELFORA Agro-Industries plc

ELFORA Agro-Industries Pvt. Ltd. Co., a member of the MIDROC Ethiopia Technology Group, established in 1997 operates in different agro-industry areas including poultry, abattoir and agro-processing and farming.

The Company meat plants at Melge Wondo, Debre Zeit, Dire Dawa, Kombolcha, Gondar and Metehara, are engaged in the production of meat either in canned, carcass, minced or boneless form for both domestic and export markets.

ELFORA in its recent announcement of Birr 8 billion expansion in May 2012⁵ declared that its modern integrated poultry business has already been producing 30m eggs and 500 tonnes of meat, and its products are being exported to Djibouti.

It has been working to supply meat and milk to both local and foreign markets by bringing about change in quantity and quality.

According to Technology Group CEO, Dr. Arega Yirdaw, ELFORA has made another investment in the production of alfalfa animal feed which is estimated to provide a yield of 25 tonnes per hectare with a protein content of 22%.

The meat and dairy production to be implemented in three phases is also the other major expansion project by ELFORA. In the first phase, the company purchased 500 Borena heifers, now at Wonji Kuriftu near Adama. In the second, 3,000 further heifers will be imported and, in the third, modern milk production and processing will be implemented with 10,000 cows.

ELFORA has the capacity to process a significant amount of mutton and goat carcass and export to various African and the Middle East countries including Egypt, Djibouti, Congo Brazzaville, Côte-d'Ivoire and Saudi Arabia.

In conclusion, and evaluating the very performance of the three MIDROC companies owned by Sheikh Mohammed, various suggestions can be given to them to further enhance their contribution in agribusiness in Ethiopia. For example, Horizon Plantations plc and Ethio Agri-CEFT plc produce a variety of crops and spices but they only process and add value in only few of their products.

Here, it is crystal clear that the two companies have huge potential to enter to further agro-processing and value addition in the future and there by contribute a lot in the country's agribusiness activities. As they are the largest producers of coffee beans in Ethiopia, even in the long run and with all the challenges of global market system, the two companies can thing of joining the global coffee roasting business.

Sheikh Mohammed for instance, during the Technology Group project expansion announcement, gave a clue that he wants to extract oil from the Soybean produced by his farms.

Similarly, ELFORA expand and diversify its agro-processing activities. Exploiting all the land and human resources it has, the company for sure can attain its targets and even more in the years ahead.