



# **Investment Opportunity in Sugar Cane Plantation In Ethiopia**

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## 1. Introduction

- Ethiopia has an area of 1.14 million sq. km.
- Out of which 513,000 square kilometers (45%) are arable land and 34,200 square kilometers (3%) is irrigated land.
- The agriculture sector accounts for 41% of the GDP, provides 85% of employment and 90% of foreign currency earning.
- There are 18 major agro-ecological zones and 32 diversified or sub agro-ecologies.
- Temperature ranges from 20°C to 30°C.
- Altitude ranging from -125 below sea level to 4620 m above sea level.
- Annual rainfall varies from 200 to 2500 mm.
- There are two seasons: the dry season prevails from October through May. The wet season runs from June to September.
- Ground water, rivers and rain are sources of water.
- Labor force is available with reasonable cost.
- Land is on lease for a certain period of years.

## 2. Resource Base

### 2.1 Land and Water Resources

Ethiopia is endowed with large areas of suitable low lands, rivers and conducive climate for sugar cane plantation. The climate and soil types in the country have both proven to be highly suitable for sugar cane growth and productivity. Various pre-feasibility and feasibility studies of sugar projects conducted by the Ethiopian Sugar Industry Support Center Share Company (ESISC) have indicated that several potential sites at the main river basins are suitable for sugar cane plantation. These include 303,500 hectares of already identified suitable net areas in 7 sites.

Experiences of existing sugar factories show that because of the suitable soil, adequate water and conducive climate, an average sugar cane production per hectare per month of the land under irrigation is very high as compared to other countries (i.e.9-11 tons against 6-8 tons). This would make Ethiopia a very attractive location for investors to invest in the production of sugar cane.

**Table 1. Potential Irrigation Sites For Sugar Cane Development**

Basin	Site No.	Site	Water source	Gross Area	Net Suitable area
Awash	1	Angelele Balhamo	Awash	11,000	8,600
	2	Maro Gala	Awash	14,700	6,600
	3	Kasem Kebena	Kasem	17,600	13,600
Blue Nile	4	Arjo Dedesa	Dedesa	139,000	16,800
	5	Anger Valley	Anger	65,500	30,200
	6	Upper Beles	Beles	65,000	55,300
	7	Upper Dinder	Dinder	80,000	58,300
	8	Rahad	Rahad	100,000	
Tekeze	9	Angereb	Angereb	45,600	38,800

	10	Tekeze	Setit	68,550	50,550
Omo Gibe	11	Lower Omo	Omo	58,000	29,000
Baro	12	Abob/Ubala	Gilo	46,900	39,400
	13	Itang	Baro		21,000
Nile	14	Dabus	Dabus		5,100
Omo	15	Gojeb	Gojeb	12,000	

**Source: ESISC, Ethiopian Sugar Industry, 2008.**

In addition to the above-mentioned irrigable areas, there are also about 10,000 hectares of land suitable for rain-fed sugar cane plantation in the country (See Table 2 below).

**Table 2. Potential Rain-Fed Sites For Sugar Cane Development(in ha)**

Sites	Gross area	Suitable area
Yayu (Ilubabor)	12,400	5,000
Duko (GojebValley)	12,000	1,400
Tepi	8,500	1,650
Serbo (Jima)	12,000	1900
Bure (Ilubabor)	N.A	N.A

**Source: ESISC, Indicative Sugar Cane Potential Sites & Irrigation Agriculture and Background Information of Previous Studies for Identification of Irrigable Cane Agriculture, Irrigation Development and Small Scale Rain Fed Agriculture, Addis Ababa, March 2003**

## 2.2 Climate

The identified irrigation sites for sugar cane plantation lie within 'Kola' or warm zones of Ethiopia with dominant sub-tropical climate and with mean annual rainfall ranging from 400-2000 mm. This agro-climatic condition is highly suitable for irrigated sugar cane plantation.

