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The Food Industry in the EAIO

In concise...

East Africa and the Indian Ocean region has high potential for food processing development. While agriculture is one of the pillars of the region's economies, accounting for 26 % of their GDP taken together, the development of the food industry varies widely. Some countries, such as Kenya and Tanzania, already have dynamic industries and export-oriented businesses, while others face various difficulties mainly achieving sufficient agricultural production to enable the development of this industrial sector. Cereal processing (wheat, corn, sorghum, etc.) and milk processing (cow, goat, etc.) are the main sectors used to ensure food security. At the same time, products most often destined for export (tea, coffee, sugar, fruit and vegetables) are partially processed, but represent a real opportunity for added value.

In detail ...

Wide disparities in the development of the food industry between countries

Agriculture plays a central role in the economies of the EAIO countries. With a GDP of 107,2 MUSD in 2021, agriculture accounted for 26 % of the GDP of the EAIO countries. In the case of Somalia, this sector accounts for more than half of the country's GDP.

The food industry is the leading manufacturing industry for a large number of countries in the zone. The sector in Kenya and Tanzania accounts for 4 % and 5 % of the countries' GDP respectively. It has also been growing over the last ten years, dominated in terms of volume by cereal and sugar cane processing.

Flour production is constantly on the rise. Production has multiplied by 1.8 in 10 years, reaching 71 million tonnes, mainly corn flour (30 %) and wheat flour (25 %). The region produces nearly 71 % of wheat flour in Sub-Saharan Africa, with Kenya being the main processor in the EAIO, with nearly 0.7 million tonnes of wheat flour produced in 2020.

A heavyweight in milk production, the East Africa and Indian Ocean region accounts for more than half of all milk processing in sub-Saharan Africa. In 2020 it accounted for 55 % of milk processing in sub-Saharan Africa, and 30 % in the entire continent. The vast majority of dairy products produced are skimmed milk. Butter, fresh cream, yoghurts, and cheese make up for a smaller share. According to the FAO, Tanzania is the biggest milk processor in the EAIO, as it is home for 49 % of total processing in the EAIO.

Meat processing remains low: The EAIO accounts for just 1 % of chicken processing in sub-Saharan Africa, 18% of pork and 22% of beef. The vast majority of processing takes place within EAC countries, except for beef, where Ethiopia is the second largest processor.

Fruit & vegetable processing is growing, but remains underdeveloped in relation to countries' processing potential. It has increased by 134 % in 10 years. Frozen vegetables account for 14 % of processed vegetables, but are mainly destined for export. 74 % of frozen vegetable production is carried out by EAC countries, with Tanzania alone producing 60 % of EAIO production.

Consumption habits vary from country to country, but the consumption of unprocessed products remains ubiquitous. Consumption of products processed from wheat flour, such as bread, pasta or cookies, remains marginal, except in Kenya, where 45 % of wheat flour is consumed with at least one additional processing stage. Maize flour, which remains the staple food for many countries in the region, is either not processed at all, or processed only to a limited extent (Tanzania). Tanzania, the leading milk processor in EAIO, is also the country with the highest consumption of processed dairy product, i.e., 46% of the country's total milk consumption.

Despite the development of the food industry, the countries of the zone remain dependent on imports, be it processed food products or raw agricultural products. Indeed, many countries in the zone are obliged to import raw materials in order to supplement national production. While countries in the region as a whole are not very dependent on imports of wheat flour, which is considered a food security item, domestic wheat production does not meet the processing capacity of factories. The Indian Ocean countries are the most dependent on imports. Even though most wheat flour is consumed in raw form, almost three-quarters of the EAIO countries are 100 % dependent on pasta imports to satisfy domestic demand, and the same applies to other processed products such as fruit juices and milk powder. **These figures need to be put into perspective, however, as the quantities imported remain low in some cases, but reflect a lack of local processing,** whereas certain basic products (fruits and tomatoes in particular) are produced locally. Fruit juice production has great potential for development in the various countries of the zone, as fruit processing can reduce post-harvest losses and add value to production.

