



Embassy of the Federal Democratic Republic of Ethiopia

Investment Opportunity in Leather and Leather Products Industry in Ethiopia



New Delhi, India
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1. Introduction

The Government of the Federal Democratic Republic of Ethiopia has formulated and implemented a five year Growth and Transformation Plan (GTP) from 2010/11-2014/15. The performance of the GTP so far has shown that Ethiopia can achieve her long term plan of becoming a middle income country by the year 2025. The 2nd GTP is being formulated with sound development policy and has sets an ambitious but achievable plan in its priority areas. Ethiopia has registered a double digit GDP annual growth rate for the last ten years. By sustaining the economic growth over the GTP periods, the government aims to achieve the MDG targets by 2015, and its longer term vision of being a middle income country by 2020-2023.

The manufacturing of leather and leather products is one of the areas which is given priority. In this regard the main objectives are to expand production of locally produced products, in terms of both variety and quality, as substitutes for imported leather products, increase foreign exchange earnings, and strengthen the technological capability of the Industry.

In order to benefit from the country's strong raw material base and the marketing opportunities, the Government of Ethiopia has established the Leather Industry Development Institute (LIDI) with the main objectives of producing trained professionals, conducting research and development activities, rendering consultancy services and providing technical support to the sector. LIDI has signed an agreement with FDDI of India and Ethiopians are being trained in various leather technologies in the India.

2. Industries in Ethiopia

The Ethiopian leather industry encompasses three major industrial sub-sectors or components; namely, tanneries processing and producing the leather, footwear manufacturers (shoe producing), and leather goods and garments manufacturers. The tanning industry in Ethiopia produces and exports all types of finished leather from hides, sheep skins and goat skins.

The shoe manufacturers and leather goods and garments producers recline under the canopy of 'The Leather Products Industry' within the leather and leather products industry. These are manufacturers of leather shoe, shoe uppers, leather garments, bags, and stitched upholstery and belong both to the formal as well as the informal sector of the economy. The footwear industry is, in turn, composed of two sub-sectors:

the larger mechanized shoe industries sub sector and the smaller production units – micro, small and medium enterprises including the informal ones.

3. Resource Base

Ethiopia has one of the largest livestock populations in the world providing a strong raw material base for the leather and leather products industry. Ethiopia ranks 1st place in Africa and 10th in the world in terms of livestock population. Ethiopia has 53.2 million cattle, 25.2 million sheep, 23.4 million goats and 2.3 million camels. This enormous population of livestock provides ample opportunity for the development of the leather industry in the country.

In addition to possessing large livestock population, the Ethiopian highland sheepskins have got worldwide reputation in terms of quality, thickness, flexibility, strength, compact structure and clean inner surface. It is also estimated to assume for about 70% of the national sheepskin production found to be very suitable for the production of high quality leather garments, sport gloves and has great demand on the international leather market.

The Ethiopian sheep skins are sought for high class high value glove leather and the goat skins are equally acknowledged to be the finest for suede making for garments and footwear. In fact, the international leather market has coined special names for these two varieties of skins after two local places - Selallie and Bati. The sheep skins are referred to as Selallie Genuine (now commonly known as Ethiopian Hair Sheep Skin) and the goat skins Bati Genuine which are offered premium prices over all others.

Sheep and goat skins represent the bulk of Ethiopian leather production. Ethiopian highland sheepskins and hides provide a strong base for finished leather and leather products production. The sheepskin in particular has a reputation for its fibre strength and other qualities attractive to the international market which are best suit for dress gloving and shoe upper. Ethiopian goats skin named as Bati genuine are best suitable for sued leather (mainly used for shoe upper and leather goods) and offers them premium prices.

The cattle population consists of Zebu type species and small number of exotic breeds. The sheep are mainly of the hairy type producing skins highly valued in the world market for high tensile strength and compact fiber structure. They are very suitable for the production of high quality leather, dress-gowns, sport gloves and garments both for the domestic and international market.

Raw material availability is one of the factors that influence the expansion of footwear industries. Since Ethiopia has the largest herd of livestock population in Africa, its resource base for the development of leather based footwear industries is substantial.

4. Investment Opportunity in Leather footwear, garment and products

As mentioned above, Ethiopia's leather is of high quality and texture and of heavy substance. The industry has tremendous potential for foreign exchange earnings, creating employment and has the capacity to attract tremendous and profitable foreign investment. The industrial potential for these raw materials remains largely untapped. A vast investment opportunity exists for entrepreneurs interested in establishing leather processing and footwear units. Therefore Ethiopia has a reliable resource base for a vibrant leather industry.