**Table 3. Climatic Conditions of the Potential Irrigation Sites**

No	Site	Altitude (meters above sea level)	Temperature Range (°c)	Mean Annual Rainfall (mm)
1	Angelele-Bohamo	650-700	25.1-27.5	550
2	Maro Gala	600-650	25.1-27.5	400
3	Kesem Kebena	700-750	15-38	470
4	Arjo-Dedessa	1300-1600	22*	1477
5	Anger	1000-1350	20-22	1367
6	Upper Beles	1000-1300	8-35	N.A
7	Upper Dinder	900-1100	26-27	1000
8	Rahad	760*	26-27	900
9	Angereb	650-670	14-41	840
10	Tekeze	650-695	13.2-40	N.A
11	Lower Omo	400*	21*	400
12	Abobo/vbala	425-460	10.3-44.9	680-2000
13	Itang	420-430	28.8	680-2000

No	Site	Altitude (meters above sea level)	Temperature Range (°c)	Mean Annual Rainfall (mm)
14	Dabus		24	1000
15	Gojob		19.9-21.5	1631

Source ESISC, 2008

### 2.3 Soil

Sugar cane flourishes in a wide range of soils with textures from very heavy clays to sands. A soil that has a PH range of 4.5 to 8.5 and low toxic salt concentration is necessary. Most of the soils of the identified sites are fertile, freely draining and have good structure with sufficient mechanical strength to support mature sugar cane. The table below shows the type of dominant soils of these sites.

**Table 4. Soil Types of the Potential Irrigation Sites**

No	Site	Dominant Soil Type
1	Angelele-Bolhamo	Eutric fluvisol and alluvial
2	Maro Gala	Eutric fluvisol
3	Kesem Kebena	Eutric fluvisol
4	Arjo Dedessa	Vertisols few red Latosols
5	Anger	Alisols & Acrisols
6	Upper Beles	Vertisols and Grumosols
7	Upper Dinder	Vertisols
8	Rahad	N.A
9	Angereb	Vertisols & Lithic Leptosols.
10	Tekeze	Vertisols
11	Lower Omo	Sandy with some loams and vertisols associated with alluvial fans
12	Abobo ubala	*
13	Itang	Cambisols, Eutric vertisols,
14	Dabus	Red Latosols
15	Gojob	Reddish brown

Source: ESISC, 2008.

The above factors combined with the Country's favorable agro-climate conditions for sugar cane growth, rising demand for sugar, supporting policy environment for investment and the existence of relatively cheaper labor provide Ethiopia with the comparative advantage in the sugar cane cultivation.

### **3. Cost of Land and Utilities**

#### **3.1 Labour**

With a population of over 90 million, Ethiopia has abundant, hard-working, inexpensive and easily trainable labor force. The average monthly wage for labor generally ranges from Birr \$38 - \$50.

#### **3.2 Land Lease**

In Ethiopia land is public property. Both urban and rural land is available for investment on leasehold basis. Lease right over land can be transferred, mortgaged or sub-leased together with on-build facilities. The period of lease may also be renewed.

The rental value and the lease period of rural land are determined and fixed by land use regulations of each regional state. The costs of rural land in four regional states are shown below.

**Regional States**

- Oromia: US\$ 4.02 – 7.71 per hectare per year
- Amhara: US\$ 6.34 – 28.45 per hectare per year
- Southern Nation, Nationalities and Peoples’ Region: US\$ 2.17 – 6.68 per hectare per year
- Tigray: US\$ 1.71 – 2.29 per hectare per year

**3.3 Utilities**

The cost structure of utilities is as follows:

**a) Electricity**

- ..... Low voltage time-of-day industrial:  
Equivalent flat rate.....US\$ 0.033 per KWh
- ..... High voltage time-of-day industrial 15kv:  
Equivalent flat rate .....US\$ 0.023 per KWh
- ..... High voltage time-of-day industrial 132kv:  
Equivalent flat rate..... US\$ 0.021 per KWh.

**b) Telephone**

- ..... Fixed telephone.....US\$ 0.011 per six Minutes
- ..... mobile to mobile.....US\$ 0.041 per minute
- ..... Mobile to fixed.....US\$ 0.041 per minute

**3. Taxation**

The principal tax rates of the Country are as follows:

- Corporate income tax.....30%
- Turnover tax
  - ..... From goods supplied to the local market and rendering of construction, grain mill, tractor, combine harvesting services undertaken in the Country.....2%
  - ..... On other sectors.....10%
- Excise tax.....10-100%
- Customs duties.....0-35%
- Export tax.....nil
- Withholding tax.....2%
- Value added tax.....15%
- Dividend tax.....10%
- Royalty tax.....5%
- Capital gains tax
  - ..... Shares of companies.....30%
  - ..... Building held for business, factory and office.....15%

- ..... Building held for residence... .....nil
- Income tax from employment ... .....0-35%

