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Ethiopia

Post: Addis Ababa

Government of Ethiopia to privatize all Sugar projects.

Report Categories:
Sugar

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Report Highlights:

The Ethiopian Sugar Corporation (ESC), a government owned entity, plans to privatize ten partially completed sugar mills and three older mills that are operating in some capacity. In 2010 the ESC started an ambitious plan to construct ten new mills at a cost of more than two billion USD. Shift to today, nine years have passed, and the ESC finds itself in financial crisis with ten partially completed mills. Privatizing the sugar sector will bring some much-needed funds into the GOE's coffers. This move is consistent with other privatization projects in the energy and telecom sector by the new progressive government.

Production:

Post projects Ethiopia's 2019/20 sugar production to be 240,000 MT, 33% below the USDA previous estimate of 400,000 MT due to technical and management challenges. The Ethiopian Sugar Corporation (ESC), the state agency in charge of regulating production, import, and export of sugar planned to meet local sugar demand from domestic production by 2012. However, while production start showing slight growth up to 2017/18 it then declined after 2018/19 due to environmental challenges like heavy and unpredictable rainfall in some project areas, poor investments in production technology, and difficulty of managing the construction of 10 new projects at one time. The government recently decided to privatize all sugar projects and minimize state involvement in the sector.

Table: 1 Historical Sugar Production Trends in Ethiopia						
Marketing Year	2014/15	2015/16	2016/17	2017/18	2018/19*	2019/20 @
Production (MT)	330,000	350,000	350,000	400,000	266,000	240,000

Source: PSD for MY 2014/15-MY 2017/18

@ Post estimate. * ESC

Location map of sugar factories in Ethiopia
(Source: ESC)

Consumption:

FAS/Addis Ababa forecasts MY 2019/20 sugar consumption to reach 640,000 metric tons due to population growth (around 2.6%) and the development of food processing industrial parks. This growth is supported by the increase of rural community in using sugar in hot drinks coupled with the diversification of sugar-based products on the market. In the past, nearly sixty to seventy percent of total consumption was met by local production. In 2018/19, sugar consumption was limited to 580,000 metric tons due to shortage of supply. After 2017/18 with local production decreasing, sugar supply has become a hot button political issue. It has become common to see long lines of people at community owned shops waiting for sugar.

Since 1993, Ethiopia has become dependent on imported sugar to meet domestic demand. Annually the sugar mills closed between mid-June up to September due to rainfall and do repair and maintenance. During those months, projects plant and care for the sugar cane for the next harvest. Households buy sugar at state organized small union shops (the lowest administrative structure) which distribute rations at a government determined price based primarily on family size and availability. This is the only possibility for many Ethiopians to get sugar. Those households whose consumption exceed the given ration amount can buy sugar at higher price from private stores and groceries in the major cities and towns. There is also some informal neighborhood trade where some households sell part of their ration to economically better of neighbors. Annual sugar demand per individuals is estimated at an average of 10 kilograms and current supply per individual stands between 5-6 kg.

Trade:

MY 2019/2020 Sugar imports is forecasted to increase to 400,000 metric tons through imports mainly from India, Saudi Arabia, and Algeria. Total sugar imports for 2018/19 will reach about 310,000 metric tons and it is estimated to grow more than 400,000 metric tons in the coming 2019/20 due to the expected low local sugar production. The other source of sugar to the country is the informal cross border trade between neighboring countries Somalia, and Djibouti and it is difficult to estimate the volume.

Table: 2	**Official Import Data for Sugar (metric tons)**			
Marketing Year	2016/17	2017/18	2018/19	2019/20
Total Import	414,587	170,000	310,000	400,00

Source: Post estimation for 2019/20 and the rest from Ethiopia and Revenue & Custom Authority

Stocks:

MY 2019/20 ending stocks are estimated at 5000 metric tons, which is by half less than from the official USDA estimate.

Policy:

In 2010, the Ethiopian government formed the state-owned Ethiopian Sugar Corporation and started an ambitious plan to construct 10 new sugar mills at a cost of more than USD $2 billion. These new mills suffered chronic delays and over expenditure on the construction due to corruption and mismanagement. Ten years ago, seven of the ten unfinished mills were handed over to the Ethiopian Metal & Engineering Corporation (MetEC), which is the army's business branch. The deals were made without a transparent bid process. Nine years down the line, it became clear that MetEC was not able to complete them according to plan. At this time the MetEC is in financial crisis and government intends to privatize all ten of the partially completed mills and the original three operational sugar mills. The Ministry of Finance is in the process of finalizing the necessary pre-privatization activities to privatize all thirteen sugar mills.

The Ministry of Finance is researching the necessary steps for privatization. Based on these findings, the Ministry of Finance and Ethiopia Sugar Corporation will determine the form and mode to engage the foreign and local private sector in a competitive tender process in-line with Ethiopian government laws and regulations. The privatization of Ethiopia's sugar sector supports the new government's economic reform agenda.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal	2017/2018		2018/2019		2019/2020	
Market Begin Year	May 2017		May 2018		May 2019	
Ethiopia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	10	10	10	10	10	5
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	400	400	400	266	400	240
Total Sugar Production	400	400	400	266	400	240
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	170	170	300	310	200	400
Total Imports	170	170	300	310	200	400
Total Supply	580	580	710	586	610	645
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	5	0	0	0	0	0
Total Exports	5	0	0	0	0	0
Human Dom. Consumption	565	570	700	581	600	640
Other Disappearance	0	0	0	0	0	0
Total Use	565	570	700	581	600	640
Ending Stocks	10	10	10	5	10	5
Total Distribution	580	580	710	586	610	645
(1000 MT)						