The footwear industry composed of large and medium size plants in the formal sector and micro-enterprises in the informal sector of the economy. Currently, there are 28 tanneries and 18 mechanized operational medium and large footwear factories in the formal sector.

There are opportunities in:

1. Leather Footwear,
2. Leather Glove and other Goods (bags, wallets, belts, saddlery, cases and containers, jewelry beauty boxes, purses, etc...),
3. Leather Garment,
4. Leather Chemicals,
5. Accessory and components for leather products (Molds, Lasts, Sole, Shoe Box, Cutting dyes, Insoles, Shanks, etc...),
6. Upper leather, intermediate products, leather sole,
7. Leather Upholstery (High quality sofa, chairs and vehicles seats..).

5. Brands Producing in Ethiopia



Clarks

GEOX

R E S P I R A

6. Growing International Standard Factory Base

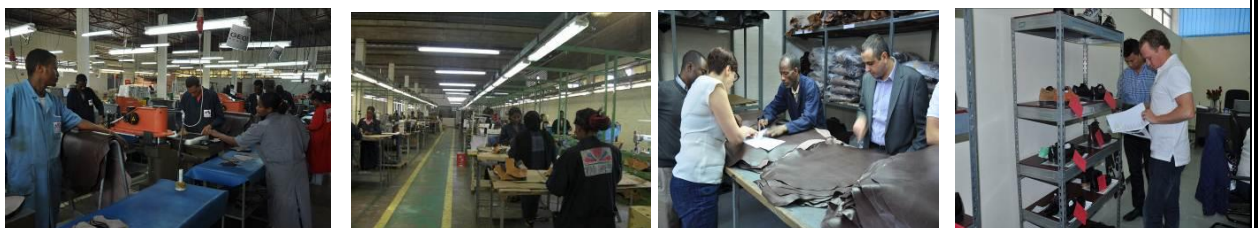
Huajian – Ladies Footwear



Tikkur Abbey – Mens Footwear (Injection Shoes)



Peacock – Mens Footwear (Leather)



7. 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
- 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.

Investment Incentives

Customs duty exemption

- 100% exemption from payment of import customs duties and other taxes levied on imports to import all investment capital goods, such as plant machinery and equipment, construction materials, as well as spare parts up to 15% of the value of capital goods imported.

Income Tax Exemption

- Exemption from income tax for Leather Products Industry.

Investment Area	In Addis Ababa and Special zone of Oromia surrounding Addis Ababa	In other areas
Manufacture of leather products (luggage, hand bags, leather belts and	5 years	6 years

similar products		
Manufacture of Leather shoe	5 years	6 years
Manufacture of accessories for leather products	5 years	6 years

- Any investor who invests to establish a new enterprise in Gambela, Benshangul/Gumuz, Afar, Somali, Guji & Borena Zones (Oromia), and in some zones in the State of South Nations and Nationalities and Peoples' (SNNP), shall be entitled to an income tax deduction of 30% for 3 consecutive years after the expiry of the income tax exemption period.
- The period of exemption for income tax shall begin from the commencement date of production or provision of service by the investor.
- An investor who has incurred loss within the period of income tax exemption shall be allowed to carry forward such loss for half of the income tax exemption period after the expiry of such period.

Export Incentives

- **Duty Draw-back Scheme:** Duty paid at the port of entry and locally on raw materials used in the production commodities is refunded, 100 percent, upon exportation of the commodity processed.
- **Voucher Scheme:** It is a printed document to be used for recording balance of duty payable on raw materials imported for use in the production of goods for external market. The beneficiaries of the voucher scheme are also exporters.
- **Bonded Manufacturing Warehouse:** Producers wholly engaged in exporting their products who are not eligible to use the Voucher Scheme and who have license that enable them to operate such Warehouse.

8. Cost of Land and Utilities

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.

9. Tax Regime

Type of Tax	Rate in %
Direct	
Corporate Income Tax	30
Personal Income Tax	0 up to 35
Business Income Tax	0 up to 35
Customs Duties	0 up to 35
Withholding Tax	2
Export Tax	Nil
Royalty Tax	5
Dividend Tax	10
Interest Income	5
Indirect Tax	
Value Added Tax	15
Excise Tax	10 up to 100
Turn over Tax	2 and 10

10. 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 in infrastructure, telecommunications and other facilities,
- A National Foreign Investment Promotion Advisory Council with the aim of conducting focused foreign investment promotion.

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 medium of instruction in schools and is understood by many people.
- The minimum wage for labor is Birr \$60.

For further information please contact:

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