Key players

Major food companies are conquering new markets and setting up operations in several of the region's countries. *East African Breweries (EAB)* is the leading agri-food company in East Africa and the Indian Ocean, with sales of almost 682 MUSD in 2020. It ranks at 168 on the 2022 list of Africa's top 500 companies. *EAB* has five production sites across the region, and is present in over 10 African countries, its main markets, however, being Kenya, Uganda and Tanzania. Numerous Kenyan agri-food groups are also investing abroad: ***Bidco Oil*** in Kenya, Tanzania and Uganda, where there are factories, with markets in Ethiopia, Rwanda and Mozambique; ***African Poultry Development***, which includes ***Kenchic Kenya***, ***Interchic*** and ***Tanbred*** in Tanzania; ***Brookside*** in Kenya, Tanzania and Uganda.

The main challenges include the lack of sector structuration and rural infrastructures

The challenge is first and foremost how to structure value chains in order to secure supplies for processing plants, also develop and strengthen the agri-food sector. This means grouping producers into producer groups or cooperatives to aggregate agricultural production. It also calls for better coordination between producers and processors, in order to secure the needs of both upstream and downstream actors (price, quantity, quality, in particular through contractualization and greater upstream-downstream investment), as well as between processors and distributors, in order to avoid any break in the cold chain, optimize the logistics chain and better meet consumer expectations, including during periods of higher

demand. **Linked to this challenge is the question of financing for small and medium-sized businesses**, and how to put them in touch with each other, which is often problematic and represents an additional challenge to the development of this sector.

Infrastructure development is a prerequisite for the development of the agri-food sector. Several countries still lack infrastructures in rural areas, but it is important to note that countries such as Kenya, Tanzania and Mauritius already benefit from functional and well-developed infrastructures, beneficial to the development of the agri-food sector. The development of these infrastructures remains an important prerequisite for the transformation of the agri-food landscape in the EAIO, **enabling the creation of a reliable and efficient production and distribution chain.**

Regional policies and support for the agri-food sector

Nearly 70% of industries in the EAC are food industries, and depend on agriculture for their raw materials. The food sector is thus the largest employer in the manufacturing sector in East Africa, and is also a major indirect employer. Numerous agri-food value chains, such as the fruit and vegetable processing sector, represent a high potential for job creation, not to mention the beneficial effect on the country's economy and food security.

A target of 270 million tonnes of food production within the EAC with the creation of industrial zones. The agri-food industry is one of the six pillars promoted in the 20-year (2012-2032) **East African Community Industrialisation Policy development program**. Today, almost 60 % of goods traded within the EAC are agricultural products. The development of agro-industrial zones is also encouraged by the African Development Bank (ADB), under the name SAPZ (Special Agro-Industrial Processing Zones).

All the countries in the EAIO region are adopting national agri-food sector development plans, in order to strengthen their food security. Kenya's *BETA* program, for example, aims to strengthen the meat processing chain and increase beef production by 130 % by 2027. However, in the absence of sufficient state resources, some countries, such as Comoros, rely mainly on investments from donors like IFAD. Governments also rely heavily on private investors to develop the sector, particularly large foreign groups.

Agricultural and processed products are at the heart of many trade relations between countries. For France, for example, agri-food trade accounts for around 80 % of French imports from EAIO countries. The Indian Ocean islands and Kenya lead the way. The former mainly supply France with prepared fish products, such as canned fish, and Madagascar is France's 1st supplier of vanilla. Madagascar and Kenya are France's first and second suppliers of beans, both fresh and processed. France is also the first destination for "French" beans produced and processed in Kenya.

Products destined for export, a major source of foreign currency. In order to enhance the value of tea, coffee and meat exports in particular, governments are keen to focus on the development of value chains in these sectors. However, it is important to take into account the demand of importing countries, which are not necessarily looking for processed products, as in the case of Pakistan, which imports raw tea for local processing. Similarly, Uganda, Africa's leading coffee exporter, exports most of its production in raw form. Developing the processing of products destined for export remains an important objective for all countries in the zone.

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