

April 2021

Why is Improving Quality Control Systems of Ethiopian Agricultural Export Commodities a Must to Compete in the International Market?

Position Paper



Why Quality Control System?

Ethiopian agriculture has been the backbone of the nation for millennia, currently covering 34% of the GDP and providing 75% of the employment. The sector has been supported by various public policies, strategies and plans to enhance its driving role for industrialization as well as its contribution to foreign currency earning. While export performance has increased through higher participation of the private sector, the sector falls short of setting a comprehensive quality standard control system. As a result, the country has received notifications and export bans on its agricultural produce due to complaints on quality such as Maximum Residue Limit (MRL), aflatoxin, pest, and others which are also noted on international open sources. It has also missed some market opportunities due to lack of traceability.

The inadequate quality control system of the country emanates from, among others, 1) lack of clarity in the mandates between authorized public bodies; 2) segments or the entire value chain of commodities not being regulated on quality; 3) inefficiency in coordination between standard setting, operating and regulating bodies and 4) public bodies mandated for grading and testing, based on their own standards, has created (in some cases) room for abuse. With all these challenges compounded by the growing global market competition, an increase in demand for safe and nutritious foods, and Ethiopia's direction to be member of international trade organizations/agreements (COMESA, AfCFTA and WTO), it is imperative to have a well-functioning quality control system and the regulatory framework to support it.

Agricultural Export and Quality Issues

Currently, Ethiopia receives 76% of its export earnings from its agricultural products such as coffee, oilseeds, chat, pulses, cut flowers, fruits, vegetables, dairy, and meat, among others. The first five commodities cover 28.7%, 14.5%, 11.4%, 10.2% and 9.6% of the volume exported in 2018/19, respectively. Major export destinations in 2018/2019 were Asia (41.6%), Europe (25.4%), and Africa (20.8%).

The export trend of the country shows high value markets are not significantly targeted as exporters target countries where import regulations are at ease. This is not always by choice but with the existing functionality of many agricultural value chains, non-producing exporters have no or little control over the quality of the produce they export. This is especially true when it comes to parameters such as MRL, size of beans, fungus, etc.

Accordingly, buyers that have strict regulation or demand on such parameters are difficult to access. High value markets, like EU or Scandinavia, have stringent requirements where they have little room for tolerance. For instance, for the EU, the allowed MRL level is 0.01 mg/kg for coffee export.

In general, EU buyers demand uniformity in size of beans, very low percentage of MRL, no pest or disease (health certificate) from imported agricultural products aside from the common parameters of moisture, impurity, and others. The stringency is high to the extent that the UK, at one point, had blocked all Ethiopian spice imports due to a case of aflatoxin found in pepper powder “Berbere”. Another ban was also placed by Japan on coffee, due to MRL issues.



Quality Control Systems of Agricultural Products in Ethiopia



In Ethiopia, food safety, as well as animal and plant health have been getting attention around early 2000s. The 661/2009 proclamation gave authority to the government to consolidate existing food regulatory systems in the country including setting standards and regulations on production, processing, storing, packaging, and labeling of both locally produced and imported products.

The 189/2010 proclamation then announced the establishment of the Food, Medicine, and Health Care Administration and Control Authority (FMHACA) with the authority to set and enforce food safety standards and regulations while being under the Ministry of Health. In 2013, FMHACA got additional mandates to enforce food safety.

In 2019, the Ethiopian Food and Drug Authority (EFDA) was reset with the authority to enforce and implement food safety and quality regulations. The same proclamation of 2019 gave mandate for the Ministry of Agriculture (MoA) to regulate import-export of plant and plant materials as well as livestock and livestock products. The Ethiopian Standards Agency (ESA) is mandated to establish national standards and the Ministry of Trade and Industry (MoTI) to regulate the import and export of goods against the Ethiopian mandatory standards.

Subsequent regulations and directives have given various mandates to public bodies including Ethiopian National Accreditation Office (ENAO) for accreditation of conformity assessment bodies; Ethiopian Conformity Assessment Enterprise (ECAE) to provide laboratory testing, inspection, and certification of products and services; and Ethiopia Coffee, Tea and Spices Authority (ECTA) for the production and marketing of coffee, tea, and spices in the country.

While these are the regulatory bodies mandated for quality control of agricultural products, ECX under MoTI, sets trading standards, grades commodities and facilitates trading platforms for local trading of coffee, oilseeds and pulses, between suppliers and exporters. The ECX plays a significant role in the trading of major agricultural export commodities. As it is part of the value chains of these commodities, it is also part of the quality control agenda.

In practice, local quality control happens when goods are traded, where grades and/or quality levels are agreed by buying and selling parties or when passing through ECX it is weighed against the ECX standard parameters.

Commodities like oilseeds, pulses and to some extent coffee traded on the ECX platform start going through technical quality check and grading when they reach the ECX warehouse. Before that, if traders are collecting to bring to ECX they would agree on the quality of the produce with farmers using physical measurements like color, impurity and moisture. Once stocks are tested in the ECX laboratory for moisture, impurity, and sometimes oil content, and a certificate is provided to the supplier, the supplier then takes the certificate to the trading platform where buyers' auction for the stock based on specified description. Therefore, for any quality complaints or traceability requests, the ECX can only backtrack the actors until the ECX warehouse suppliers which, in most cases, are not smallholder farmers. Meaning traceability is not possible.



In addition, the ECX system only checks for some parameters with the expectation that buyers will do additional checks as deemed necessary. The exporters that buy from ECX will/ are expected to then do at least the mandatory quality checks or do additional tests by private labs locally or in other countries depending on their buyer requirements.

