



Investment in tomato concentrate processing for domestic and export markets

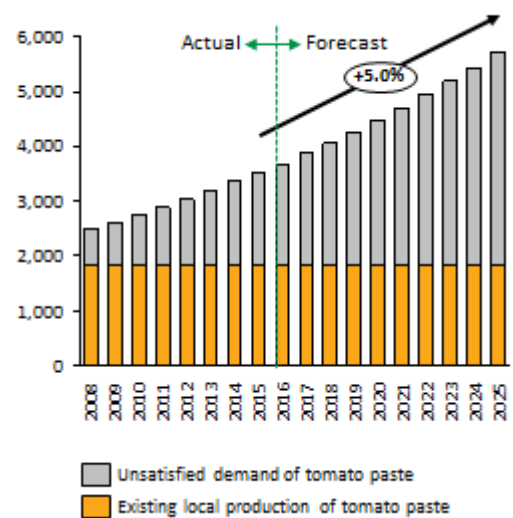
Developing a tomato concentrate industry in Ethiopia has been identified as a sector with significant investment opportunity, particularly for investors with expertise in horticulture and retail. Here we provide an example of two sample greenfield investment opportunities of different scales, \$1.5 million and ~\$4 million, each with an expected IRR of 30-35%.

1 MARKET OPPORTUNITY

Domestic production of tomato concentrate in Ethiopia offers attractive investment opportunities, with the existing producers unable to meet the ever growing local demand. Urban population growth in Ethiopia is about 4% while GDP has been growing by more than 7% per annum for the last few years. As income rises and urbanization grows, there is a shift towards more expensive but conveniently packed goods. Given the above, demand for tomato paste is forecast to grow by 5% per annum.

Ethiopia's tomato processing sector represents untapped market potential for export to regional, European and Middle Eastern Markets. Regionally, tomato is one of the commodities with the most potential, especially as tomato concentrate is the most commonly-used ingredient in African cooking, Europe is facing change in the tomato industry with decoupling of subsidies in European countries, resulting in increased costs for domestic production of tomatoes. Europe's #1 importer of tomato concentrate, Italy, imports the majority from the USA, Spain and China. Ethiopia has advantage over the USA and China due to its geographic proximity, availability of land and low labor costs. UAE import \$USD 41.6m worth of processed tomato, of which \$USD17.9m is sourced from China alone. This is almost double the value of Ethiopia's export of raw tomatoes. There is potential for Ethiopia to capture some of this market share.

Domestic demand for tomato concentrate (tons)



2 WHY INVEST IN ETHIOPIA?

Horticulture as a government priority > Fruit and vegetables are a priority sector for the Government of Ethiopia (GoE), which aims to increase production by 47% between 2015 and 2020. Domestic and international investors are welcome and will be given prior attention to encourage them to invest. The Government is targeting to increase productivity of tomatoes from 87 quintal/hectare to 133.86 quintals/hectare with an average annual growth rate of 9% and total production from 58.91 thousand tons in the base year to 90.64 thousand tons in the end line.

Suitable climatic conditions for tomato > Ethiopia is endowed with favourable weather, altitude, adequate water and availability of suitable soils for tomato production. Most of the soil types in potential tomato producing regions of the country range from light clay to loam and are well suited for horticultural production. As Ethiopia has no winter, it offers the perfect opportunity for all round tomato production.

Potential for organic production > Much of the land available for growing tomatoes is suitable for organic certification. With growing global demand for natural products in high value markets such as EU, the tomato subsector offers favourable conditions for growing organic products that can fetch premium prices of up to 45% while meeting consumer demand requirements.

3 SPOTLIGHT ON A POTENTIAL INVESTMENT OPPORTUNITIES

Investment in a tomato processing plant in Ethiopia can take place through various models, each of which has its own advantages and challenges, as well as slightly different yield rate, profitability, and time frame. Provided below is an example of two hypothetical greenfield investments in a tomato paste plant of varying scales. Should the investor prefer, there is also the opportunity to enter into a brownfield investment, with an already established tomato sauce and paste processor in the country, targeting both domestic and international markets.

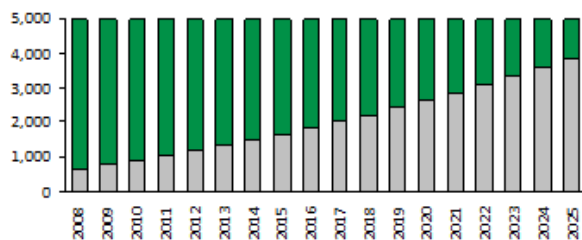
Possible Investment Option 1

- Investment required: \$USD 1.5 million
- Installed capacity: 4,980 tons per annum based on 300 working days, 8 hours per day
- NPV: \$USD 67,571
- IRR: 30 - 35%

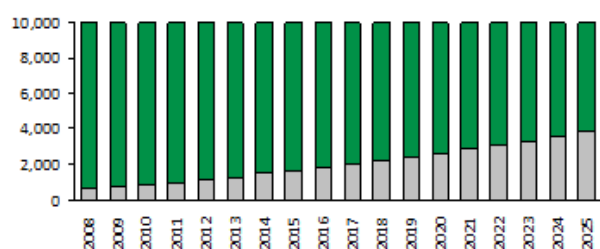
Possible Investment Option 2

- Investment required: \$USD 3.8 million
- Installed capacity: 9,960 tons per annum based on 300 working days, 8 hours per day
- NPV: \$USD 190,008
- IRR: 30 - 35%

Domestic and export potential at plant capacity of 4980 tons per annum



Domestic and export potential at plant capacity of 9,960 tons per annum



4 INVESTING IN SOCIAL CHANGE

Ethiopia is a unique investment destination in that your investment can contribute to improving incomes and livelihoods. With the largest rural population in the world, Ethiopian agriculture is the lifeblood of the country.

- **Direct Impact.** The project would provide full-time, year-round employment of more than 140, and seasonal employment to 600 in the rural area of the project’s immediate location and beyond.
- **Indirect impact.** Relationship with smallholder farmers will continue to be scaled as the industry develops, resulting in increased production and economic efficiency. Value to farmers: tools and the incentives to sell a greater proportion of an increased tomato yield at a consistent, fair price
- **Ecosystem impact.** Improve access to the appropriate quantities of fair-priced inputs such as fertilizers and high-yielding seeds through bundling and pooled procurement

5 INTERESTED TO LEARN MORE ABOUT ETHIOPIAN AGRICULTURE? WE CAN HELP.

In the coming decade, the private sector will play an even greater role in Ethiopia’s agricultural transformation, creating markets for Ethiopia’s farmers. The Private Sector in Agriculture Team engages early with serious investors to understand interests and concerns, works with them to identify promising opportunities, provides relevant market analysis, and helps navigate the local environment. With support from USAID’s Investment Support Program, the ATA has developed detailed investment cases on opportunities in beef & dairy, poultry & feed, soybean, fruit & vegetable, wheat, and sesame.