#### **4. Investment Policy and Incentives**

- A foreign investor can undertake investment, either as a sole proprietor; or jointly with domestic investors
- Capital requirement for foreign investors (As a sole proprietor)
  - USD 200,000 for a single and wholly foreign owned investment
  - USD 100,000 per project in areas of engineering, architecture, accounting & audit services, project studies, consultancy services
- Capital requirement for investment in partnership with domestic investors:
  - USD 150,000 per project
  - USD 50,000 in areas of engineering, architecture, accounting & audit services, project studies, consultancy services
- No capital requirement for an investor who reinvests his profits or dividends generating from the existing enterprise.
- Land is leased out by the government.
- Repatriation and remittances are granted to foreign investors to be made in convertible foreign currency at the prevailing exchange rate on the date of remittance:

#### **Guarantees**

- The Constitution of Ethiopia and the Investment Proclamation and the legal system protect private property
- Ethiopia is a member of Multilateral Investment Guarantee Agency (MIGA) which issues guarantees against risks to entrepreneurs that invest in signatory countries,
- Ethiopia has signed Bilateral Investment Promotion and Protection Agreements as well as Avoidance of Double Taxation with many countries including India.

#### **Incentives**

##### **a. Customs Duty Exemption**

- A 100 % exemption from the payment of import customs duty and other taxes levied on imports is granted to investment capital goods and construction materials necessary for the establishment of a new enterprise or for the expansion or upgrading of an existing enterprise as well as spare parts worth up to 15 % of the value of the imported capital goods;
- Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to investors enjoying similar privileges;
- Exemptions from customs duties or other taxes levied on imports are granted for raw materials and packing materials necessary for the production of export goods. Taxes and duties paid on raw materials and packaging materials are drawn back at the time of exports of finished products. The voucher system and bonded manufacturing warehouse facilities are also in place.
- All goods and services destined for export are exempted from any export and other taxes levied on exports.

##### **b. Remittance of Funds**

Foreign investors are entitled to make the following remittances out of Ethiopia in convertible foreign currency at the prevailing rate of exchange on the date of remittance:

- Profits and dividends accruing from investment;
- Principal and interest payment on external loans;
- Payments related to a technology transfer agreement;
- Proceeds from the sale or liquidation of an enterprise;
- Proceeds from the transfer of shares or of partial ownership of an enterprise to a domestic Investor;
- Expatriate employees may remit, in convertible foreign currency, unspent salaries and other payments accruing from their employment in hard currency.

**c. One-Stop-Shop Service**

Foreign investors obtain pre-and post-approval services from the Ethiopian Investment Agency (EIA). In addition to facilitation and promotional services, the EIA offers the following services under the one-stop shop arrangement: issuance of investment permit, commercial registration certificate, issuance of business license, issuance of work permit, registration of technology transfer agreement, registration of export oriented non-equity based foreign collaboration and facilitation of the acquisition of land and utilities .

**5. Why Invest in Ethiopia?**

**Stable Political and Economic condition**

- Mature and stable political environment
- Stable social and economic environment
- Peaceful and friendly people
- Zero-tolerance to corruption
- Fastest growing economy with a double digit GDP growth rate for the last ten years.
- Third largest economy in Sub-Saharan Africa, after South Africa and Nigeria and the third fastest growing economy in the world.

**Strategic location and Market Access**

- Strategically located in Eastern Africa with easy access to the lucrative markets of the Middle East, Europe and Asia,
- Vast market opportunities to domestic, regional and international markets.
- Second largest domestic market in Africa with 90 million consumers,
- Access to markets of 19 member states of COMESA, Common Market for Eastern and South Africa, with a population of over 400 million with a preferential tariff rates,
- Preferential access to European Market under EU's everything-But-Arms (EBA),
- Preferential access to Austria, Canada, Finland, Japan, Norway, Sweden, USA and most other EU countries under Generalized System of Preference (GSP),
- Under the African Growth and Opportunity Act (AGOA) program, Ethiopia is entitled to duty-free U.S. market access.

**Natural Resource**

- Exceptional climate due to location on highlands, half the country experiences average annual temperatures of 20°C to 30°C,
- Untapped natural resources and fertile soils,
- Sufficient surface and ground water resource

**Investor friendly policies**

- Government policies encourages and supports FDI,

- Government invests on infrastructure, telecommunications and other facilities,
- Industrial zones are being prepared with the necessary infrastructure and facilities.
- A one stop shop where all the services including land clearance is given in one window is provided.

**Labor**

- Ethiopia has abundant, hard working, disciplined and easily trainable workforce,
- Universities, engineering colleges and technical and vocational training schools annually providing trained personnel,
- English is widely spoken and understood by many people.
- Minimum monthly wages is \$38 Average is \$50.

**For further information please contact:**

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