There is only one accredited private lab in the country aside from ECAE. These two service providers have challenges of foreign currency to import chemicals to provide various testing services hence they focus on main parameters- moisture, impurity, and oil content. Throughout such a system, therefore, components like chemical residue or aflatoxin are not checked. hence, point of intervention or penalty cannot be identified.

The value chains that do not go through ECX but have various actors from farm to export have a more or less similar challenge on quality control as the above stated value chain. Buyers and sellers of agricultural commodities agree on quality level based on the physical state of the produce and the exporter is expected to do the entire mandatory and/or extra quality checks as per the contract signed with the importing party.

For coffee, since 2017, vertical integration has been allowed where suppliers (washing stations) and exporters reach an agreement on grade of coffee and

go to ECTA for verification and certification purposes. When looking at out-growers' schemes, companies that do intensive technical support to their out-growers seem to be able to manage the quality of the produce they collect much better. In both cases the export then goes through the mandatory quality checks like the rest of the exports mentioned so far. Mandatory quality check processes include phytosanitary certification from MoA, third party inspection on packaging weight and quality and fumigation as per contract, quality certification from ECTA lab for coffee and approval letter from ECAE after testing per contract.

In most of the above routes commodities take, there is a gap in how the final check of quality is conducted and certification issued which leads to notifications from destination countries. Ethiopia received 32 notifications in 2019, recorded on open sources for any buyer to see which is building a bad reputation.

Overall, poor production, post-harvest, storage, and logistics is compromising the quality of agricultural products. Lack of well facilitated contract farming system, tracing system as well as quality check at various segments of the trading system including primary markets as well as more precise implementation of set regulations have hampered the performance of the private sector as well as the country's international competitiveness.

The Missed Opportunities

Most Ethiopian agricultural products are known around the world for having a distinct flavor that is not matched anywhere else. For this many buyers wish to buy high volumes of produce be it coffee, sesame, spices, beans etc. Buyers from high-value markets like the EU are even willing to pay a premium price for it. However, Ethiopian exporters get stuck when it comes to the quality demand coming from buyers aside from other challenges. While the country has a trade deficit of over USD 12 Billion it is still targeting lower value markets due to their less stringent quality requirements. However, with the existing production volume, targeting lower value markets will not be able to close the trade deficit gap.

Currently, the lead export destination of the country is Asia. Export data of 2018/19 from EPOSPEA showed that exports of sesame to countries like the UK, Belgium & Switzerland had the highest values at an average of USD 1,300.00 per MT while 77% of the export was sold at an average price of USD 680.00 for the countries. The importing countries and their buyers are not paying low prices because of their incapability, as they are the same buyers that pay a higher value for other origins, but it is due to quality reasons a lower price is given to most Ethiopian products.

Therefore, without significantly increasing productivity, earning from export can be enhanced through improving the quality of agricultural export products and aim for higher value markets.

Lessons from Other Countries

Colombia

Colombia is among the world's biggest producers and exporters of coffee with annual production averaging at 846,000 MT by 552,000 farmers on 940 Ha and 91% being exported. Farmers typically receive around 70-75% of the FOB price, when selling their coffee through the cooperatives system.

Buyers of Colombian coffee have constantly paid a significant premium over The New York Board of Trade (NYBOT) coffee contract price due to its quality and consistency.

Lessons to take from Colombia include 1) setting export quality standards higher or equivalent to international standards; 2) conducting 100% sampling of cargo before export; 3) quality inspection at every stage of the supply chain; 4) allocating resource to extension, agronomic support and availing quality input in a public private partnership.

Myanmar

Myanmar is currently among the top producers and exporters of commodities like black pepper and pulses. It produces 4.2million MT of pulses, through 6.7 million farmers and exports 1 million MT to earn USD 1 Billion.

Myanmar's quality control approach to take note of include: 1) developing and implementing a strategy to adjust to international quality standards; 2) while promoting market-oriented policy may give higher volume export it does not automatically mean higher quality; 3) disease and chemical testing need to be conducted at national level for export commodities to maintain good national image.

South Africa

South Africa is among the main exporters of fruits and vegetables in Africa. It produces around 4.7 million MT of fruits on 75,000 ha of land and exports 50%.

Some quality control pointers to take from the country include 1) products go through checks against local and international standards before certification for export; 2) the public bodies for agriculture production as well as trade and industry collaborate on trade promotion at international scale by committing to ensure quality and safety of products.



What Needs to be Done?

Addressing the challenges facing agricultural product exporters and the export sector as a whole is crucial if Ethiopia is to increase its export earnings and have a better competitive edge that would benefit it on stages like WTO and AfCFTA. Accordingly, we propose the following interventions:

- Allowing vertical integration for all commodities under ECX to give the private sector the option of trading traced commodities and regulating the overall market to ensure there is no abuse by any actor that could stain national image,
- Setting up quality control mechanism at primary markets with improved quality control infrastructure,
- Incorporating quality standard awareness in the extension package as well as contract farming/ out-growers set ups,
- Having a system to timely add/adopt testing parameters of commodities based on international market trends,
- Making critical standards that are currently optional for testing mandatory (e.g. Maximum Residue Level), and making inspection of cleaning facilities and warehouses a regular activity instead of arbitrary checking.

Note:

This document is an extraction and summary of key findings from a formal study conducted by Precise Consult International. Both primary and secondary data were used. While the former were collected via key informant interviews and focus group discussions, the latter were collected from different organizations as well as from internet resources. In addition, the study employed descriptive data analysis techniques and benchmarking of best-practice lessons for Ethiopia.

All data that were used in this brief are referred in detail in the full research document which can be found by visiting www.preciseethiopia.com or by email request to info@preciseethiopia.com.





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